

Spectra Energy Corp.  
Form 10-Q  
November 08, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2011**

**or**

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

**For the transition period from            to**

**Commission file number 1-33007**

**SPECTRA ENERGY CORP**

**(Exact Name of Registrant as Specified in its Charter)**

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**Delaware**  
(State or other jurisdiction of incorporation)

**20-5413139**  
(IRS Employer Identification No.)

**5400 Westheimer Court**

**Houston, Texas 77056**

(Address of principal executive offices, including zip code)

**713-627-5400**

(Registrant's telephone number, including area code)

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

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

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

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

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

Number of shares of Common Stock, \$0.001 par value, outstanding as of September 30, 2011: 650,345,460

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**SPECTRA ENERGY CORP**  
**FORM 10-Q FOR THE QUARTER ENDED**

**September 30, 2011**

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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, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas 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 commodity prices, interest rates and foreign currency exchange rates;

general economic conditions, including the risk of a prolonged economic slowdown or decline, or the risk of delay in a recovery, which can affect the long-term demand for natural gas and related services;

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

changes in environmental, safety and other laws and regulations;

the development of alternative energy resources;

results 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;

declines in the market prices of equity and debt securities and resulting funding requirements for defined benefit pension plans;

growth in opportunities, including the timing and success of efforts to develop U.S. and Canadian pipeline, storage, gathering, processing and other related infrastructure projects and the effects of competition;

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

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

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

conditions of the capital markets during the periods covered by these 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 Corp has described. Spectra Energy Corp undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**PART I. FINANCIAL INFORMATION**
**Item 1. Financial Statements.**
**SPECTRA ENERGY CORP**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Unaudited)**
**(In millions, except per-share amounts)**

|                                                                | <b>Three Months<br/>Ended September 30,</b> |               | <b>Nine Months<br/>Ended September 30,</b> |               |
|----------------------------------------------------------------|---------------------------------------------|---------------|--------------------------------------------|---------------|
|                                                                | <b>2011</b>                                 | <b>2010</b>   | <b>2011</b>                                | <b>2010</b>   |
| <b>Operating Revenues</b>                                      |                                             |               |                                            |               |
| Transportation, storage and processing of natural gas          | \$ 778                                      | \$ 707        | \$ 2,342                                   | \$ 2,113      |
| Distribution of natural gas                                    | 193                                         | 179           | 1,086                                      | 1,014         |
| Sales of natural gas liquids                                   | 114                                         | 96            | 384                                        | 312           |
| Other                                                          | 38                                          | 37            | 111                                        | 123           |
| Total operating revenues                                       | 1,123                                       | 1,019         | 3,923                                      | 3,562         |
| <b>Operating Expenses</b>                                      |                                             |               |                                            |               |
| Natural gas and petroleum products purchased                   | 130                                         | 119           | 795                                        | 727           |
| Operating, maintenance and other                               | 373                                         | 322           | 1,034                                      | 958           |
| Depreciation and amortization                                  | 182                                         | 165           | 534                                        | 482           |
| Property and other taxes                                       | 80                                          | 72            | 247                                        | 220           |
| Total operating expenses                                       | 765                                         | 678           | 2,610                                      | 2,387         |
| <b>Gains on Sales of Other Assets and Other, net</b>           | <b>3</b>                                    |               | <b>7</b>                                   |               |
| <b>Operating Income</b>                                        | <b>361</b>                                  | <b>341</b>    | <b>1,320</b>                               | <b>1,175</b>  |
| <b>Other Income and Expenses</b>                               |                                             |               |                                            |               |
| Equity in earnings of unconsolidated affiliates                | 160                                         | 98            | 428                                        | 297           |
| Other income and expenses, net                                 | 18                                          | 7             | 42                                         | 17            |
| Total other income and expenses                                | 178                                         | 105           | 470                                        | 314           |
| <b>Interest Expense</b>                                        | <b>157</b>                                  | <b>159</b>    | <b>471</b>                                 | <b>476</b>    |
| <b>Earnings From Continuing Operations Before Income Taxes</b> | <b>382</b>                                  | <b>287</b>    | <b>1,319</b>                               | <b>1,013</b>  |
| <b>Income Tax Expense From Continuing Operations</b>           | <b>108</b>                                  | <b>69</b>     | <b>372</b>                                 | <b>242</b>    |
| <b>Income From Continuing Operations</b>                       | <b>274</b>                                  | <b>218</b>    | <b>947</b>                                 | <b>771</b>    |
| <b>Income From Discontinued Operations, net of tax</b>         | <b>7</b>                                    | <b>1</b>      | <b>23</b>                                  | <b>17</b>     |
| <b>Net Income</b>                                              | <b>281</b>                                  | <b>219</b>    | <b>970</b>                                 | <b>788</b>    |
| <b>Net Income Noncontrolling Interests</b>                     | <b>27</b>                                   | <b>22</b>     | <b>75</b>                                  | <b>59</b>     |
| <b>Net Income Controlling Interests</b>                        | <b>\$ 254</b>                               | <b>\$ 197</b> | <b>\$ 895</b>                              | <b>\$ 729</b> |

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| <b>Common Stock Data</b>                      |         |         |         |         |
|-----------------------------------------------|---------|---------|---------|---------|
| Weighted-average shares outstanding           |         |         |         |         |
| Basic                                         | 650     | 648     | 650     | 648     |
| Diluted                                       | 652     | 650     | 652     | 650     |
| Earnings per share from continuing operations |         |         |         |         |
| Basic                                         | \$ 0.38 | \$ 0.30 | \$ 1.34 | \$ 1.10 |
| Diluted                                       | \$ 0.38 | \$ 0.30 | \$ 1.34 | \$ 1.09 |
| Earnings per share                            |         |         |         |         |
| Basic                                         | \$ 0.39 | \$ 0.30 | \$ 1.38 | \$ 1.13 |
| Diluted                                       | \$ 0.39 | \$ 0.30 | \$ 1.37 | \$ 1.12 |
| Dividends per share                           | \$ 0.26 | \$ 0.25 | \$ 0.78 | \$ 0.75 |

See Notes to Condensed Consolidated Financial Statements.

**SPECTRA ENERGY CORP**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

**(In millions)**

|                                                       | <b>September 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|-------------------------------------------------------|-------------------------------|------------------------------|
| <b>ASSETS</b>                                         |                               |                              |
| <b>Current Assets</b>                                 |                               |                              |
| Cash and cash equivalents                             | \$ 74                         | \$ 130                       |
| Receivables, net                                      | 886                           | 1,018                        |
| Inventory                                             | 423                           | 287                          |
| Other                                                 | 225                           | 203                          |
| Total current assets                                  | 1,608                         | 1,638                        |
| <b>Investments and Other Assets</b>                   |                               |                              |
| Investments in and loans to unconsolidated affiliates | 2,091                         | 2,033                        |
| Goodwill                                              | 4,337                         | 4,305                        |
| Other                                                 | 508                           | 665                          |
| Total investments and other assets                    | 6,936                         | 7,003                        |
| <b>Property, Plant and Equipment</b>                  |                               |                              |
| Cost                                                  | 23,075                        | 22,162                       |
| Less accumulated depreciation and amortization        | 5,484                         | 5,182                        |
| Net property, plant and equipment                     | 17,591                        | 16,980                       |
| <b>Regulatory Assets and Deferred Debits</b>          | 1,080                         | 1,065                        |
| <b>Total Assets</b>                                   | \$ 27,215                     | \$ 26,686                    |

See Notes to Condensed Consolidated Financial Statements.

**SPECTRA ENERGY CORP****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In millions, except per-share amounts)**

|                                                                                                                                                                  | <b>September 30,<br/>2011</b> | <b>December 31,<br/>2010</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                    |                               |                              |
| <b>Current Liabilities</b>                                                                                                                                       |                               |                              |
| Accounts payable                                                                                                                                                 | \$ 496                        | \$ 369                       |
| Short-term borrowings and commercial paper                                                                                                                       | 949                           | 836                          |
| Taxes accrued                                                                                                                                                    | 83                            | 59                           |
| Interest accrued                                                                                                                                                 | 157                           | 167                          |
| Current maturities of long-term debt                                                                                                                             | 64                            | 315                          |
| Other                                                                                                                                                            | 764                           | 777                          |
| <b>Total current liabilities</b>                                                                                                                                 | <b>2,513</b>                  | <b>2,523</b>                 |
| <b>Long-term Debt</b>                                                                                                                                            | <b>10,234</b>                 | <b>10,169</b>                |
| <b>Deferred Credits and Other Liabilities</b>                                                                                                                    |                               |                              |
| Deferred income taxes                                                                                                                                            | 3,863                         | 3,555                        |
| Regulatory and other                                                                                                                                             | 1,581                         | 1,694                        |
| <b>Total deferred credits and other liabilities</b>                                                                                                              | <b>5,444</b>                  | <b>5,249</b>                 |
| <b>Commitments and Contingencies</b>                                                                                                                             |                               |                              |
| <b>Preferred Stock of Subsidiaries</b>                                                                                                                           | <b>258</b>                    | <b>258</b>                   |
| <b>Equity</b>                                                                                                                                                    |                               |                              |
| Preferred stock, \$0.001 par, 22 million shares authorized, no shares outstanding                                                                                |                               |                              |
| Common stock, \$0.001 par, 1 billion shares authorized, 650 million and 649 million shares outstanding at September 30, 2011 and December 31, 2010, respectively | 1                             | 1                            |
| Additional paid-in capital                                                                                                                                       | 4,793                         | 4,726                        |
| Retained earnings                                                                                                                                                | 1,871                         | 1,487                        |
| Accumulated other comprehensive income                                                                                                                           | 1,274                         | 1,595                        |
| <b>Total controlling interests</b>                                                                                                                               | <b>7,939</b>                  | <b>7,809</b>                 |
| Noncontrolling interests                                                                                                                                         | 827                           | 678                          |
| <b>Total equity</b>                                                                                                                                              | <b>8,766</b>                  | <b>8,487</b>                 |
| <b>Total Liabilities and Equity</b>                                                                                                                              | <b>\$ 27,215</b>              | <b>\$ 26,686</b>             |

See Notes to Condensed Consolidated Financial Statements.

## SPECTRA ENERGY CORP

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

|                                                                                   | Nine Months<br>Ended September 30, |               |
|-----------------------------------------------------------------------------------|------------------------------------|---------------|
|                                                                                   | 2011                               | 2010          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                    |               |
| Net income                                                                        | \$ 970                             | \$ 788        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |               |
| Depreciation and amortization                                                     | 543                                | 493           |
| Deferred income tax expense                                                       | 240                                | 62            |
| Equity in earnings of unconsolidated affiliates                                   | (428)                              | (297)         |
| Distributions received from unconsolidated affiliates                             | 351                                | 303           |
| Other                                                                             | 11                                 | (342)         |
| Net cash provided by operating activities                                         | 1,687                              | 1,007         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                    |               |
| Capital expenditures                                                              | (1,299)                            | (881)         |
| Investments in and loans to unconsolidated affiliates                             | (6)                                | (6)           |
| Acquisitions, net of cash acquired                                                | (390)                              | (492)         |
| Purchases of held-to-maturity securities                                          | (1,199)                            | (850)         |
| Proceeds from sales and maturities of held-to-maturity securities                 | 1,206                              | 809           |
| Purchases of available-for-sale securities                                        | (938)                              | (19)          |
| Proceeds from sales and maturities of available-for-sale securities               | 1,128                              | 6             |
| Distributions received from unconsolidated affiliates                             | 6                                  | 12            |
| Other                                                                             | (54)                               |               |
| Net cash used in investing activities                                             | (1,546)                            | (1,421)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                    |               |
| Proceeds from the issuance of long-term debt                                      | 806                                | 479           |
| Payments for the redemption of long-term debt                                     | (494)                              | (346)         |
| Net increase in short-term borrowings and commercial paper                        | 147                                | 821           |
| Net decrease in revolving credit facilities borrowings                            | (289)                              | (10)          |
| Distributions to noncontrolling interests                                         | (74)                               | (54)          |
| Proceeds from the issuance of Spectra Energy Partners, LP common units            | 213                                |               |
| Dividends paid on common stock                                                    | (511)                              | (487)         |
| Other                                                                             | 14                                 | 3             |
| Net cash provided by (used in) financing activities                               | (188)                              | 406           |
| Effect of exchange rate changes on cash                                           | (9)                                | (2)           |
| Net decrease in cash and cash equivalents                                         | (56)                               | (10)          |
| <b>Cash and cash equivalents at beginning of period</b>                           | <b>130</b>                         | <b>166</b>    |
| <b>Cash and cash equivalents at end of period</b>                                 | <b>\$ 74</b>                       | <b>\$ 156</b> |

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### Supplemental Disclosures

|                                                           |  |        |       |
|-----------------------------------------------------------|--|--------|-------|
| Property, plant and equipment accruals                    |  | \$ 176 | \$ 71 |
| See Notes to Condensed Consolidated Financial Statements. |  |        |       |

**SPECTRA ENERGY CORP**
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**
**(Unaudited)**
**(In millions)**

|                                                       | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive Income<br>Foreign<br>Currency<br>Translation<br>Adjustments | Other    | Noncontrolling<br>Interests | Total    |
|-------------------------------------------------------|-----------------|----------------------------------|----------------------|------------------------------------------------------------------------------------------------|----------|-----------------------------|----------|
| <b>December 31, 2010</b>                              | \$ 1            | \$ 4,726                         | \$ 1,487             | \$ 2,010                                                                                       | \$ (415) | \$ 678                      | \$ 8,487 |
| Net income                                            |                 |                                  | 895                  |                                                                                                |          | 75                          | 970      |
| Foreign currency translation adjustments              |                 |                                  |                      | (360)                                                                                          |          | (6)                         | (366)    |
| Unrealized mark-to-market net gain on<br>hedges       |                 |                                  |                      |                                                                                                | 1        |                             | 1        |
| Reclassification of cash flow hedges into<br>earnings |                 |                                  |                      |                                                                                                | 7        |                             | 7        |
| Pension and benefits impact                           |                 |                                  |                      |                                                                                                | 23       |                             | 23       |
| Dividends on common stock                             |                 |                                  | (511)                |                                                                                                |          |                             | (511)    |
| Stock-based compensation                              |                 | 12                               |                      |                                                                                                |          |                             | 12       |
| Distributions to noncontrolling interests             |                 |                                  |                      |                                                                                                |          | (74)                        | (74)     |
| Spectra Energy common stock issued                    |                 | 17                               |                      |                                                                                                |          |                             | 17       |
| Spectra Energy Partners, LP common units<br>issued    |                 | 38                               |                      |                                                                                                |          | 154                         | 192      |
| Other, net                                            |                 |                                  |                      |                                                                                                | 8        |                             | 8        |
| <b>September 30, 2011</b>                             | \$ 1            | \$ 4,793                         | \$ 1,871             | \$ 1,650                                                                                       | \$ (376) | \$ 827                      | \$ 8,766 |
| <b>December 31, 2009</b>                              | \$ 1            | \$ 4,645                         | \$ 1,088             | \$ 1,682                                                                                       | \$ (375) | \$ 540                      | \$ 7,581 |
| Net income                                            |                 |                                  | 729                  |                                                                                                |          | 59                          | 788      |
| Foreign currency translation adjustments              |                 |                                  |                      | 114                                                                                            |          | 13                          | 127      |
| Unrealized mark-to-market net loss on hedges          |                 |                                  |                      |                                                                                                | (31)     |                             | (31)     |
| Reclassification of cash flow hedges into<br>earnings |                 |                                  |                      |                                                                                                | 1        |                             | 1        |
| Pension and benefits impact                           |                 |                                  |                      |                                                                                                | 18       |                             | 18       |
| Dividends on common stock                             |                 |                                  | (487)                |                                                                                                |          |                             | (487)    |
| Stock-based compensation                              |                 | 23                               |                      |                                                                                                |          |                             | 23       |
| Distributions to noncontrolling interests             |                 |                                  |                      |                                                                                                |          | (54)                        | (54)     |
| Other, net                                            |                 | (22)                             |                      |                                                                                                |          | 1                           | (21)     |
| <b>September 30, 2010</b>                             | \$ 1            | \$ 4,646                         | \$ 1,330             | \$ 1,796                                                                                       | \$ (387) | \$ 559                      | \$ 7,945 |

See Notes to Condensed Consolidated Financial Statements.

## SPECTRA ENERGY CORP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## 1. General

The terms we, our, us and Spectra Energy as used in this report refer collectively to Spectra Energy Corp 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.

**Nature of Operations.** Spectra Energy Corp, through its subsidiaries and equity affiliates, owns and operates a large and diversified portfolio of complementary natural gas-related energy assets, operating in three key areas of the natural gas industry: gathering and processing, transmission and storage, and distribution. We provide transportation and storage of natural gas to customers in various regions of the northeastern and southeastern United States, the Maritime Provinces in Canada and the Pacific Northwest in the United States and Canada, and in the province of Ontario, Canada. We also provide natural gas sales and distribution services to retail customers in Ontario, and natural gas gathering and processing services to customers in western Canada. In addition, we own a 50% interest in DCP Midstream, LLC (DCP Midstream), one of the largest natural gas gatherers and processors in the United States.

**Basis of Presentation.** The accompanying Condensed Consolidated Financial Statements include our accounts and the accounts of our majority-owned subsidiaries. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010, and reflect all normal recurring adjustments that are, in our opinion, necessary to fairly present our results of operations and financial position. Amounts reported in the Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, primarily in our gas distribution operations, as well as changing commodity prices on certain of our processing operations and other factors.

During the third quarter of 2011, we identified errors in our previously issued Condensed Consolidated Statements of Cash Flows related to the accounting for rollovers of outstanding borrowings under our revolving bank credit facilities. These non-cash rollovers were previously accounted for as cash activities and resulted in the overstatement of both Proceeds from the Issuance of Long-Term Debt and Payments for the Redemption of Long-Term Debt for the nine months ended September 30, 2010. Cash and Cash Equivalents and Net Cash Provided By (Used In) Financing Activities as previously reported are not affected by the errors. We evaluated materiality from both a qualitative and a quantitative perspective and concluded that the errors are immaterial to our previously issued Condensed Consolidated Statements of Cash Flows.

In addition to making this correction, effective with the third quarter of 2011, we have elected to present cash borrowings and repayments under our revolving bank credit facilities on a net basis for all periods presented as Net Decrease in Revolving Credit Facilities Borrowings. As these periodic borrowings and repayments are generally of significant amounts and had terms of 90 days or less, we believe our current presentation provides users with more meaningful and relevant information about our long-term debt financing activities.

The correction and change in presentation reflected on the Condensed Consolidated Statement of Cash Flows are as follows:

| Nine Months Ended September 30, 2010    | Proceeds From the<br>Issuance<br>of Long-<br>Term<br>Debt | Payments for the<br>Redemption of<br>Long-Term<br>Debt |
|-----------------------------------------|-----------------------------------------------------------|--------------------------------------------------------|
|                                         | (in millions)                                             |                                                        |
| As previously reported                  | \$ 2,625                                                  | \$ 2,502                                               |
| Less non-cash activity                  | (2,120)                                                   | (2,120)                                                |
| As corrected                            | 505                                                       | 382                                                    |
| Less revolving credit facility activity | (26)                                                      | (36)                                                   |
| Long-term debt activity                 | \$ 479                                                    | \$ 346                                                 |



We have also corrected certain balances in the accompanying Condensed Consolidated Statements of Equity due to errors identified during 2010 related primarily to the impacts of Canadian federal and provincial tax rate changes on deferred income tax balances associated with our Canadian operations. We have concluded that these corrections are immaterial to our previously issued financial statements.

The corrections related to deferred income tax balances are as follows:

| Condensed Consolidated Statement of Equity | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income Foreign<br>Currency<br>Translation<br>Adjustments<br>(in millions) | Accumulated<br>Other<br>Comprehensive<br>Income Other | Total Equity |
|--------------------------------------------|----------------------------------|----------------------|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------|
| <b>September 30, 2010</b>                  |                                  |                      |                                                                                                                    |                                                       |              |
| As previously reported                     | \$ 4,701                         | \$ 1,338             | \$ 1,800                                                                                                           | \$ (370)                                              | \$ 8,029     |
| Decrease                                   | (55)                             | (8)                  | (4)                                                                                                                | (17)                                                  | (84)         |
| As corrected                               | \$ 4,646                         | \$ 1,330             | \$ 1,796                                                                                                           | \$ (387)                                              | \$ 7,945     |

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

## 2. Acquisition of Big Sandy Pipeline, LLC (Big Sandy)

On July 1, 2011, Spectra Energy Partners, LP (Spectra Energy Partners) completed the acquisition of Big Sandy from EQT Corporation (EQT) for approximately \$390 million in cash. Big Sandy's primary asset is a 68-mile Federal Energy Regulatory Commission (FERC)-regulated natural gas pipeline system in eastern Kentucky. The Big Sandy natural gas pipeline system connects Appalachian and Huron Shale natural gas supplies to markets in the mid-Atlantic and Northeast portions of the United States. The acquisition of Big Sandy, part of the U.S. Transmission segment, strengthens Spectra Energy Partners' portfolio of fee-based natural gas assets and is consistent with its strategy of growth.

The following table summarizes the preliminary fair values of the assets and liabilities acquired as of July 1, 2011. Subsequent adjustments may be recorded upon the completion of the valuation and the final determination of the purchase price allocation.

|                               | Purchase Price<br>Allocation<br>(in millions) |
|-------------------------------|-----------------------------------------------|
| Cash purchase price           | \$ 390                                        |
| Property, plant and equipment | 196                                           |
| Goodwill                      | \$ 194                                        |

The purchase price is greater than the sum of fair values of the net assets acquired, resulting in goodwill as noted above. The goodwill reflects the value of strong cash flows from stable long-term contracts. Goodwill related to the acquisition of Big Sandy is deductible for income tax purposes.

Pro forma results of operations reflecting the acquisition of Big Sandy as if the acquisition had occurred as of the beginning of the periods presented in this report do not materially differ from actual reported results.

### 3. Business Segments

We manage our business in four reportable segments: U.S. Transmission, Distribution, Western Canada Transmission & Processing and Field Services. The remainder of our business operations is presented as Other, and consists of unallocated corporate costs, wholly owned captive insurance subsidiaries, employee benefit plan assets and liabilities, and other miscellaneous activities.

Our chief operating decision maker regularly reviews financial information about each of these segments in deciding how to allocate resources and evaluate performance. There is no aggregation within our defined business segments.

U.S. Transmission provides transportation and storage of natural gas for customers in various regions of the northeastern and southeastern United States and the Maritime Provinces in Canada. The natural gas transmission and storage operations in the U.S. are primarily subject to the rules and regulations of the FERC. Spectra Energy Partners, a master limited partnership, is part of the U.S. Transmission segment.

Distribution provides retail natural gas distribution service in Ontario, Canada, as well as natural gas transportation and storage services to other utilities and energy market participants. These services are provided by Union Gas Limited (Union Gas), and are primarily subject to the rules and regulations of the Ontario Energy Board (OEB).

Western Canada Transmission & Processing provides transportation of natural gas, natural gas gathering and processing services, and natural gas liquids (NGLs) extraction, fractionation, transportation, storage and marketing to customers in western Canada and the northern tier of the United States. This segment conducts business mostly through BC Pipeline, BC Field Services, and the NGL marketing and Canadian Midstream businesses. BC Pipeline and BC Field Services operations are primarily subject to the rules and regulations of Canada's National Energy Board (NEB).

Field Services gathers and processes natural gas and fractionates, markets and trades NGLs. It conducts operations through DCP Midstream, which is owned 50% by us and 50% by ConocoPhillips. DCP Midstream gathers raw natural gas through gathering systems located in nine major conventional and non-conventional natural gas producing regions: Mid-Continent, Rocky Mountain, East Texas-North Louisiana, Barnett Shale, Gulf Coast, South Texas, Central Texas, Antrim Shale and Permian Basin. DCP Midstream has a 27% ownership interest in DCP Midstream Partners, LP (DCP Partners), a master limited partnership.

Our reportable segments offer different products and services and are managed separately as business units. Management evaluates segment performance based on earnings before interest and taxes (EBIT) from continuing operations less noncontrolling interests related to those earnings.

On a segment basis, EBIT represents earnings from continuing operations (both operating and non-operating) before interest and taxes, net of noncontrolling interests related to those earnings. Cash, cash equivalents and short-term investments are managed centrally, so the associated realized and unrealized gains and losses from foreign currency transactions and interest and dividend income on those balances are excluded from the segments' EBIT. Transactions between reportable segments are accounted for on the same basis as transactions with unaffiliated third parties.

**Business Segment Data**

|                                              | Unaffiliated<br>Revenues | Intersegment<br>Revenues | Total<br>Operating<br>Revenues (a)<br>(in millions) | Segment EBIT/<br>Consolidated<br>Earnings from<br>Continuing<br>Operations before<br>Income Taxes<br>(a) |
|----------------------------------------------|--------------------------|--------------------------|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| <b>Three Months Ended September 30, 2011</b> |                          |                          |                                                     |                                                                                                          |
| U.S. Transmission                            | \$ 469                   | \$ 2                     | \$ 471                                              | \$ 235                                                                                                   |
| Distribution                                 | 276                      |                          | 276                                                 | 50                                                                                                       |
| Western Canada Transmission & Processing     | 376                      | 16                       | 392                                                 | 119                                                                                                      |
| Field Services                               |                          |                          |                                                     | 134                                                                                                      |
| Total reportable segments                    | 1,121                    | 18                       | 1,139                                               | 538                                                                                                      |
| Other                                        | 2                        | 18                       | 20                                                  | (23)                                                                                                     |
| Eliminations                                 |                          | (36)                     | (36)                                                |                                                                                                          |
| Interest expense                             |                          |                          |                                                     | 157                                                                                                      |
| Interest income and other (b)                |                          |                          |                                                     | 24                                                                                                       |
| Total consolidated                           | \$ 1,123                 | \$                       | \$ 1,123                                            | \$ 382                                                                                                   |
| <b>Three Months Ended September 30, 2010</b> |                          |                          |                                                     |                                                                                                          |
| U.S. Transmission                            | \$ 441                   | \$ 1                     | \$ 442                                              | \$ 231                                                                                                   |
| Distribution                                 | 261                      |                          | 261                                                 | 63                                                                                                       |
| Western Canada Transmission & Processing     | 315                      |                          | 315                                                 | 90                                                                                                       |
| Field Services                               |                          |                          |                                                     | 70                                                                                                       |
| Total reportable segments                    | 1,017                    | 1                        | 1,018                                               | 454                                                                                                      |
| Other                                        | 2                        | 13                       | 15                                                  | (23)                                                                                                     |
| Eliminations                                 |                          | (14)                     | (14)                                                |                                                                                                          |
| Interest expense                             |                          |                          |                                                     | 159                                                                                                      |
| Interest income and other (b)                |                          |                          |                                                     | 15                                                                                                       |
| Total consolidated                           | \$ 1,019                 | \$                       | \$ 1,019                                            | \$ 287                                                                                                   |
| <b>Nine Months Ended September 30, 2011</b>  |                          |                          |                                                     |                                                                                                          |
| U.S. Transmission                            | \$ 1,404                 | \$ 7                     | \$ 1,411                                            | \$ 757                                                                                                   |
| Distribution                                 | 1,347                    |                          | 1,347                                               | 305                                                                                                      |
| Western Canada Transmission & Processing     | 1,166                    | 36                       | 1,202                                               | 373                                                                                                      |
| Field Services                               |                          |                          |                                                     | 353                                                                                                      |
| Total reportable segments                    | 3,917                    | 43                       | 3,960                                               | 1,788                                                                                                    |
| Other                                        | 6                        | 47                       | 53                                                  | (76)                                                                                                     |
| Eliminations                                 |                          | (90)                     | (90)                                                |                                                                                                          |
| Interest expense                             |                          |                          |                                                     | 471                                                                                                      |
| Interest income and other (b)                |                          |                          |                                                     | 78                                                                                                       |
| Total consolidated                           | \$ 3,923                 | \$                       | \$ 3,923                                            | \$ 1,319                                                                                                 |
| <b>Nine Months Ended September 30, 2010</b>  |                          |                          |                                                     |                                                                                                          |
| U.S. Transmission                            | \$ 1,337                 | \$ 4                     | \$ 1,341                                            | \$ 701                                                                                                   |
| Distribution                                 | 1,260                    |                          | 1,260                                               | 282                                                                                                      |
| Western Canada Transmission & Processing     | 959                      |                          | 959                                                 | 278                                                                                                      |
| Field Services                               |                          |                          |                                                     | 227                                                                                                      |

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|                               |          |      |          |          |
|-------------------------------|----------|------|----------|----------|
| Total reportable segments     | 3,556    | 4    | 3,560    | 1,488    |
| Other                         | 6        | 36   | 42       | (53)     |
| Eliminations                  |          | (40) | (40)     |          |
| Interest expense              |          |      |          | 476      |
| Interest income and other (b) |          |      |          | 54       |
| Total consolidated            | \$ 3,562 | \$   | \$ 3,562 | \$ 1,013 |

(a) Excludes amounts associated with entities included in discontinued operations.

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

#### 4. Regulatory Matters

**Maritimes & Northeast Pipeline Limited Partnership (M&N LP).** M&N LP filed an application with the NEB in July 2010 seeking compensation for funds held in escrow. In June 2011, the NEB denied M&N LP's application and finalized tolls for 2010, with the tolls equal to the 2010 interim tolls previously approved. The NEB's decision did not have any effect on our consolidated results of operations, financial position or cash flows.

**Ozark Gas Transmission, L.L.C. (Ozark Gas Transmission).** As a result of a FERC rate proceeding, Ozark Gas Transmission filed a Cost and Revenue Study in early 2011. A settlement agreement reached with parties involved in the proceeding was approved by the FERC with an effective date of October 1, 2011. The effects of this matter will not have a material effect on our future consolidated results of operations, financial position or cash flows.

**Union Gas.** In September 2011, Union Gas applied for the approval of 2012 regulated distribution, storage and transmission rates as determined pursuant to the incentive regulation framework. The proposed delivery rate increase is approximately 2% for a typical residential customer in the service territory effective January 1, 2012. This increase is primarily attributable to increased costs associated with Union Gas' proposed 2012-2014 Demand Side Management plan which assists customers in managing the gas usage effectively.

#### 5. Income Taxes

Income tax expense from continuing operations for the three months ended September 30, 2011 was \$108 million, compared to \$69 million for the same period in 2010. Income tax expense from continuing operations for the nine months ended September 30, 2011 was \$372 million, compared to \$242 million reported for the same period in 2010. The higher income tax expense for the periods resulted from higher earnings from continuing operations and higher effective tax rates.

The effective tax rates for income from continuing operations for the three-month periods ended September 30, 2011 and 2010 were 28% and 24%, respectively, and were also 28% and 24% for the nine-month periods. The lower effective tax rates in 2010 were primarily due to favorable tax settlements.

No material net change in uncertain tax benefits was recognized during the nine months ended September 30, 2011. Although uncertain, no material increases or decreases in uncertain tax benefits are expected to occur prior to September 30, 2012.

#### 6. Discontinued Operations

Discontinued operations is mostly comprised of the net effects of a settlement arrangement related to prior liquefied natural gas contracts and an immaterial positive income tax adjustment in the first quarter of 2010 related to previously discontinued operations.

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The following table summarizes results classified as Income From Discontinued Operations, Net of Tax in the accompanying Condensed Consolidated Statements of Operations:

|                                              | Revenues | Pre-tax<br>Earning | Income<br>Tax<br>Expense<br>(Benefit)<br>(in millions) | Income<br>From<br>Discontinued<br>Operations,<br>Net of Tax |
|----------------------------------------------|----------|--------------------|--------------------------------------------------------|-------------------------------------------------------------|
| <b>Three Months Ended September 30, 2011</b> |          |                    |                                                        |                                                             |
| Other                                        | \$ 50    | \$ 11              | \$ 4                                                   | \$ 7                                                        |
| Total consolidated                           | \$ 50    | \$ 11              | \$ 4                                                   | \$ 7                                                        |
| <b>Three Months Ended September 30, 2010</b> |          |                    |                                                        |                                                             |
| Other                                        | \$       | \$ 2               | \$ 1                                                   | \$ 1                                                        |
| Total consolidated                           | \$       | \$ 2               | \$ 1                                                   | \$ 1                                                        |
| <b>Nine Months Ended September 30, 2011</b>  |          |                    |                                                        |                                                             |
| Other                                        | \$ 182   | \$ 36              | \$ 13                                                  | \$ 23                                                       |
| Total consolidated                           | \$ 182   | \$ 36              | \$ 13                                                  | \$ 23                                                       |
| <b>Nine Months Ended September 30, 2010</b>  |          |                    |                                                        |                                                             |
| Other                                        | \$ 107   | \$ 6               | \$ (11)                                                | \$ 17                                                       |
| Total consolidated                           | \$ 107   | \$ 6               | \$ (11)                                                | \$ 17                                                       |

### 7. Comprehensive Income

Components of comprehensive income (loss) are as follows:

|                                                     | Three Months<br>Ended September 30,<br>2011 |        | Nine Months<br>Ended September 30,<br>2011 |        |
|-----------------------------------------------------|---------------------------------------------|--------|--------------------------------------------|--------|
|                                                     | 2010                                        |        | 2010                                       |        |
|                                                     | (in millions)                               |        |                                            |        |
| Net income                                          | \$ 281                                      | \$ 219 | \$ 970                                     | \$ 788 |
| Other comprehensive income                          |                                             |        |                                            |        |
| Foreign currency translation adjustments            | (614)                                       | 228    | (366)                                      | 127    |
| Unrealized mark-to-market net gain (loss) on hedges | 1                                           | (13)   | 1                                          | (31)   |
| Reclassification of cash flow hedges into earnings  | 2                                           |        | 7                                          | 1      |
| Pension and benefits impact                         | 8                                           | 6      | 23                                         | 18     |
| Other                                               |                                             |        | 8                                          |        |
| Total comprehensive income (loss), net of tax       | (322)                                       | 440    | 643                                        | 903    |
| Less: comprehensive income noncontrolling interests | 17                                          | 25     | 69                                         | 72     |
| Comprehensive income (loss) controlling interests   | \$ (339)                                    | \$ 415 | \$ 574                                     | \$ 831 |

### 8. Earnings per Common Share

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Basic earnings per common share (EPS) is computed by dividing net income from controlling interests by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income from controlling interests by the diluted weighted-average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other

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agreements to issue common stock, such as stock options, stock-based performance unit awards and phantom stock awards, were exercised, settled or converted into common stock.

The following table presents basic and diluted EPS calculations:

|                                                                       | Three Months<br>Ended September 30,<br>2011 |         | Nine Months<br>Ended September 30,<br>2011 |         |
|-----------------------------------------------------------------------|---------------------------------------------|---------|--------------------------------------------|---------|
|                                                                       | 2011                                        | 2010    | 2011                                       | 2010    |
|                                                                       | (in millions, except per-share amounts)     |         |                                            |         |
| Income from continuing operations, net of tax controlling interests   | \$ 247                                      | \$ 196  | \$ 872                                     | \$ 712  |
| Income from discontinued operations, net of tax controlling interests | 7                                           | 1       | 23                                         | 17      |
| Net income controlling interests                                      | \$ 254                                      | \$ 197  | \$ 895                                     | \$ 729  |
| Weighted-average common shares, outstanding                           |                                             |         |                                            |         |
| Basic                                                                 | 650                                         | 648     | 650                                        | 648     |
| Diluted                                                               | 652                                         | 650     | 652                                        | 650     |
| Basic earnings per common share (a)                                   |                                             |         |                                            |         |
| Continuing operations                                                 | \$ 0.38                                     | \$ 0.30 | \$ 1.34                                    | \$ 1.10 |
| Discontinued operations, net of tax                                   | 0.01                                        |         | 0.04                                       | 0.03    |
| Total basic earnings per common share                                 | \$ 0.39                                     | \$ 0.30 | \$ 1.38                                    | \$ 1.13 |
| Diluted earnings per common share (a)                                 |                                             |         |                                            |         |
| Continuing operations                                                 | \$ 0.38                                     | \$ 0.30 | \$ 1.34                                    | \$ 1.09 |
| Discontinued operations, net of tax                                   | 0.01                                        |         | 0.03                                       | 0.03    |
| Total diluted earnings per common share                               | \$ 0.39                                     | \$ 0.30 | \$ 1.37                                    | \$ 1.12 |

(a) Quarterly earnings-per-share amounts are stand-alone calculations and may not be additive to full-year amounts due to rounding. Weighted-average shares used to calculate diluted EPS includes the effect of certain options and restricted stock awards. Certain other options and stock awards related to approximately five million shares for both the three and nine-month periods ended September 30, 2011, and 10 million shares for both the three and nine-month periods ended September 30, 2010, respectively, were not included in the calculation of diluted EPS because either the option exercise prices were greater than the average market price of the common shares during these periods or performance measures related to the awards had not yet been met.

### 9. Inventory

Inventory consists of natural gas and NGLs held in storage for transmission and processing, and also includes materials and supplies. Natural gas inventories primarily relate to the Distribution segment in Canada and are valued at costs approved by the OEB. The difference between the approved price and the actual cost of gas purchased is recorded in either accounts receivable or other current liabilities, as appropriate, for future disposition with customers, subject to approval by the OEB. The remaining inventory is recorded at cost, primarily using average cost. The components of inventory are as follows:

|                        | September 30,<br>2011 | December 31,<br>2010 |
|------------------------|-----------------------|----------------------|
|                        | (in millions)         |                      |
| Natural gas            | \$ 278                | \$ 175               |
| NGLs                   | 75                    | 41                   |
| Materials and supplies | 70                    | 71                   |

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|                 |        |        |
|-----------------|--------|--------|
| Total inventory | \$ 423 | \$ 287 |
|-----------------|--------|--------|

## 10. Investments in and Loans to Unconsolidated Affiliates

Our most significant investment in unconsolidated affiliates is our 50% investment in DCP Midstream, which is accounted for under the equity method of accounting. The following represents summary financial information for DCP Midstream, presented at 100%:

|                                               | Three Months<br>Ended September 30, |          | Nine Months<br>Ended September 30, |          |
|-----------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                               | 2011                                | 2010     | 2011                               | 2010     |
|                                               | (in millions)                       |          |                                    |          |
| Operating revenues                            | \$ 3,482                            | \$ 2,604 | \$ 9,715                           | \$ 8,198 |
| Operating expenses                            | 3,124                               | 2,436    | 8,836                              | 7,564    |
| Operating income                              | 358                                 | 168      | 879                                | 634      |
| Net income                                    | 312                                 | 108      | 740                                | 435      |
| Net income attributable to members' interests | 266                                 | 119      | 676                                | 414      |

DCP Midstream recorded gains on sales of common units of DCP Partners to equity in the first and third quarters of 2011 and 2010. Our proportionate 50% share, totaling \$1 million and \$11 million in the third quarters of 2011 and 2010, respectively, and \$15 million and \$20 million during the nine-month periods ended September 30, 2011 and 2010, respectively, was recorded in Equity in Earnings of Unconsolidated Affiliates in the Condensed Consolidated Statements of Operations.

*Related Party Transactions.* In 2008, we entered into a settlement agreement related to certain liquefied natural gas transportation contracts under which one of our subsidiaries' claims were satisfied pursuant to commercial transactions involving the purchase of propane from certain parties. We subsequently entered into associated agreements with affiliates of DCP Midstream for the sale of these propane volumes. Net purchases and sales of propane under these arrangements are reflected as discontinued operations.

Sales of propane to affiliates of DCP Midstream are as follows:

|                  | Three Months<br>Ended September 30, |      | Nine Months<br>Ended September 30, |       |
|------------------|-------------------------------------|------|------------------------------------|-------|
|                  | 2011                                | 2010 | 2011                               | 2010  |
|                  | (in millions)                       |      |                                    |       |
| Sales of propane | \$ 50                               | \$   | \$ 182                             | \$ 65 |

## 11. Goodwill

We completed our annual goodwill impairment test as of April 1, 2011 and no impairments were identified. We primarily use a discounted cash flow analysis to determine fair value for each reporting unit. Key assumptions in the determination of fair value include the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, we incorporate expected long-term growth rates in key markets served by our operations, regulatory stability, the ability to renew contracts, commodity prices (where appropriate), and foreign currency exchange rates, as well as other factors that affect our revenue, expense and capital expenditure projections.

The following table presents activity within goodwill based on the reporting unit determination.

|                                          | December 31,<br>2010 | Increases<br>(Decreases)<br>(a)<br>(in millions) | September 30,<br>2011 |
|------------------------------------------|----------------------|--------------------------------------------------|-----------------------|
| U.S. Transmission                        | \$ 2,669             | \$ 107                                           | \$ 2,776              |
| Distribution                             | 873                  | (40)                                             | 833                   |
| Western Canada Transmission & Processing | 763                  | (35)                                             | 728                   |
| Total consolidated                       | \$ 4,305             | \$ 32                                            | \$ 4,337              |

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- (a) Increases (decreases) consist of foreign currency translation and \$194 million of goodwill at U.S. Transmission associated with the July 2011 acquisition of Big Sandy. See Note 2 for further discussion.

**12. Marketable Securities and Restricted Funds**

*Available-for-Sale Marketable Securities (AFS Securities).* During 2010, we invested a portion of the proceeds from Spectra Energy Partners issuance of common units to the public in AFS securities, which include investments in money market funds and commercial paper. These investments, which totaled \$209 million as of December 31, 2010, were pledged as collateral against Spectra Energy Partners term loan and were classified as Investments and Other Assets Other on the Condensed Consolidated Balance Sheet. Spectra Energy Partners term loan was repaid in June 2011 using proceeds from the issuance of Spectra Energy Partners senior notes, and the related investments were liquidated.

In addition to these restricted funds, we had \$14 million of other restricted AFS securities as of September 30, 2011, classified as Current Assets Other, and \$4 million as of September 30, 2011 and \$2 million as of December 31, 2010, classified as Investments and Other Assets Other. These other restricted funds are related to insurance.

AFS securities are valued at fair value on the Condensed Consolidated Balance Sheet. Purchases and sales of AFS securities are presented on a gross basis within Cash Flows from Investing Activities on the Condensed Consolidated Statements of Cash Flows.

There were no gross unrealized holding gains or losses associated with investments in AFS securities at September 30, 2011 or December 31, 2010. Estimated fair values of AFS securities follow:

|                                      | Estimated Fair Value  |                      |
|--------------------------------------|-----------------------|----------------------|
|                                      | September 30,<br>2011 | December 31,<br>2010 |
|                                      | (in millions)         |                      |
| Corporate debt securities            | \$ 18                 | \$ 222               |
| Canadian government securities       | 14                    |                      |
| Money market funds                   | 4                     | 2                    |
| Total available-for-sale investments | \$ 36                 | \$ 224               |

*Held-to-Maturity Marketable Securities (HTM Securities).* HTM securities, totaling \$167 million as of September 30, 2011 and \$182 million as of December 31, 2010, are classified as Investments and Other Assets Other. These securities are restricted funds pursuant to certain M&N LP debt agreements. These funds, plus future cash from operations that would otherwise be available for distribution to the partners of M&N LP, are placed in escrow until the balance in escrow is sufficient to fund all future debt service on the notes. The notes payable, totaling \$210 million as of September 30, 2011, have semi-annual interest and principal payments and are due in 2019.

HTM securities are valued at cost on the Condensed Consolidated Balance Sheet. Purchases and sales of HTM securities are presented on a gross basis within Cash Flows from Investing Activities. At September 30, 2011, the contractual maturities of outstanding HTM securities are less than one year.

There were no gross unrecognized holding gains or losses associated with investments in HTM securities at September 30, 2011 or December 31, 2010. Estimated fair values of HTM securities follow:

|                                    | Estimated Fair Value  |                      |
|------------------------------------|-----------------------|----------------------|
|                                    | September 30,<br>2011 | December 31,<br>2010 |
|                                    | (in millions)         |                      |
| Canadian government securities     | \$ 119                | \$ 182               |
| Bankers acceptance notes           | 48                    |                      |
| Total held-to-maturity investments | \$ 167                | \$ 182               |

*Other Restricted Funds.* In addition to the restricted AFS and HTM securities described above, we had restricted funds totaling \$48 million at September 30, 2011 and \$44 million at December 31, 2010 classified as Current Assets Other, and \$53 million at September 30, 2011 and \$5 million at December 31, 2010 classified as Investments and Other Assets Other. These restricted funds are related to additional amounts for the M&N LP debt service requirements.

### 13. Debt and Credit Facilities

#### Available Credit Facilities and Restrictive Debt Covenants

|                                 | Expiration Date | Total Credit Facilities Capacity | Outstanding at September 30, 2011 |                                |                   |        | Available Credit Facilities Capacity |
|---------------------------------|-----------------|----------------------------------|-----------------------------------|--------------------------------|-------------------|--------|--------------------------------------|
|                                 |                 |                                  | Commercial Paper                  | Revolving Credit (in millions) | Letters of Credit | Total  |                                      |
| Spectra Energy Capital, LLC (a) |                 |                                  |                                   |                                |                   |        |                                      |
| Multi-year syndicated           | 2012            | \$ 1,500                         | \$ 633                            | \$                             | \$ 12             | \$ 645 | \$ 855                               |
| Westcoast Energy Inc. (b)       |                 |                                  |                                   |                                |                   |        |                                      |
| Multi-year syndicated           | 2015            | 286                              | 138                               |                                |                   | 138    | 148                                  |
| Union Gas (c)                   |                 |                                  |                                   |                                |                   |        |                                      |
| Multi-year syndicated           | 2012            | 476                              | 178                               |                                |                   | 178    | 298                                  |
| Spectra Energy Partners (d)     |                 |                                  |                                   |                                |                   |        |                                      |
| Multi-year syndicated           | 2012            | 500                              |                                   | 10                             |                   | 10     | 490                                  |
| Total                           |                 | \$ 2,762                         | \$ 949                            | \$ 10                          | \$ 12             | \$ 971 | \$ 1,791                             |

- (a) Credit facility contains a covenant requiring our debt-to-total capitalization ratio to not exceed 65%.
- (b) U.S. dollar equivalent at September 30, 2011. The credit facility totals 300 million Canadian dollars and contains a covenant that requires the Westcoast Energy Inc. non-consolidated debt-to-total capitalization ratio to not exceed 75%. The ratio was 41% at September 30, 2011.
- (c) U.S. dollar equivalent at September 30, 2011. The credit facility totals 500 million Canadian dollars and contains a covenant that requires the Union Gas debt-to-total capitalization ratio to not exceed 75% and a provision which requires Union Gas to repay all borrowings under the facility for a period of two days during the second quarter of each year. The ratio was 62% at September 30, 2011.
- (d) Credit facility contains a covenant that requires Spectra Energy Partners 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 September 30, 2011, this ratio was 2.6. Adjusted EBITDA is a non-GAAP measure. Because Adjusted EBITDA excludes some, but not all, items that affect net income and is defined differently by companies in our industry, Spectra Energy Partners' definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA should not be considered an alternative to net income, operating income, cash from operations or any other measure of financial performance or liquidity presented in accordance with GAAP. The issuances of commercial paper, letters of credit and other borrowings reduce the amounts available under the credit facilities.

In October 2011, we executed a new five-year \$1.5 billion credit facility at Spectra Capital and a new five-year \$700 million credit facility at Spectra Energy Partners. The new facilities replaced our existing \$1.5 billion Spectra Capital and \$500 million Spectra Energy Partners credit facilities which were both due to expire in 2012.

Our credit agreements contain various covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of September 30, 2011, we were in compliance with those covenants. In

addition, our credit agreements allow for acceleration of payments or termination of the agreements due to nonpayment, or in some cases, due to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. Our debt and credit agreements do 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.

## Debt Issuances

On June 9, 2011, Spectra Energy Partners issued \$500 million aggregate principal amount of unsecured senior notes, including \$250 million of 2.95% senior notes due in 2016 and \$250 million of 4.60% senior notes due in 2021. Net proceeds from the offering were used to repay all of the outstanding borrowings under Spectra Energy Partners term loan and a significant portion of the funds borrowed under its credit facility. The remaining balance of the proceeds was used for general corporate purposes.

On June 21, 2011, Union Gas issued 300 million Canadian dollars (approximately \$309 million as of the issuance date) of 4.88% notes due in 2041. Net proceeds from the offering were used for general corporate purposes, including refinancing of prior maturities of debt.

## 14. Fair Value Measurements

The following table presents, for each of the fair value hierarchy levels, assets and liabilities that are measured and recorded at fair value on a recurring basis:

| Description                                           | Condensed Consolidated Balance Sheet Caption                | Total        | September 30, 2011       |               |             |
|-------------------------------------------------------|-------------------------------------------------------------|--------------|--------------------------|---------------|-------------|
|                                                       |                                                             |              | Level 1<br>(in millions) | Level 2       | Level 3     |
| Corporate debt securities                             | Cash and cash equivalents                                   | \$ 53        | \$                       | \$ 53         | \$          |
| Canadian government securities                        | Current assets other                                        | 14           | 14                       |               |             |
| Corporate debt securities                             | Current assets other                                        | 2            |                          | 2             |             |
| Corporate debt securities                             | Investments and other assets other                          | 16           |                          | 16            |             |
| Derivative assets interest rate swaps                 | Investments and other assets other                          | 67           |                          | 67            |             |
| Money market funds                                    | Investments and other assets other                          | 4            | 4                        |               |             |
| <b>Total Assets</b>                                   |                                                             | <b>\$156</b> | <b>\$ 18</b>             | <b>\$ 138</b> | <b>\$</b>   |
| Derivative liabilities natural gas purchase contracts | Deferred credits and other liabilities regulatory and other | \$ 7         | \$                       | \$            | \$ 7        |
| Derivative liabilities interest rate swaps            | Deferred credits and other liabilities regulatory and other | 16           |                          | 16            |             |
| <b>Total Liabilities</b>                              |                                                             | <b>\$ 23</b> | <b>\$</b>                | <b>\$ 16</b>  | <b>\$ 7</b> |

| Description                                           | Condensed Consolidated Balance Sheet Caption                | Total         | December 31, 2010        |               |           |
|-------------------------------------------------------|-------------------------------------------------------------|---------------|--------------------------|---------------|-----------|
|                                                       |                                                             |               | Level 1<br>(in millions) | Level 2       | Level 3   |
| Corporate debt securities                             | Cash and cash equivalents                                   | \$ 74         | \$                       | \$ 74         | \$        |
| Corporate debt securities                             | Investments and other assets other                          | 222           |                          | 222           |           |
| Derivative assets interest rate swaps                 | Investments and other assets other                          | 48            |                          | 48            |           |
| Money market funds                                    | Investments and other assets other                          | 25            | 25                       |               |           |
| <b>Total Assets</b>                                   |                                                             | <b>\$ 369</b> | <b>\$ 25</b>             | <b>\$ 344</b> | <b>\$</b> |
| Derivative liabilities natural gas purchase contracts | Deferred credits and other liabilities regulatory and other | \$ 6          | \$                       | \$            | \$ 6      |
| Derivative liabilities interest rate swaps            | Deferred credits and other liabilities regulatory and other | 20            |                          | 20            |           |

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|                   |       |    |       |      |
|-------------------|-------|----|-------|------|
| Total Liabilities | \$ 26 | \$ | \$ 20 | \$ 6 |
|-------------------|-------|----|-------|------|

The following table presents changes in Level 3 assets and liabilities that are measured at fair value on a recurring basis using significant unobservable inputs:

|                                                                                                                                                                                                           | Three Months<br>Ended September 30,<br>2011 |         | Nine Months<br>Ended September 30,<br>2011 |         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|---------|--------------------------------------------|---------|
|                                                                                                                                                                                                           | 2010                                        |         | 2010                                       |         |
|                                                                                                                                                                                                           | (in millions)                               |         |                                            |         |
| Long-term derivative assets (liabilities)                                                                                                                                                                 |                                             |         |                                            |         |
| Fair value, beginning of period                                                                                                                                                                           | \$ (8)                                      | \$ 1    | \$ (6)                                     | \$ 15   |
| Total realized/unrealized gains (losses):                                                                                                                                                                 |                                             |         |                                            |         |
| Included in earnings                                                                                                                                                                                      | (1)                                         |         | (2)                                        | (3)     |
| Included in other comprehensive income                                                                                                                                                                    | 2                                           | (11)    | 1                                          | (22)    |
| Fair value, end of period                                                                                                                                                                                 | \$ (7)                                      | \$ (10) | \$ (7)                                     | \$ (10) |
| Total gains (losses) for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets/liabilities held at the end of the period |                                             |         |                                            |         |
|                                                                                                                                                                                                           | \$ 3                                        | \$      | \$ (2)                                     | \$ (2)  |

## Level 1

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

## Level 2 Valuation Techniques

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

For interest rate swaps, we utilize data obtained from multiple sources for the determination of fair value. Both the future cash flows for the fixed-leg and floating-leg of our swaps are discounted to present value. In addition, credit default swap rates are used to develop the adjustment for credit risk embedded in our positions. We believe that since some of the inputs and assumptions for the calculations of fair value are derived from observable market data, a Level 2 classification is appropriate.

## Level 3 Valuation Techniques

We do not have significant amounts of assets or liabilities measured and reported using Level 3 valuation techniques, which include the use of pricing models, discounted cash flow methodologies or similar techniques where at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

## Financial Instruments

The fair values of financial instruments that are recorded and carried at book value are summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. These estimates are not necessarily indicative of the amounts we could have realized in current markets.

|                                  | September 30, 2011 |                        | December 31, 2010 |                        |
|----------------------------------|--------------------|------------------------|-------------------|------------------------|
|                                  | Book Value         | Approximate Fair Value | Book Value        | Approximate Fair Value |
|                                  | (in millions)      |                        |                   |                        |
| Notes receivable, current (a)    | \$ 49              | \$ 49                  | \$ 50             | \$ 51                  |
| Notes receivable, noncurrent (b) | 71                 | 71                     | 71                | 71                     |

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|                                              |        |        |        |        |
|----------------------------------------------|--------|--------|--------|--------|
| Long-term debt, including current maturities | 10,298 | 12,109 | 10,484 | 11,874 |
|----------------------------------------------|--------|--------|--------|--------|

- (a) Included within Receivables, Net on the Condensed Consolidated Balance Sheets.
- (b) Included within Investments in and Loans to Unconsolidated Affiliates on the Condensed Consolidated Balance Sheets.

The book value and fair value of long-term debt include the impacts of certain pay floating receive fixed interest rate swaps that are designated as fair value hedges.

The fair values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable, short-term borrowings and commercial paper are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates.

During the 2011 and 2010 periods, there were no material adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

## **15. Risk Management and Hedging Activities**

We are exposed to the impact of market fluctuations in the prices of NGLs and natural gas purchased as a result of our Empress operations in Canada. Exposure to interest rate risk exists as a result of the issuance of variable and fixed-rate debt and commercial paper. We are exposed to foreign currency risk from our Canadian operations. We employ established policies and procedures to manage our risks associated with these market fluctuations, which may include the use of forward physical transactions as well as other derivatives, primarily around interest rate exposures.

At September 30, 2011, we had pay floating receive fixed interest rate swaps outstanding with a total notional principal amount of \$1,689 million to hedge against changes in the fair value of our fixed-rate debt that arise as a result of changes in market interest rates. These swaps also allow us to transform a portion of the underlying cash flows related to our long-term fixed-rate debt securities into variable-rate debt in order to achieve our desired mix of fixed and variable-rate debt.

Our equity investment affiliate, DCP Midstream, also has risk exposures primarily associated with market prices of NGLs and natural gas. DCP Midstream manages these risks separate from Spectra Energy, and utilizes various risk management strategies, including the use of commodity derivatives.

Other than interest rate swaps described above, we did not have any significant derivatives outstanding during the nine months ended September 30, 2011.

## **16. Commitments and Contingencies**

### **Environmental**

We are subject to various U.S. federal, state and local laws and regulations, as well as Canadian federal and provincial laws, regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These laws and regulations can change from time to time, imposing new obligations on us.

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

Included in Deferred Credits and Other Liabilities Regulatory and Other on the Condensed Consolidated Balance Sheets are accruals related to extended environmental-related activities totaling \$14 million at both September 30, 2011 and December 31, 2010. These accruals represent provisions for costs associated with remediation activities at some of our current and former sites, as well as other environmental contingent liabilities.

## **Litigation**

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

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves recorded as of September 30, 2011 or December 31, 2010 related to litigation.

## **Other Commitments and Contingencies**

See Note 17 for a discussion of guarantees and indemnifications.

### **17. Guarantees and Indemnifications**

We have various financial guarantees and indemnifications which are issued in the normal course of business. As discussed below, these contracts include financial guarantees, stand-by letters of credit, debt guarantees, surety bonds and indemnifications. We enter into these arrangements to facilitate a commercial transaction with a third party by enhancing the value of the transaction to the third party. To varying degrees, these guarantees involve elements of performance and credit risk, which are not included on the Condensed Consolidated Balance Sheets. The possibility of having to perform under these guarantees and indemnifications is largely dependent upon future operations of various subsidiaries, investees and other third parties, or the occurrence of certain future events.

We have issued performance guarantees to customers and other third parties that guarantee the payment and performance of other parties, including certain non-wholly owned entities. In connection with our spin-off from Duke Energy Corporation (Duke Energy) in 2007, certain guarantees that were previously issued by us were assigned to, or replaced by, Duke Energy as guarantor in 2006. For any remaining guarantees of other Duke Energy obligations, Duke Energy has indemnified us against any losses incurred under these guarantee arrangements. The maximum potential amount of future payments we could have been required to make under these performance guarantees as of September 30, 2011 was approximately \$406 million, which has been indemnified by Duke Energy as discussed above. One of these performance guarantees, which has a maximum potential amount of future payment of \$201 million, expires in 2028. The remaining guarantees have no contractual expirations.

We have also issued joint and several guarantees to some of the Duke/Fluor Daniel (D/FD) project owners, guaranteeing the performance of D/FD under its engineering, procurement and construction contracts and other contractual commitments in place at the time of our spin-off from Duke Energy. D/FD is one of the entities transferred to Duke Energy in connection with our spin-off. Substantially all of these guarantees have no contractual expiration and no stated maximum amount of future payments that we could be required to make. Fluor Enterprises Inc., as 50% owner in D/FD, has issued similar joint and several guarantees to the same D/FD project owners.

Westcoast Energy Inc. (Westcoast), a wholly owned subsidiary, has issued performance guarantees to third parties guaranteeing the performance of unconsolidated entities, such as equity method investments, and of entities previously sold by Westcoast to third parties. Those guarantees require Westcoast to make payment to

the guaranteed third party upon the failure of such unconsolidated or sold entity to make payment under some of its contractual obligations, such as debt, purchase contracts and leases. Certain guarantees that were previously issued by Westcoast for obligations of entities that remained a part of Duke Energy are considered guarantees of third party performance; however, Duke Energy has indemnified us against any losses incurred under these guarantee arrangements. The maximum potential amount of future payments Westcoast could have been required to make under those performance guarantees of unconsolidated entities and third-party entities as of September 30, 2011 was \$37 million. Of these guarantees, \$4 million expire in 2015 and the remaining have no contractual expirations.

We have entered into various indemnification agreements related to purchase and sale agreements and other types of contractual agreements with vendors and other third parties. These agreements typically cover environmental, tax, litigation and other matters, as well as breaches of representations, warranties and covenants. Typically, claims may be made by third parties for various periods of time depending on the nature of the claim. Our potential exposure under these indemnification agreements can range from a specified amount, such as the purchase price, to an unlimited dollar amount, depending on the nature of the claim and the particular transaction. We are unable to estimate the total potential amount of future payments under these indemnification agreements due to several factors, such as the unlimited exposure under certain guarantees.

As of September 30, 2011, the amounts recorded for the guarantees and indemnifications, described above, including the indemnifications by Duke Energy to us, are not material, both individually and in the aggregate.

# 18. Sale of Spectra Energy Partners Units

On June 14, 2011, Spectra Energy Partners issued 7.2 million common units to the public, representing limited partner interests, and 0.1 million general partner units to Spectra Energy. Total net proceeds to Spectra Energy Partners were \$218 million (net proceeds to Spectra Energy were \$213 million), used to fund a portion of the acquisition of Big Sandy. See Note 2 for additional information on the acquisition of Big Sandy. The sale of the units decreased Spectra Energy's ownership in Spectra Energy Partners from 69% to 64%. In connection with the sale of the units, a \$60 million gain (\$38 million net of tax) to Additional Paid-in Capital and a \$154 million increase in Equity Noncontrolling Interests were recorded in the second quarter of 2011.

The following table presents the effects of changes in our ownership interests in non-wholly owned consolidated subsidiaries:

|                                                                                                    | Three Months<br>Ended September 30, |        | Nine Months<br>Ended September 30, |        |
|----------------------------------------------------------------------------------------------------|-------------------------------------|--------|------------------------------------|--------|
|                                                                                                    | 2011                                | 2010   | 2011                               | 2010   |
|                                                                                                    | (in millions)                       |        |                                    |        |
| Net Income Controlling Interests                                                                   | \$ 254                              | \$ 197 | \$ 895                             | \$ 729 |
| Increase in Additional Paid-in Capital resulting from the sale of units of Spectra Energy Partners |                                     |        | 38                                 |        |
| Total Net Income Controlling Interests and changes in Equity Controlling Interests                 | \$ 254                              | \$ 197 | \$ 933                             | \$ 729 |

# 19. Employee Benefit Plans

**Retirement Plans.** We have a qualified non-contributory defined benefit (DB) retirement plan for U.S. employees and non-qualified plans for various executive retirement and savings plans. Our Westcoast subsidiary maintains qualified and non-qualified contributory and non-contributory DB and defined contribution (DC) retirement plans covering substantially all employees of our Canadian operations.

Our policy is to fund our retirement plans on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants or as required by legislation or plan terms. We made contributions of \$15 million to our U.S. retirement plans in the nine-month period ended September 30, 2011 and \$30 million for the same period in 2010. We made total contributions to the Canadian DC and qualified DB plans of \$54 million during the nine-month period ended September 30, 2011 and \$51 million during the same period in 2010. We anticipate that we will make total contributions of approximately \$20 million to the U.S. plans and approximately \$70 million to the Canadian plans in 2011.

### Qualified Pension Plans Components of Net Periodic Pension Cost

|                                               | Three Months<br>Ended September 30,<br>2011 |      | Nine Months<br>Ended September 30,<br>2011 |       |
|-----------------------------------------------|---------------------------------------------|------|--------------------------------------------|-------|
|                                               | 2010                                        |      | 2010                                       |       |
|                                               | (in millions)                               |      |                                            |       |
| U.S.                                          |                                             |      |                                            |       |
| Service cost benefit earned                   | \$ 3                                        | \$ 2 | \$ 10                                      | \$ 8  |
| Interest cost on projected benefit obligation | 6                                           | 6    | 18                                         | 19    |
| Expected return on plan assets                | (8)                                         | (7)  | (24)                                       | (23)  |
| Amortization of loss                          | 3                                           | 2    | 8                                          | 6     |
| Net periodic pension cost                     | \$ 4                                        | \$ 3 | \$ 12                                      | \$ 10 |
| Canada                                        |                                             |      |                                            |       |
| Service cost benefit earned                   | \$ 5                                        | \$ 4 | \$ 15                                      | \$ 12 |
| Interest cost on projected benefit obligation | 11                                          | 11   | 35                                         | 34    |
| Expected return on plan assets                | (12)                                        | (11) | (37)                                       | (34)  |
| Amortization of loss                          | 7                                           | 5    | 20                                         | 13    |
| Amortization of prior service costs           |                                             |      | 1                                          | 1     |
| Net periodic pension cost                     | \$ 11                                       | \$ 9 | \$ 34                                      | \$ 26 |

### Non-Qualified Pension Benefits Plans Components of Net Periodic Pension Cost

|                                               | Three Months<br>Ended September 30,<br>2011 |      | Nine Months<br>Ended September 30,<br>2011 |      |
|-----------------------------------------------|---------------------------------------------|------|--------------------------------------------|------|
|                                               | 2010                                        |      | 2010                                       |      |
|                                               | (in millions)                               |      |                                            |      |
| U.S.                                          |                                             |      |                                            |      |
| Interest cost on projected benefit obligation | \$                                          | \$   | \$ 1                                       | \$ 1 |
| Net periodic pension cost                     | \$                                          | \$   | \$ 1                                       | \$ 1 |
| Canada                                        |                                             |      |                                            |      |
| Service cost benefit earned                   | \$                                          | \$   | \$ 1                                       | \$ 1 |
| Interest cost on projected benefit obligation | 1                                           | 1    | 4                                          | 4    |
| Amortization of actuarial loss                |                                             | 1    | 1                                          | 1    |
| Net periodic pension cost                     | \$ 1                                        | \$ 2 | \$ 6                                       | \$ 6 |

**Other Post-Retirement Benefit Plans.** We provide certain health care and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees are eligible for these benefits if they have met age and service requirements at retirement, as defined in the plans.

**Other Post-Retirement Benefit Plans Components of Net Periodic Benefit Cost**

|                                                                 | Three Months<br>Ended September 30, |      | Nine Months<br>Ended September 30, |      |
|-----------------------------------------------------------------|-------------------------------------|------|------------------------------------|------|
|                                                                 | 2011                                | 2010 | 2011                               | 2010 |
|                                                                 | (in millions)                       |      |                                    |      |
| <b>U.S.</b>                                                     |                                     |      |                                    |      |
| Service cost benefit earned                                     | \$ 1                                | \$ 1 | \$ 1                               | \$ 1 |
| Interest cost on accumulated post-retirement benefit obligation | 2                                   | 2    | 7                                  | 8    |
| Expected return on plan assets                                  | (1)                                 | (1)  | (3)                                | (4)  |
| Amortization of net transition liability                        |                                     | 1    |                                    | 3    |
| Amortization of loss                                            |                                     |      | 1                                  | 1    |
| Net periodic other post-retirement benefit cost                 | \$ 2                                | \$ 3 | \$ 6                               | \$ 9 |
| <b>Canada</b>                                                   |                                     |      |                                    |      |
| Service cost benefit earned                                     | \$ 2                                | \$ 1 | \$ 4                               | \$ 3 |
| Interest cost on accumulated post-retirement benefit obligation | 1                                   | 2    | 5                                  | 5    |
| Amortization of actuarial loss                                  | 1                                   |      | 1                                  |      |
| Amortization of prior service credit                            | (1)                                 | (1)  | (1)                                | (1)  |
| Net periodic other post-retirement benefit cost                 | \$ 3                                | \$ 2 | \$ 9                               | \$ 7 |

**20. Consolidating Financial Information**

Spectra Energy Corp has agreed to fully and unconditionally guarantee the payment of principal and interest under all series of notes outstanding under the Senior Indenture of Spectra Energy Capital, LLC (Spectra Capital), a wholly owned, consolidated subsidiary. In accordance with Securities and Exchange Commission (SEC) rules, the following condensed consolidating financial information is presented. The information shown for Spectra Energy Corp and Spectra Capital is presented utilizing the equity method of accounting for investments in subsidiaries, as required. The non-guarantor subsidiaries column represents all 100%-owned subsidiaries of Spectra Capital. This information should be read in conjunction with our accompanying Condensed Consolidated Financial Statements and notes thereto.

**Spectra Energy Corp**
**Condensed Consolidating Statement of Operations**
**Three Months Ended September 30, 2011**
**(Unaudited)**
**(In millions)**

|                                                         | <b>Spectra<br/>Energy<br/>Corp</b> | <b>Spectra<br/>Capital</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------|------------------------------------|----------------------------|---------------------------------------|---------------------|---------------------|
| Total operating revenues                                | \$                                 | \$                         | \$ 1,125                              | \$ (2)              | \$ 1,123            |
| Total operating expenses                                |                                    |                            | 767                                   | (2)                 | 765                 |
| Gains on sales of other assets and other, net           |                                    |                            | 3                                     |                     | 3                   |
| Operating income                                        |                                    |                            | 361                                   |                     | 361                 |
| Equity in earnings of unconsolidated affiliates         |                                    |                            | 160                                   |                     | 160                 |
| Equity in earnings of subsidiaries                      | 254                                | 368                        |                                       | (622)               |                     |
| Other income and expenses, net                          |                                    | (1)                        | 19                                    |                     | 18                  |
| Interest expense                                        |                                    | 48                         | 109                                   |                     | 157                 |
| Earnings from continuing operations before income taxes | 254                                | 319                        | 431                                   | (622)               | 382                 |
| Income tax expense from continuing operations           |                                    | 65                         | 43                                    |                     | 108                 |
| Income from continuing operations                       | 254                                | 254                        | 388                                   | (622)               | 274                 |
| Income from discontinued operations, net of tax         |                                    |                            | 7                                     |                     | 7                   |
| Net income                                              | 254                                | 254                        | 395                                   | (622)               | 281                 |
| Net income noncontrolling interests                     |                                    |                            | 27                                    |                     | 27                  |
| Net income controlling interests                        | \$ 254                             | \$ 254                     | \$ 368                                | \$ (622)            | \$ 254              |

**Spectra Energy Corp**
**Condensed Consolidating Statement of Operations**
**Three Months Ended September 30, 2010**
**(Unaudited)**
**(In millions)**

|                                                         | <b>Spectra<br/>Energy<br/>Corp</b> | <b>Spectra<br/>Capital</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------|------------------------------------|----------------------------|---------------------------------------|---------------------|---------------------|
| Total operating revenues                                | \$ 8                               | \$                         | \$ 1,019                              | \$                  | \$ 1,019            |
| Total operating expenses                                | 8                                  |                            | 670                                   |                     | 678                 |
| Operating income (loss)                                 | (8)                                |                            | 349                                   |                     | 341                 |
| Equity in earnings of unconsolidated affiliates         |                                    |                            | 98                                    |                     | 98                  |
| Equity in earnings of subsidiaries                      | 202                                | 319                        |                                       | (521)               |                     |
| Other income and expenses, net                          |                                    | (6)                        | 13                                    |                     | 7                   |
| Interest expense                                        |                                    | 51                         | 108                                   |                     | 159                 |
| Earnings from continuing operations before income taxes | 194                                | 262                        | 352                                   | (521)               | 287                 |
| Income tax expense (benefit) from continuing operations | (3)                                | 60                         | 12                                    |                     | 69                  |
| Income from continuing operations                       | 197                                | 202                        | 340                                   | (521)               | 218                 |
| Income from discontinued operations, net of tax         |                                    |                            | 1                                     |                     | 1                   |
| Net income                                              | 197                                | 202                        | 341                                   | (521)               | 219                 |
| Net income noncontrolling interests                     |                                    |                            | 22                                    |                     | 22                  |
| Net income controlling interests                        | \$ 197                             | \$ 202                     | \$ 319                                | \$ (521)            | \$ 197              |

**Spectra Energy Corp**
**Condensed Consolidating Statement of Operations**
**Nine Months Ended September 30, 2011**
**(Unaudited)**
**(In millions)**

|                                                         | <b>Spectra<br/>Energy<br/>Corp</b> | <b>Spectra<br/>Capital</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------|------------------------------------|----------------------------|---------------------------------------|---------------------|---------------------|
| Total operating revenues                                | \$                                 | \$                         | \$ 3,925                              | \$ (2)              | \$ 3,923            |
| Total operating expenses                                |                                    |                            | 2,612                                 | (2)                 | 2,610               |
| Gains on sales of other assets and other, net           |                                    |                            | 7                                     |                     | 7                   |
| Operating income                                        |                                    |                            | 1,320                                 |                     | 1,320               |
| Equity in earnings of unconsolidated affiliates         |                                    |                            | 428                                   |                     | 428                 |
| Equity in earnings of subsidiaries                      | 895                                | 1,303                      |                                       | (2,198)             |                     |
| Other income and expenses, net                          |                                    | 5                          | 37                                    |                     | 42                  |
| Interest expense                                        |                                    | 147                        | 324                                   |                     | 471                 |
| Earnings from continuing operations before income taxes | 895                                | 1,161                      | 1,461                                 | (2,198)             | 1,319               |
| Income tax expense from continuing operations           |                                    | 266                        | 106                                   |                     | 372                 |
| Income from continuing operations                       | 895                                | 895                        | 1,355                                 | (2,198)             | 947                 |
| Income from discontinued operations, net of tax         |                                    |                            | 23                                    |                     | 23                  |
| Net income                                              | 895                                | 895                        | 1,378                                 | (2,198)             | 970                 |
| Net income noncontrolling interests                     |                                    |                            | 75                                    |                     | 75                  |
| Net income controlling interests                        | \$ 895                             | \$ 895                     | \$ 1,303                              | \$ (2,198)          | \$ 895              |

**Spectra Energy Corp**
**Condensed Consolidating Statement of Operations**
**Nine Months Ended September 30, 2010**
**(Unaudited)**
**(In millions)**

|                                                         | <b>Spectra<br/>Energy<br/>Corp</b> | <b>Spectra<br/>Capital</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------|------------------------------------|----------------------------|---------------------------------------|---------------------|---------------------|
| Total operating revenues                                | \$ 13                              | \$ 1                       | \$ 3,562                              | \$                  | \$ 3,562            |
| Total operating expenses                                | 13                                 | 1                          | 2,373                                 |                     | 2,387               |
| Operating income (loss)                                 | (13)                               | (1)                        | 1,189                                 |                     | 1,175               |
| Equity in earnings of unconsolidated affiliates         |                                    |                            | 297                                   |                     | 297                 |
| Equity in earnings of subsidiaries                      | 737                                | 1,101                      |                                       | (1,838)             |                     |
| Other income and expenses, net                          |                                    | (4)                        | 21                                    |                     | 17                  |
| Interest expense                                        |                                    | 153                        | 323                                   |                     | 476                 |
| Earnings from continuing operations before income taxes | 724                                | 943                        | 1,184                                 | (1,838)             | 1,013               |
| Income tax expense (benefit) from continuing operations | (5)                                | 206                        | 41                                    |                     | 242                 |
| Income from continuing operations                       | 729                                | 737                        | 1,143                                 | (1,838)             | 771                 |
| Income from discontinued operations, net of tax         |                                    |                            | 17                                    |                     | 17                  |
| Net income                                              | 729                                | 737                        | 1,160                                 | (1,838)             | 788                 |
| Net income noncontrolling interests                     |                                    |                            | 59                                    |                     | 59                  |
| Net income controlling interests                        | \$ 729                             | \$ 737                     | \$ 1,101                              | \$ (1,838)          | \$ 729              |

**Spectra Energy Corp**
**Condensed Consolidating Balance Sheet**
**September 30, 2011**
**(Unaudited)**
**(In millions)**

|                                                         | <b>Spectra<br/>Energy<br/>Corp</b> | <b>Spectra<br/>Capital</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------|------------------------------------|----------------------------|---------------------------------------|---------------------|---------------------|
| Cash and cash equivalents                               | \$ 45                              | \$ 4                       | \$ 70                                 | \$                  | \$ 74               |
| Receivables (payables) consolidated subsidiaries        | 45                                 | (46)                       | 1                                     |                     |                     |
| Receivables other                                       |                                    |                            | 886                                   |                     | 886                 |
| Other current assets                                    | 14                                 | 17                         | 617                                   |                     | 648                 |
| <b>Total current assets</b>                             | <b>59</b>                          | <b>(25)</b>                | <b>1,574</b>                          |                     | <b>1,608</b>        |
| Investments in and loans to unconsolidated affiliates   |                                    | 70                         | 2,021                                 |                     | 2,091               |
| Investments in consolidated subsidiaries                | 11,408                             | 14,556                     |                                       | (25,964)            |                     |
| Advances receivable (payable) consolidated subsidiaries | (3,373)                            | 3,985                      | (51)                                  | (561)               |                     |
| Goodwill                                                |                                    |                            | 4,337                                 |                     | 4,337               |
| Other assets                                            | 38                                 | 106                        | 364                                   |                     | 508                 |
| Property, plant and equipment, net                      |                                    |                            | 17,591                                |                     | 17,591              |
| Regulatory assets and deferred debits                   | 3                                  | 6                          | 1,071                                 |                     | 1,080               |
| <b>Total Assets</b>                                     | <b>\$ 8,135</b>                    | <b>\$ 18,698</b>           | <b>\$ 26,907</b>                      | <b>\$ (26,525)</b>  | <b>\$ 27,215</b>    |
| Accounts payable other                                  | \$ 1                               | \$ 92                      | \$ 403                                | \$                  | \$ 496              |
| Short-term borrowings and commercial paper              |                                    | 1,194                      | 316                                   | (561)               | 949                 |
| Accrued taxes payable (receivable)                      | (13)                               |                            | 96                                    |                     | 83                  |
| Current maturities of long-term debt                    |                                    |                            | 64                                    |                     | 64                  |
| Other current liabilities                               | 65                                 | 59                         | 797                                   |                     | 921                 |
| <b>Total current liabilities</b>                        | <b>53</b>                          | <b>1,345</b>               | <b>1,676</b>                          | <b>(561)</b>        | <b>2,513</b>        |
| Long-term debt                                          |                                    | 3,319                      | 6,915                                 |                     | 10,234              |
| Deferred credits and other liabilities                  | 143                                | 2,626                      | 2,675                                 |                     | 5,444               |
| Preferred stock of subsidiaries                         |                                    |                            | 258                                   |                     | 258                 |
| <b>Equity</b>                                           |                                    |                            |                                       |                     |                     |
| Controlling interests                                   | 7,939                              | 11,408                     | 14,556                                | (25,964)            | 7,939               |
| Noncontrolling interests                                |                                    |                            | 827                                   |                     | 827                 |
| <b>Total equity</b>                                     | <b>7,939</b>                       | <b>11,408</b>              | <b>15,383</b>                         | <b>(25,964)</b>     | <b>8,766</b>        |
| <b>Total Liabilities and Equity</b>                     | <b>\$ 8,135</b>                    | <b>\$ 18,698</b>           | <b>\$ 26,907</b>                      | <b>\$ (26,525)</b>  | <b>\$ 27,215</b>    |

**Spectra Energy Corp**
**Condensed Consolidating Balance Sheet**
**December 31, 2010**
**(Unaudited)**
**(In millions)**

|                                                         | <b>Spectra<br/>Energy<br/>Corp</b> | <b>Spectra<br/>Capital</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---------------------------------------------------------|------------------------------------|----------------------------|---------------------------------------|---------------------|---------------------|
| Cash and cash equivalents                               | \$                                 | \$                         | \$ 130                                | \$                  | \$ 130              |
| Receivables (payables) consolidated subsidiaries        | (46)                               | 208                        | (162)                                 |                     |                     |
| Receivables (payables) other                            | (4)                                | 1                          | 1,021                                 |                     | 1,018               |
| Other current assets                                    | 63                                 | 37                         | 390                                   |                     | 490                 |
| <b>Total current assets</b>                             | <b>13</b>                          | <b>246</b>                 | <b>1,379</b>                          |                     | <b>1,638</b>        |
| Investments in and loans to unconsolidated affiliates   |                                    | 74                         | 1,959                                 |                     | 2,033               |
| Investments in consolidated subsidiaries                | 10,683                             | 13,979                     |                                       | (24,662)            |                     |
| Advances receivable (payable) consolidated subsidiaries | (2,835)                            | 3,463                      | (57)                                  | (571)               |                     |
| Goodwill                                                |                                    |                            | 4,305                                 |                     | 4,305               |
| Other assets                                            | 43                                 | 45                         | 577                                   |                     | 665                 |
| Property, plant and equipment, net                      |                                    |                            | 16,980                                |                     | 16,980              |
| Regulatory assets and deferred debits                   |                                    | 13                         | 1,052                                 |                     | 1,065               |
| <b>Total Assets</b>                                     | <b>\$ 7,904</b>                    | <b>\$ 17,820</b>           | <b>\$ 26,195</b>                      | <b>\$ (25,233)</b>  | <b>\$ 26,686</b>    |
| Accounts payable other                                  | \$ 1                               | \$ 76                      | \$ 292                                | \$                  | \$ 369              |
| Short-term borrowings and commercial paper              |                                    | 1,250                      | 157                                   | (571)               | 836                 |
| Accrued taxes payable (receivable)                      | (145)                              | 99                         | 105                                   |                     | 59                  |
| Current maturities of long-term debt                    |                                    | 8                          | 307                                   |                     | 315                 |
| Other current liabilities                               | 76                                 | 67                         | 801                                   |                     | 944                 |
| <b>Total current liabilities</b>                        | <b>(68)</b>                        | <b>1,500</b>               | <b>1,662</b>                          | <b>(571)</b>        | <b>2,523</b>        |
| Long-term debt                                          |                                    | 3,302                      | 6,867                                 |                     | 10,169              |
| Deferred credits and other liabilities                  | 163                                | 2,335                      | 2,751                                 |                     | 5,249               |
| Preferred stock of subsidiaries                         |                                    |                            | 258                                   |                     | 258                 |
| <b>Equity</b>                                           |                                    |                            |                                       |                     |                     |
| Controlling interests                                   | 7,809                              | 10,683                     | 13,979                                | (24,662)            | 7,809               |
| Noncontrolling interests                                |                                    |                            | 678                                   |                     | 678                 |
| <b>Total equity</b>                                     | <b>7,809</b>                       | <b>10,683</b>              | <b>14,657</b>                         | <b>(24,662)</b>     | <b>8,487</b>        |
| <b>Total Liabilities and Equity</b>                     | <b>\$ 7,904</b>                    | <b>\$ 17,820</b>           | <b>\$ 26,195</b>                      | <b>\$ (25,233)</b>  | <b>\$ 26,686</b>    |

**Spectra Energy Corp**
**Condensed Consolidating Statements of Cash Flows**
**Nine Months Ended September 30, 2011**
**(Unaudited)**
**(In millions)**

|                                                                                   | <b>Spectra<br/>Energy<br/>Corp</b> | <b>Spectra<br/>Capital</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|-----------------------------------------------------------------------------------|------------------------------------|----------------------------|---------------------------------------|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                    |                            |                                       |                     |                     |
| Net income                                                                        | \$ 895                             | \$ 895                     | \$ 1,378                              | \$ (2,198)          | \$ 970              |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |                            |                                       |                     |                     |
| Depreciation and amortization                                                     |                                    |                            | 543                                   |                     | 543                 |
| Equity in earnings of unconsolidated affiliates                                   |                                    |                            | (428)                                 |                     | (428)               |
| Equity in earnings of subsidiaries                                                | (895)                              | (1,303)                    |                                       | 2,198               |                     |
| Distributions received from unconsolidated affiliates                             |                                    |                            | 351                                   |                     | 351                 |
| Other                                                                             | (26)                               | 240                        | 37                                    |                     | 251                 |
| Net cash provided by (used in) operating activities                               | (26)                               | (168)                      | 1,881                                 |                     | 1,687               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                    |                            |                                       |                     |                     |
| Capital expenditures                                                              |                                    |                            | (1,299)                               |                     | (1,299)             |
| Investments in and loans to unconsolidated affiliates                             |                                    |                            | (6)                                   |                     | (6)                 |
| Acquisitions, net of cash acquired                                                |                                    |                            | (390)                                 |                     | (390)               |
| Purchases of held-to-maturity securities                                          |                                    |                            | (1,199)                               |                     | (1,199)             |
| Proceeds from sales and maturities of held-to-maturity securities                 |                                    |                            | 1,206                                 |                     | 1,206               |
| Purchases of available-for-sale securities                                        |                                    |                            | (938)                                 |                     | (938)               |
| Proceeds from sales and maturities of available-for-sale securities               |                                    |                            | 1,128                                 |                     | 1,128               |
| Distributions received from unconsolidated affiliates                             |                                    |                            | 6                                     |                     | 6                   |
| Other                                                                             |                                    |                            | (54)                                  |                     | (54)                |
| Net cash used in investing activities                                             |                                    |                            | (1,546)                               |                     | (1,546)             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                    |                            |                                       |                     |                     |
| Proceeds from the issuance of long-term debt                                      |                                    |                            | 806                                   |                     | 806                 |
| Payments for the redemption of long-term debt                                     |                                    |                            | (494)                                 |                     | (494)               |
| Net increase (decrease) in short-term borrowings and commercial paper             |                                    | (46)                       | 193                                   |                     | 147                 |
| Net decrease in revolving credit facilities borrowings                            |                                    |                            | (289)                                 |                     | (289)               |
| Distributions to noncontrolling interests                                         |                                    |                            | (74)                                  |                     | (74)                |
| Proceeds from the issuance of Spectra Energy Partners common units                |                                    |                            | 213                                   |                     | 213                 |
| Dividends paid on common stock                                                    | (511)                              |                            |                                       |                     | (511)               |
| Distributions and advances from (to) affiliates                                   | 517                                | 218                        | (735)                                 |                     |                     |
| Other                                                                             | 20                                 |                            | (6)                                   |                     | 14                  |
| Net cash provided by (used in) financing activities                               | 26                                 | 172                        | (386)                                 |                     | (188)               |
| Effect of exchange rate changes on cash                                           |                                    |                            | (9)                                   |                     | (9)                 |

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|                                                      |      |       |       |
|------------------------------------------------------|------|-------|-------|
| Net increase (decrease) in cash and cash equivalents | 4    | (60)  | (56)  |
| Cash and cash equivalents at beginning of period     |      | 130   | 130   |
| Cash and cash equivalents at end of period           | \$ 4 | \$ 70 | \$ 74 |

## Spectra Energy Corp

## Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2010

(Unaudited)

(In millions)

|                                                                                   | Spectra<br>Energy<br>Corp | Spectra<br>Capital | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------------------------------------------|---------------------------|--------------------|-------------------------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                           |                    |                               |              |              |
| Net income                                                                        | \$ 729                    | \$ 737             | \$ 1,160                      | \$ (1,838)   | \$ 788       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                    |                               |              |              |
| Depreciation and amortization                                                     |                           |                    | 493                           |              | 493          |
| Equity in earnings of unconsolidated affiliates                                   |                           |                    | (297)                         |              | (297)        |
| Equity in earnings of subsidiaries                                                | (737)                     | (1,101)            |                               | 1,838        |              |
| Distributions received from unconsolidated affiliates                             |                           |                    | 303                           |              | 303          |
| Other                                                                             | (215)                     | 178                | (243)                         |              | (280)        |
| Net cash provided by (used in) operating activities                               | (223)                     | (186)              | 1,416                         |              | 1,007        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                           |                    |                               |              |              |
| Capital expenditures                                                              |                           |                    | (881)                         |              | (881)        |
| Investments in and loans to unconsolidated affiliates                             |                           |                    | (6)                           |              | (6)          |
| Acquisitions, net of cash acquired                                                |                           |                    | (492)                         |              | (492)        |
| Purchases of held-to-maturity securities                                          |                           |                    | (850)                         |              | (850)        |
| Proceeds from sales and maturities of held-to-maturity securities                 |                           |                    | 809                           |              | 809          |
| Purchases of available-for-sale securities                                        |                           |                    | (19)                          |              | (19)         |
| Proceeds from sales and maturities of available-for-sale securities               |                           |                    | 6                             |              | 6            |
| Distributions received from unconsolidated affiliates                             |                           |                    | 12                            |              | 12           |
| Net cash used in investing activities                                             |                           |                    | (1,421)                       |              | (1,421)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                           |                    |                               |              |              |
| Proceeds from the issuance of long-term debt                                      |                           |                    | 479                           |              | 479          |
| Payments for the redemption of long-term debt                                     |                           |                    | (346)                         |              | (346)        |
| Net increase in short-term borrowings and commercial paper                        |                           | 799                | 22                            |              | 821          |
| Net decrease in revolving credit facilities borrowings                            |                           |                    | (10)                          |              | (10)         |
| Distributions to noncontrolling interests                                         |                           |                    | (54)                          |              | (54)         |
| Dividends paid on common stock                                                    | (487)                     | (3)                |                               | 3            | (487)        |
| Distributions and advances from (to) affiliates                                   | 709                       | (607)              | (99)                          | (3)          |              |
| Other                                                                             | 1                         |                    | 2                             |              | 3            |
| Net cash provided by (used in) financing activities                               | 223                       | 189                | (6)                           |              | 406          |
| Effect of exchange rate changes on cash                                           |                           |                    | (2)                           |              | (2)          |
| Net increase (decrease) in cash and cash equivalents                              |                           | 3                  | (13)                          |              | (10)         |
| Cash and cash equivalents at beginning of period                                  |                           |                    | 166                           |              | 166          |

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|                                            |    |    |   |    |     |    |    |     |
|--------------------------------------------|----|----|---|----|-----|----|----|-----|
| Cash and cash equivalents at end of period | \$ | \$ | 3 | \$ | 153 | \$ | \$ | 156 |
|--------------------------------------------|----|----|---|----|-----|----|----|-----|

## 21. New Accounting Pronouncements

There were no significant accounting pronouncements adopted during the nine months ended September 30, 2011 that had a material impact on our consolidated results of operations, financial position or cash flows.

## 22. Subsequent Events

On October 28, 2011, Westcoast issued 150 million Canadian dollars (approximately \$151 million as of the issuance date) aggregate principal amount of 3.883% notes due in 2021 and 150 million Canadian dollars (approximately \$151 million as of the issuance date) aggregate principal amount of 4.791% notes due in 2041. Net proceeds from the offering will be used for general corporate purposes.

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

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

### Executive Overview

During 2011, our fee-based businesses at U.S. Transmission, Distribution and Western Canada Transmission & Processing generated increased earnings and operating cash flows by meeting the needs of our customers and from successful expansion projects. In addition, commodity prices have improved significantly compared to the same period in 2010 and have positively impacted our earnings in the first nine months of 2011.

We increased our quarterly dividend from \$0.25 per share to \$0.26 per share effective the first quarter of 2011. Based on the financial update that we provided to our Board of Directors in October 2011, the quarterly dividend was further increased to \$0.28 per share effective the fourth quarter of 2011. We continue to anticipate our dividend payout ratio over time to be consistent with our targeted payout ratio, which is up to 65% of estimated annual net income from controlling interests per share of common stock.

For the three months ended September 30, 2011 and 2010, we reported net income from controlling interests of \$254 million and \$197 million, respectively. For the nine months ended September 30, 2011 and 2010, we reported net income from controlling interests of \$895 million and \$729 million, respectively. Earnings from expansion projects at U.S. Transmission and Western Canada Transmission & Processing, the positive impact of commodity prices on earnings from Field Services, a stronger Canadian dollar and colder weather at Distribution were slightly offset by higher corporate costs.

The highlights for the three and nine months ended September 30, 2011 include:

U.S. Transmission's earnings benefited from the successful execution of planned expansion projects,

Distribution's earnings reflect higher customer usage of natural gas due to colder weather early in 2011 and a stronger Canadian dollar, and also include higher operating costs,

Western Canada Transmission & Processing earnings increased mainly as a result of higher gathering and processing earnings from expansions, higher earnings at the Empress NGL business due mainly to higher sales prices in 2011 and a scheduled plant turnaround in 2010 and a stronger Canadian dollar, and

Field Services earnings increased as a result of higher commodity prices and lower interest expense, partially offset by higher operating expenses and the negative effects of severe weather.



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In the first nine months of 2011, we had \$1.3 billion of capital and investment expenditures. Excluding the acquisition of Big Sandy, we project approximately \$2.0 billion of capital and investment expenditures for the full year, including expansion capital of approximately \$1.2 billion.

In October 2011, we executed new five-year credit facilities at both Spectra Capital and Spectra Energy Partners that replaced existing facilities that were due to expire in 2012. We continue to have significant access to capital markets as a result of these and other available facilities and our strong financial position. We expect to continue to utilize commercial paper and revolving lines of credit to complement our ongoing cash flows to fund liquidity needs through the remainder of 2011. We also anticipate accessing the markets for other long-term financing to fund our ongoing capital expansion program.

On June 14, 2011, Spectra Energy Partners issued 7.2 million common units to the public, representing limited partner interests and 0.1 million general partner units to Spectra Energy, resulting in total net proceeds of \$218 million to Spectra Energy Partners (\$213 million to Spectra Energy). The sale of the units decreased Spectra Energy's ownership in Spectra Energy Partners from 69% to 64%. On July 1, 2011, Spectra Energy Partners acquired Big Sandy from EQT for approximately \$390 million in cash. See Notes 2 and 18 of Notes to Condensed Consolidated Financial Statements for further discussions.

### RESULTS OF OPERATIONS

|                                                         | Three Months<br>Ended September 30,<br>2011 |          | Nine Months<br>Ended September 30,<br>2011 |          |
|---------------------------------------------------------|---------------------------------------------|----------|--------------------------------------------|----------|
|                                                         | 2010                                        |          | 2010                                       |          |
|                                                         | (in millions)                               |          |                                            |          |
| Operating revenues                                      | \$ 1,123                                    | \$ 1,019 | \$ 3,923                                   | \$ 3,562 |
| Operating expenses                                      | 765                                         | 678      | 2,610                                      | 2,387    |
| Gains on sales of other assets and other, net           | 3                                           |          | 7                                          |          |
| Operating income                                        | 361                                         | 341      | 1,320                                      | 1,175    |
| Other income and expenses                               | 178                                         | 105      | 470                                        | 314      |
| Interest expense                                        | 157                                         | 159      | 471                                        | 476      |
| Earnings from continuing operations before income taxes | 382                                         | 287      | 1,319                                      | 1,013    |
| Income tax expense from continuing operations           | 108                                         | 69       | 372                                        | 242      |
| Income from continuing operations                       | 274                                         | 218      | 947                                        | 771      |
| Income from discontinued operations, net of tax         | 7                                           | 1        | 23                                         | 17       |
| Net income                                              | 281                                         | 219      | 970                                        | 788      |
| Net income noncontrolling interests                     | 27                                          | 22       | 75                                         | 59       |
| Net income controlling interests                        | \$ 254                                      | \$ 197   | \$ 895                                     | \$ 729   |

*Three and Nine Months Ended September 30, 2011 Compared to Same Periods in 2010*

**Operating Revenues.** Operating revenues for the three and nine months ended September 30, 2011 increased by \$104 million, or 10%, and \$361 million, or 10%, respectively, compared to the same periods in 2010. The increases were driven mainly by:

an increase in customer usage of natural gas due to colder weather in early 2011 at Distribution,

revenues from expansion projects at U.S. Transmission and Western Canada Transmission & Processing and the acquisitions of Bobcat Gas Storage (Bobcat) and Big Sandy at U.S. Transmission,



the effects of a stronger Canadian dollar on revenues at Distribution and Western Canada Transmission & Processing, and

higher NGL and other petroleum products sales volumes from the Empress operations due to higher demand for NGL and other petroleum products caused in part by colder weather as well as the effect of a scheduled plant turnaround in 2010, and higher NGL sales prices associated with the Empress operations in 2011 at Western Canada Transmission & Processing, partially offset by

lower natural gas prices passed through to customers at Distribution.

*Operating Expenses.* Operating expenses for the three and nine months ended September 30, 2011 increased by \$87 million, or 13%, and \$223 million, or 9%, respectively, compared to the same periods in 2010. The increases were driven mainly by:

higher volumes of natural gas sold as a result of colder weather in early 2011 at Distribution,

the effects of a stronger Canadian dollar at Distribution and Western Canada Transmission & Processing, and

higher volumes of natural gas purchased attributable to higher demand for NGL and other petroleum products caused in part by colder weather as well as the effect of a scheduled plant turnaround in 2010, and higher prices of natural gas purchased caused primarily by higher extraction premiums at the Empress operations at Western Canada Transmission & Processing, partially offset by

lower natural gas prices passed through to customers at Distribution.

*Operating Income.* Operating income for the three and nine months ended September 30, 2011 increased by \$20 million, or 6%, and \$145 million, or 12%, respectively, compared to the same periods in 2010. The increases were mainly driven by higher earnings from expansion projects at U.S. Transmission and Western Canada Transmission & Processing, the effects of a stronger Canadian dollar and an increase in customer usage of natural gas due to colder weather in early 2011 at Distribution.

*Other Income and Expenses.* Other income and expenses for the three and nine months ended September 30, 2011 increased by \$73 million, or 70%, and \$156 million, or 50%, respectively, compared to the same periods in 2010. The increases were attributable to higher equity earnings from Field Services mainly due to higher commodity prices, and lower interest and income tax expenses, partially offset by higher operating expenses and the negative effects of severe weather.

*Income Tax Expense from Continuing Operations.* Income tax expense from continuing operations for the three and nine months ended September 30, 2011 increased by \$39 million and \$130 million, respectively, compared to the same periods in 2010, as a result of higher earnings from continuing operations and higher effective tax rates.

The effective tax rates for income from continuing operations for the three-month periods ended September 30, 2011 and 2010 were 28% and 24%, respectively, and were also 28% and 24% for the nine-month periods. The lower effective tax rates in 2010 were primarily due to favorable tax settlements.

*Income from Discontinued Operations, Net of Tax.* Income from discontinued operations, net of tax for the three and nine months ended September 30, 2011 increased \$6 million compared to the same periods in 2010. The 2011 results include recovery of losses incurred in the fourth quarter of 2010 related to a breach by a third party of certain scheduled propane deliveries to us. Higher income from propane deliveries and the recovery of losses in the nine-month period in 2011 were offset by a favorable income tax adjustment related to previously discontinued operations in the first quarter of 2010.

**Net Income Noncontrolling Interests.** Net income from noncontrolling interests for the three and nine months ended September 30, 2011 increased by \$5 million and \$16 million, respectively, compared to the same periods in 2010. The increases were mainly driven by an increase in the noncontrolling interests ownership percentage resulting from the Spectra Energy Partners public sales of additional partner units in December 2010 and June 2011, and higher earnings from Spectra Energy Partners, primarily as a result of their acquisitions of an additional 24.5% in Gulfstream Natural Gas System, LLC (Gulfstream) in the fourth quarter of 2010 and Big Sandy in July 2011.

For a more detailed discussion of earnings drivers, see the segment discussions that follow.

## Segment Results

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

Our segment EBIT may not be comparable to similarly titled measures of other companies because other companies may not calculate EBIT in the same manner. Segment EBIT is summarized in the following table and detailed discussions follow:

## EBIT by Business Segment

|                                                          | Three Months<br>Ended September 30, |        | Nine Months<br>Ended September 30, |          |
|----------------------------------------------------------|-------------------------------------|--------|------------------------------------|----------|
|                                                          | 2011                                | 2010   | 2011                               | 2010     |
|                                                          | (in millions)                       |        |                                    |          |
| U.S. Transmission                                        | \$ 235                              | \$ 231 | \$ 757                             | \$ 701   |
| Distribution                                             | 50                                  | 63     | 305                                | 282      |
| Western Canada Transmission & Processing                 | 119                                 | 90     | 373                                | 278      |
| Field Services                                           | 134                                 | 70     | 353                                | 227      |
| Total reportable segment EBIT                            | 538                                 | 454    | 1,788                              | 1,488    |
| Other                                                    | (23)                                | (23)   | (76)                               | (53)     |
| Total reportable segment and other EBIT                  | 515                                 | 431    | 1,712                              | 1,435    |
| Interest expense                                         | 157                                 | 159    | 471                                | 476      |
| Interest income and other (a)                            | 24                                  | 15     | 78                                 | 54       |
| Earnings from continuing operations before income taxes. | \$ 382                              | \$ 287 | \$ 1,319                           | \$ 1,013 |

(a) Includes foreign currency transaction gains and losses and the add-back of noncontrolling interests related to segment EBIT. Noncontrolling interests as presented in the following segment-level discussions includes only noncontrolling interests related to EBIT of non-wholly owned subsidiaries. It does not include noncontrolling interests related to interest and taxes of those operations. The amounts discussed below include intercompany transactions that are eliminated in the Condensed Consolidated Financial Statements.

**U.S. Transmission**

|                                               | Three Months<br>Ended September 30, |               |             | Nine Months<br>Ended September 30, |               |              |
|-----------------------------------------------|-------------------------------------|---------------|-------------|------------------------------------|---------------|--------------|
|                                               | 2011                                | 2010          | Increase    | 2011                               | 2010          | Increase     |
|                                               | (in millions, except where noted)   |               |             |                                    |               |              |
| Operating revenues                            | \$ 471                              | \$ 442        | \$ 29       | \$ 1,411                           | \$ 1,341      | \$ 70        |
| Operating expenses                            |                                     |               |             |                                    |               |              |
| Operating, maintenance and other              | 184                                 | 165           | 19          | 486                                | 482           | 4            |
| Depreciation and amortization                 | 69                                  | 64            | 5           | 203                                | 192           | 11           |
| Gains on sales of other assets and other, net | 4                                   | 1             | 3           | 8                                  | 1             | 7            |
| Operating income                              | 222                                 | 214           | 8           | 730                                | 668           | 62           |
| Other income and expenses                     | 40                                  | 38            | 2           | 103                                | 93            | 10           |
| Noncontrolling interests                      | 27                                  | 21            | 6           | 76                                 | 60            | 16           |
| <b>EBIT</b>                                   | <b>\$ 235</b>                       | <b>\$ 231</b> | <b>\$ 4</b> | <b>\$ 757</b>                      | <b>\$ 701</b> | <b>\$ 56</b> |
| Proportional throughput, TBtu (a)             | 659                                 | 624           | 35          | 2,085                              | 2,009         | 76           |

(a) Trillion British thermal units. Revenues are not significantly affected by pipeline throughput fluctuations, since revenues are primarily composed of demand charges.

*Three Months Ended September 30, 2011 Compared to Same Period in 2010*

*Operating Revenues.* The \$29 million increase was driven by:

a \$45 million increase from expansion projects and the acquisitions of Bobcat in August 2010 and Big Sandy in July 2011, partially offset by

a \$9 million decrease from lower contracted volumes and rates as a result of contract renewals primarily at Ozark Gas Transmission.  
*Operating, Maintenance and Other.* The \$19 million increase was driven by:

a \$15 million increase from higher costs, including pipeline integrity costs of \$4 million due to higher levels of program activity, software costs of \$5 million primarily related to a planned 2012 implementation of a new enterprise system, and an ad valorem tax benefit of \$5 million in 2010, and

a \$6 million increase from expansion projects and the acquisitions of Bobcat in August 2010 and Big Sandy in July 2011.  
*Depreciation and Amortization.* The \$5 million increase was mainly driven by expansion projects placed in service in 2010 and the acquisitions of Bobcat and Big Sandy.

*Noncontrolling Interests.* The \$6 million increase was driven by an increase in the noncontrolling ownership interests resulting from the Spectra Energy Partners public sales of additional partner units in December 2010 and June 2011, and higher earnings from Spectra Energy Partners, as a result of their acquisitions of an additional 24.5 % in Gulfstream in the fourth quarter 2010 and Big Sandy in July 2011.

*EBIT.* The \$4 million increase was mainly due to higher earnings from expansion projects mostly offset by higher operating costs.

*Nine Months Ended September 30, 2011 Compared to Same Period in 2010*

*Operating Revenues.* The \$70 million increase was driven mainly by:

a \$110 million increase from expansion projects and the acquisitions of Bobcat in August 2010 and Big Sandy in July 2011, partially offset by

a \$22 million decrease in recoveries of electric power and other costs passed through to customers,

a \$10 million decrease in processing revenues associated with pipeline operations caused by lower volumes, and

a \$16 million decrease from lower contracted volumes and rates as a result of contract renewals mainly at Ozark Gas Transmission and Algonquin Gas Transmission LLC.

*Operating, Maintenance and Other.* The \$4 million increase was driven mainly by:

an \$18 million increase from the expansion projects and the acquisitions of Bobcat and Big Sandy, and

an \$11 million increase in project development costs, partially offset by

a \$28 million decrease in electric power and other costs passed through to customers.

*Depreciation and Amortization.* The \$11 million increase was mainly driven by expansion projects placed in service in 2010 and the acquisitions of Bobcat and Big Sandy.

*Gains on sales of other assets and other, net.* The \$7 million increase was primarily driven by 2011 settlements related to customer bankruptcies.

*Other Income and Expenses.* The \$10 million increase was primarily due to an indemnification of a tax liability related to the Bobcat acquisition.

*Noncontrolling Interests.* The \$16 million increase was driven by an increase in the noncontrolling ownership interests resulting from the Spectra Energy Partners public sales of additional partner units in December 2010 and June 2011, and higher earnings from Spectra Energy Partners, as a result of their acquisitions of an additional 24.5% in Gulfstream in the fourth quarter 2010 and Big Sandy in July 2011.

*EBIT.* The \$56 million increase was primarily due to higher earnings from expansion projects.

#### *Matters Affecting Future U.S. Transmission Results*

Our interstate pipeline operations are subject to pipeline safety regulation administered by the Pipeline and Hazardous Materials Safety Administration (PHMSA) of the U.S. Department of Transportation. These laws and regulations require us to comply with a significant set of requirements for the design, construction, maintenance and operation of our interstate pipelines.

Legislative proposals have been introduced in Congress that would strengthen the PHMSA's enforcement and penalty authority, and expand the scope of its oversight. In August 2011, the PHMSA initiated an Advance Notice of Proposed Rulemaking announcing its consideration of substantial revisions in its regulations to increase pipeline safety. The PHMSA also has issued an Advisory Bulletin which among other things, advises pipeline operators that if they are relying on design, construction, inspection, testing, or other data to determine the pressures at which their pipelines should operate, the records of that data must be traceable, verifiable and complete. Such legislative and regulatory changes may have a material adverse effect on our operations, earnings, financial condition and cash flows through more stringent and comprehensive safety regulations and higher penalties for the violation of those regulations.

**Distribution**

|                                        | Three Months<br>Ended September 30, |        |                        | Nine Months<br>Ended September 30, |          |                        |
|----------------------------------------|-------------------------------------|--------|------------------------|------------------------------------|----------|------------------------|
|                                        | 2011                                | 2010   | Increase<br>(Decrease) | 2011                               | 2010     | Increase<br>(Decrease) |
|                                        | (in millions, except where noted)   |        |                        |                                    |          |                        |
| Operating revenues                     | \$ 276                              | \$ 261 | \$ 15                  | \$ 1,347                           | \$ 1,260 | \$ 87                  |
| Operating expenses                     |                                     |        |                        |                                    |          |                        |
| Natural gas purchased                  | 60                                  | 54     | 6                      | 556                                | 535      | 21                     |
| Operating, maintenance and other       | 112                                 | 96     | 16                     | 326                                | 298      | 28                     |
| Depreciation and amortization          | 54                                  | 48     | 6                      | 160                                | 145      | 15                     |
| EBIT                                   | \$ 50                               | \$ 63  | \$ (13)                | \$ 305                             | \$ 282   | \$ 23                  |
| Number of customers, thousands         |                                     |        |                        | 1,352                              | 1,334    | 18                     |
| Heating degree days, Fahrenheit        | 246                                 | 285    | (39)                   | 4,948                              | 4,288    | 660                    |
| Pipeline throughput, TBtu              | 139                                 | 180    | (41)                   | 626                                | 665      | (39)                   |
| Canadian dollar exchange rate, average | 0.98                                | 1.04   | (0.06)                 | 0.98                               | 1.04     | (0.06)                 |

*Three Months Ended September 30, 2011 Compared to Same Period in 2010*

*Operating Revenues.* The \$15 million increase was driven mainly by:

a \$16 million increase resulting from a stronger Canadian dollar, and

a \$6 million increase in customer usage of natural gas due to the return of direct-purchase customers to Union Gas as a natural gas supplier.

*Natural Gas Purchased.* The \$6 million increase was driven primarily by higher volumes of natural gas sold due to the return of direct-purchase customers to Union Gas as a natural gas supplier.

*Operating, Maintenance and Other.* The \$16 million increase was driven mainly by:

an \$11 million increase primarily due to higher employee benefits costs, and

a \$6 million increase resulting from a stronger Canadian dollar.

*Depreciation and Amortization.* The \$6 million increase was driven primarily by a stronger Canadian dollar.

*EBIT.* The \$13 million decrease was mainly a result of higher operating costs, primarily employee benefits costs, partially offset by a stronger Canadian dollar.

*Nine Months Ended September 30, 2011 Compared to Same Period in 2010*

*Operating Revenues.* The \$87 million increase was driven mainly by:

a \$130 million increase in customer usage of natural gas primarily due to weather that was more than 15% colder than in the same period in 2010,

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a \$74 million increase resulting from a stronger Canadian dollar, and

an \$11 million increase from growth in the number of customers, partially offset by

a \$124 million decrease from lower natural gas prices passed through to customers. Prices charged to customers are based on the 12 month New York Mercantile Exchange (NYMEX) forecast.

*Natural Gas Purchased.* The \$21 million increase was driven mainly by:

a \$110 million increase due to higher volumes of natural gas sold primarily as a result of weather that was more than 15% colder than in the same period in 2010,

a \$30 million increase resulting from a stronger Canadian dollar, and

a \$7 million increase due to growth in the number of customers, partially offset by

a \$124 million decrease from lower natural gas prices passed through to customers.

*Operating, Maintenance and Other.* The \$28 million increase was driven mainly by:

an \$18 million increase resulting from a stronger Canadian dollar, and

a \$13 million increase primarily due to higher employee benefits costs.

*Depreciation and Amortization.* The \$15 million increase was driven primarily by a stronger Canadian dollar.

*EBIT.* The \$23 million increase was mainly a result of higher usage due to colder weather and a stronger Canadian dollar, partially offset by higher operating costs.

### Western Canada Transmission & Processing

|                                              | Three Months<br>Ended September 30, |        |                        | Nine Months<br>Ended September 30, |        |                        |
|----------------------------------------------|-------------------------------------|--------|------------------------|------------------------------------|--------|------------------------|
|                                              | 2011                                | 2010   | Increase<br>(Decrease) | 2011                               | 2010   | Increase<br>(Decrease) |
|                                              | (in millions, except where noted)   |        |                        |                                    |        |                        |
| Operating revenues                           | \$ 392                              | \$ 315 | \$ 77                  | \$ 1,202                           | \$ 959 | \$ 243                 |
| Operating expenses                           |                                     |        |                        |                                    |        |                        |
| Natural gas and petroleum products purchased | 86                                  | 62     | 24                     | 275                                | 189    | 86                     |
| Operating, maintenance and other             | 148                                 | 119    | 29                     | 428                                | 369    | 59                     |
| Depreciation and amortization                | 46                                  | 46     |                        | 140                                | 124    | 16                     |
| Loss on sales of other assets and other, net |                                     | (1)    | 1                      |                                    | (1)    | 1                      |
| Operating income                             | 112                                 | 87     | 25                     | 359                                | 276    | 83                     |
| Other income and expenses                    | 7                                   | 3      | 4                      | 14                                 | 2      | 12                     |
| EBIT                                         | \$ 119                              | \$ 90  | \$ 29                  | \$ 373                             | \$ 278 | \$ 95                  |
| Pipeline throughput, TBtu                    | 180                                 | 151    | 29                     | 529                                | 451    | 78                     |
| Volumes processed, TBtu                      | 187                                 | 164    | 23                     | 537                                | 490    | 47                     |
| Empress inlet volumes, TBtu                  | 145                                 | 163    | (18)                   | 455                                | 441    | 14                     |
| Canadian dollar exchange rate, average       | 0.98                                | 1.04   | (0.06)                 | 0.98                               | 1.04   | (0.06)                 |

*Three Months Ended September 30, 2011 Compared to Same Period in 2010*

*Operating Revenues.* The \$77 million increase was driven by:

a \$26 million increase due to higher NGL sales prices associated with the Empress operations,

a \$25 million increase in gathering and processing revenues due primarily to contracted volumes from expansions associated with non-conventional supply discoveries in the Fort Nelson area,

a \$22 million increase as a result of a stronger Canadian dollar,

a \$14 million increase in sales of natural gas to a related party at Empress, and

a \$5 million increase from recovery of carbon and other non-income tax expense from customers, partially offset by

a \$17 million decrease in NGL sales volumes at Empress caused mainly by reduced propane demand.

*Natural Gas and Petroleum Products Purchased.* The \$24 million increase was driven by:

a \$15 million increase in volumes of natural gas purchases for extraction at Empress,

a \$12 million increase as a result of higher prices of natural gas and other petroleum products purchased for the Empress facility caused primarily by higher extraction premiums, and

a \$5 million increase due to a stronger Canadian dollars, partially offset by

an \$11 million decrease in volumes of make-up gas purchases at Empress mainly as a result of lower plant inlet volumes.

*Operating, Maintenance and Other.* The \$29 million increase was driven by:

an \$8 million increase due primarily to higher maintenance costs related to timing,

an \$8 million increase due to a stronger Canadian dollar,

a \$5 million increase in carbon and other non-income tax expense, and

a \$3 million increase in employee benefits costs.

*EBIT.* The \$29 million increase was driven mainly by higher gathering and processing earnings from expansions, higher earnings at the Empress NGL business due primarily to higher sales prices, and a stronger Canadian dollar.

*Nine Months Ended September 30, 2011 Compared to Same Period in 2010*

*Operating Revenues.* The \$243 million increase was driven by:

a \$67 million increase as a result of a stronger Canadian dollar,

a \$63 million increase in gathering and processing revenues due primarily to contracted volumes from expansions associated with non-conventional supply discoveries in the Fort Nelson area,

a \$42 million increase due to higher NGL sales prices associated with the Empress operations,

a \$33 million increase in sales of natural gas to a related party at Empress,

a \$17 million increase from recovery of carbon and other non-income tax expense from customers, and

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a \$9 million increase due to higher NGL sales volumes associated with the Empress operations resulting from higher demand for NGL products caused in part by colder weather, as well as the effect of the scheduled plant turnaround in 2010.

*Natural Gas and Petroleum Products Purchased.* The \$86 million increase was driven by:

a \$35 million increase due primarily to increased volumes of natural gas purchases for extraction at Empress,

a \$35 million increase as a result of higher prices of natural gas and other petroleum products purchased for the Empress facility caused primarily by higher extraction premiums, and

a \$16 million increase due to a stronger Canadian dollar.

*Operating, Maintenance and Other.* The \$59 million increase was driven by:

a \$24 million increase due to a stronger Canadian dollar,

a \$17 million increase in carbon and other non-income tax expense,

a \$6 million increase due primarily to higher gathering and processing plant turnaround costs,

a \$5 million increase due primarily to higher maintenance costs, and

a \$5 million increase in employee benefits costs, partially offset by

a \$9 million decrease due to the Empress plant turnaround in 2010.

*Depreciation and Amortization.* The \$16 million increase was driven mainly by expansion projects placed in service and maintenance capital incurred, as well as a stronger Canadian dollar.

*Other Income and Expenses.* The \$12 million increase was driven primarily by higher allowance for funds used during construction (AFUDC) resulting from higher capital spent on expansion projects.

*EBIT.* The \$95 million increase was driven mainly by higher gathering and processing earnings from expansions, higher earnings at the Empress NGL business due mainly to higher sales prices in 2011 and a plant turnaround in the second quarter of 2010, and a stronger Canadian dollar.

## Field Services

|                                                              | Three Months<br>Ended September 30, |          |                                                             | Nine Months<br>Ended September 30, |          |                        |
|--------------------------------------------------------------|-------------------------------------|----------|-------------------------------------------------------------|------------------------------------|----------|------------------------|
|                                                              | 2011                                | 2010     | Increase<br>(Decrease)<br>(in millions, except where noted) | 2011                               | 2010     | Increase<br>(Decrease) |
| Equity in earnings of unconsolidated affiliates              | \$ 134                              | \$ 70    | \$ 64                                                       | \$ 353                             | \$ 227   | \$ 126                 |
| EBIT                                                         | \$ 134                              | \$ 70    | \$ 64                                                       | \$ 353                             | \$ 227   | \$ 126                 |
| Natural gas gathered and processed/transported, TBtu/d (a,b) | 7.1                                 | 7.1      |                                                             | 6.9                                | 6.9      |                        |
| NGL production, MBbl/d (a,c)                                 | 392                                 | 378      | 14                                                          | 375                                | 364      | 11                     |
| Average natural gas price per MMBtu (d)                      | \$ 4.19                             | \$ 4.38  | \$ (0.19)                                                   | \$ 4.21                            | \$ 4.59  | \$ (0.38)              |
| Average NGL price per gallon (e)                             | \$ 1.24                             | \$ 0.87  | \$ 0.37                                                     | \$ 1.21                            | \$ 0.96  | \$ 0.25                |
| Average crude oil price per barrel (f)                       | \$ 89.76                            | \$ 76.20 | \$ 13.56                                                    | \$ 95.48                           | \$ 77.65 | \$ 17.83               |

(a) Reflects 100% of volumes.

(b) Trillion British thermal units per day.

(c) Thousand barrels per day.

(d) Million British thermal units. Average price based on NYMEX Henry Hub.

(e) Does not reflect results of commodity hedges.

(f) Average price based on NYMEX calendar month.

Three Months Ended September 30, 2011 Compared to Same Period in 2010

*EBIT.* Higher equity earnings of \$64 million were mainly the result of the following variances, each representing our 50% ownership portion of the earnings drivers at DCP Midstream:

a \$62 million increase from commodity-sensitive processing arrangements due to increased NGL and crude oil prices, and

a \$13 million increase in earnings from DCP Partners as a result of growth and mark-to-market gains on derivative instruments used to protect distributable cash flows, partially offset by

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an \$11 million decrease due to higher operating expenses largely resulting from DCP Partners growth from acquisitions and increased repairs and maintenance costs.

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### *Nine Months Ended September 30, 2011 Compared to Same Period in 2010*

**EBIT.** Higher equity earnings of \$126 million were mainly the result of the following variances, each representing our 50% ownership portion of the earnings drivers at DCP Midstream:

a \$136 million increase from commodity-sensitive processing arrangements due to increased NGL and crude oil prices, net of decreased natural gas prices,

a \$19 million increase attributable to a decrease in interest expense due to favorable rates during 2011,

a \$13 million increase attributable to decreased income tax expense related to the de-recognition of certain deferred tax assets in the 2010 period, and

a \$10 million increase in earnings from DCP Partners as a result of growth and mark-to-market gains on derivative instruments used to protect distributable cash flows, partially offset by

a \$38 million decrease due to higher operating expenses largely resulting from DCP Partners' growth from acquisitions, increased repairs and maintenance costs and increased benefits costs, and

an \$11 million decrease in gathering and processing margins attributable to lower volumes and recoveries across higher-margin regions due to the impact of severe weather which reduced production and lowered margins.

### **Other**

|                           | Three Months<br>Ended September 30, |                |                        | Nine Months<br>Ended September 30, |                |                        |
|---------------------------|-------------------------------------|----------------|------------------------|------------------------------------|----------------|------------------------|
|                           | 2011                                | 2010           | Increase<br>(Decrease) | 2011                               | 2010           | Increase<br>(Decrease) |
|                           | (in millions, except where noted)   |                |                        |                                    |                |                        |
| Operating revenues        | \$ 20                               | \$ 15          | \$ 5                   | \$ 53                              | \$ 42          | \$ 11                  |
| Operating expenses        | 42                                  | 39             | 3                      | 125                                | 93             | 32                     |
| Operating loss            | (22)                                | (24)           | 2                      | (72)                               | (51)           | (21)                   |
| Other income and expenses | (1)                                 | 1              | (2)                    | (4)                                | (2)            | (2)                    |
| <b>EBIT</b>               | <b>\$ (23)</b>                      | <b>\$ (23)</b> | <b>\$</b>              | <b>\$ (76)</b>                     | <b>\$ (53)</b> | <b>\$ (23)</b>         |

### *Three Months Ended September 30, 2011 Compared to Same Period in 2010*

**EBIT.** The EBIT results are in line with prior year quarter. The resolution of a corporate legal matter in 2010 was offset by higher benefit costs and captive insurance reserves in 2011.

### *Nine Months Ended September 30, 2011 Compared to Same Period in 2010*

**EBIT.** The \$23 million decrease in EBIT reflects an increase in reserves for captive insurance for miscellaneous loss events and higher corporate costs, including employee and retiree benefit costs, partially offset by an expense in the 2010 period for resolution of a corporate legal matter.

### **Impairment of Goodwill**

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We completed our annual goodwill impairment test as of April 1, 2011 and no impairments were identified. We primarily use a discounted cash flow analysis to determine fair value for each reporting unit. 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, the ability to renew contracts, commodity prices (where appropriate) and foreign currency exchange rates, as well as other factors that affect our revenue, expense and capital expenditure projections.

The long-term growth rates used for our reporting units reflect continued expansion of our assets, driven by new natural gas supplies such as shale gas in North America and increasing demand for natural gas transportation capacity on our pipeline systems primarily as a result of forecasted growth in natural gas-fired power plants. We assumed a weighted average long-term growth rate of 3.7% for our 2011 goodwill impairment analysis. Had we assumed a 100 basis point lower growth rate for each of our reporting units, except for the Distribution reporting unit, there would have been no impairment of goodwill. The Distribution reporting unit used a long-term growth rate assumption at the lower end of our growth rate range as a result of lower long-term projections of natural gas conversions and sustained mild economic growth in this region and therefore has a higher sensitivity to growth rate declines. Approximately \$833 million of goodwill is allocated to our Distribution segment as of September 30, 2011.

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 values. In evaluating our reporting units for our 2011 goodwill impairment analysis, we assumed weighted-average costs of capital ranging from 7.0% to 8.2% that market participants would use. Had we assumed a 100 basis point increase in the weighted-average cost of capital for each of our reporting units, there would have been no impairment of goodwill. For our regulated businesses in Canada, if an increase in the cost of capital occurred, we assume that the effect on the corresponding reporting unit's fair value would be ultimately offset by a similar increase in the reporting unit's regulated revenues since those rates include a component that is based on the reporting unit's cost of capital.

Based on the results of our annual impairment testing, the fair values of our reporting units at April 1, 2011 significantly exceeded their carrying values. No triggering events or changes in circumstances occurred during the period April 1, 2011 (our testing date) through September 30, 2011 that would warrant re-testing for goodwill impairment.

## **LIQUIDITY AND CAPITAL RESOURCES**

Net working capital was negative \$905 million as of September 30, 2011, which included short-term borrowings and commercial paper totaling \$949 million and current maturities of long-term debt of \$64 million. We will rely primarily upon cash flows from operations and various financing transactions, which may include issuances of short-term and long-term debt, to fund our liquidity and capital requirements for the next 12 months.

In October 2011, we executed a new five-year \$1.5 billion credit facility at Spectra Capital and a new five-year \$700 million credit facility at Spectra Energy Partners. The new facilities replaced our existing \$1.5 billion Spectra Capital and \$500 million Spectra Energy Partners credit facilities which were both due to expire in 2012. With the new credit facilities, we have access to four revolving credit facilities, with total combined capital commitments of approximately \$3.0 billion. Including the increased capacity at Spectra Energy Partners for the new credit facility, approximately \$2.0 billion of the facilities were available at September 30, 2011. These facilities are used principally as back-stops for commercial paper programs or for the issuance of letters of credit. At Union Gas, we primarily use commercial paper to support our short-term working capital fluctuations. At Spectra Capital, Spectra Energy Partners and Westcoast, we primarily use commercial paper for temporary funding of our capital expenditures. We also utilize commercial paper, other variable-rate debt and interest rate swaps to achieve our desired mix of fixed and variable-rate debt. See Note 13 of Notes to Condensed Consolidated Financial Statements for a discussion of available credit facilities and Financing Cash Flows and Liquidity for a discussion of effective shelf registrations.

Total debt balances since year-end 2010 have remained fairly flat at about \$11.2 billion. Financing activities in 2011 included an increase in commercial paper balances and refinanced long-term debt at very favorable rates. Our debt-to-total-capitalization ratio was 56% at September 30, 2011.

## **Operating Cash Flows**

Net cash provided by operating activities increased \$680 million to \$1,687 million for the nine months ended September 30, 2011 compared to the same period in 2010, driven mainly by:

lower refunds to Union Gas customers in the first half of 2011 for gas purchase costs collected in 2010 compared to refunds in 2010 for collections in 2009,

lower net tax payments in 2011 primarily as a result of the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 which deferred a significant amount of tax payments to future periods, and

higher earnings across all segments in 2011.

## Investing Cash Flows

Net cash flows used in investing activities increased \$125 million to \$1,546 million in the first nine months of 2011 compared to the same period in 2010. This change was driven primarily by higher capital and investment expenditures in 2011 from capital expansion projects in western Canada and the northeastern United States, partially offset by net proceeds from sales of Spectra Energy Partners AFS securities in 2011 that were previously pledged as collateral against its term debt that was repaid.

|                                                | Nine Months<br>Ended September 30,<br>2011 2010<br>(in millions) |        |
|------------------------------------------------|------------------------------------------------------------------|--------|
| <b>Capital and Investment Expenditures (a)</b> |                                                                  |        |
| U.S. Transmission                              | \$ 534                                                           | \$ 478 |
| Distribution                                   | 200                                                              | 126    |
| Western Canada Transmission & Processing       | 515                                                              | 260    |
| Other                                          | 56                                                               | 23     |
| Total                                          | \$ 1,305                                                         | \$ 887 |

(a) Excludes the acquisitions of Big Sandy in 2011 and the Bobcat assets and development project in 2010.

Capital and investment expenditures for the nine months ended September 30, 2011 consisted of \$802 million for expansion projects and \$503 million for maintenance and other projects.

Excluding the acquisition of Big Sandy discussed below, we project 2011 capital and investment expenditures of approximately \$2.0 billion, consisting of approximately \$0.8 billion for U.S. Transmission, \$0.3 billion for Distribution and \$0.9 billion for Western Canada Transmission & Processing. Total projected 2011 capital and investment expenditures include approximately \$1.2 billion of expansion capital expenditures and \$0.8 billion for maintenance and upgrades of existing plants, pipelines and infrastructure to serve growth. We continue to assess short and long-term market requirements and will adjust our capital plans as required.

On July 1, 2011, Spectra Energy Partners completed the acquisition of Big Sandy for approximately \$390 million in cash. See Note 2 of Notes to Condensed Consolidated Financial Statements for further discussion.

## Financing Cash Flows and Liquidity

Net cash used in financing activities totaled \$188 million in the first nine months of 2011 compared to \$406 million provided by financing activities in the first nine months of 2010. This change was driven mainly by:

a \$147 million increase in short-term borrowings and commercial paper outstanding in 2011 compared to an \$821 million increase in 2010, and

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\$23 million of net debt issuances in the 2011 period, including net revolving credit facility borrowings, compared to \$123 million of net issuances in 2010, partially offset by

proceeds of \$213 million in 2011 from the issuance of Spectra Energy Partners' common units.

On June 9, 2011, Spectra Energy Partners issued \$500 million aggregate principal amount of unsecured senior notes, including \$250 million of 2.95% senior notes due in 2016 and \$250 million of 4.60% senior notes

due in 2021. Net proceeds from the offering were used to repay all of the outstanding borrowings under Spectra Energy Partners' term loan and a significant portion of the funds borrowed under its credit facility. The remaining balance of the proceeds was used for general corporate purposes.

On June 14, 2011, Spectra Energy Partners issued 7.2 million common units to the public, representing limited partner interests, and 0.1 million general partner units to Spectra Energy. Total net proceeds to Spectra Energy Partners were \$218 million (net proceeds to Spectra Energy were \$213 million), used to fund a portion of the acquisition of Big Sandy.

On June 21, 2011, Union Gas issued 300 million Canadian dollars (approximately \$309 million as of the issuance date) of 4.88% notes due in 2041. Net proceeds from the offering were used for general corporate purposes, including refinancing of prior maturities of debt.

**Available Credit Facilities and Restrictive Debt Covenants.** In May 2011, Westcoast entered into a new 300 million Canadian dollar credit facility that expires in 2015, which replaced its 200 million Canadian dollar credit facility that was scheduled to expire in June 2011. In October 2011, Spectra Capital entered into a new \$1.5 billion credit facility which replaced its \$1.5 billion facility and Spectra Energy Partners entered into a new \$700 million credit facility which replaced its \$500 million credit facility. The new Spectra Capital and Spectra Energy Partners credit facilities expire in 2016 and replace facilities that were scheduled to expire in 2012. See Note 13 of Notes to Condensed Consolidated Financial Statements for a discussion of available credit facilities and related financial and other covenants.

The terms of our new Spectra Capital credit agreement require our consolidated debt-to-total-capitalization ratio, as defined in the agreement, to be 65% or lower. Per the terms of the new agreement, collateralized debt and Spectra Energy Partners' debt and capitalization are excluded from the financial covenant. As of September 30, 2011, this ratio was 59%. Our equity and, as a result, this ratio, are sensitive to significant movements of the Canadian dollar relative to the U.S. dollar due to the significance of our Canadian operations. Based on the strength of our total capitalization as of September 30, 2011, it is unlikely that a material adverse effect would occur as a result of a weakened Canadian dollar.

#### Credit Ratings

|                                            | Standard<br>and<br>Poor's | Moody's<br>Investor<br>Service | Fitch<br>Ratings | DBRS    |
|--------------------------------------------|---------------------------|--------------------------------|------------------|---------|
| <b>As of September 30, 2011</b>            |                           |                                |                  |         |
| Spectra Capital (a)                        | BBB                       | Baa2                           | BBB              | n/a     |
| Texas Eastern Transmission, LP (a)         | BBB+                      | Baa1                           | BBB+             | n/a     |
| Westcoast (a)                              | BBB+                      | n/a                            | n/a              | A (low) |
| Union Gas (a)                              | BBB+                      | n/a                            | n/a              | A       |
| Maritimes & Northeast Pipeline, L.L.C. (a) | BBB                       | Baa3                           | n/a              | n/a     |
| M&N LP (b)                                 | A                         | A2/A3                          | n/a              | A       |
| Spectra Energy Partners (a)                | BBB                       | Baa3                           | BBB              | n/a     |

(a) Represents senior unsecured credit rating.

(b) Represents senior secured credit rating. The A2 rating applies to M&N LP's 6.9% notes due 2019 and the A3 rating applies to its 4.34% notes due 2019.

n/a Indicates not applicable.

The above credit ratings are dependent upon, among other factors, the ability to generate sufficient cash to fund capital and investment expenditures, our results of operations, market conditions and other factors. Our credit ratings could impact our ability to raise capital in the future, impact the cost of our capital and, as a result, have an impact on our liquidity.

**Dividends.** We continue to anticipate our dividend payout ratio over time to be consistent with our targeted payout ratio, which is up to 65% of estimated annual net income from controlling interests per share of common

stock. The actual payout ratio, however, may vary from year to year depending on earnings levels. We expect to continue our policy of paying regular cash dividends. The declaration and payment of dividends are subject to the sole discretion of our Board of Directors and will depend upon many factors, including the financial condition, earnings and capital requirements of our operating subsidiaries, covenants associated with certain debt obligations, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors. A dividend of \$0.28 per common share was declared on October 25, 2011 and will be paid on December 12, 2011.

*Other Financing Matters.* On October 28, 2011, Westcoast issued 150 million Canadian dollars (approximately \$151 million as of the issuance date) aggregate principal amount of 3.883% notes due in 2021 and 150 million Canadian dollars (approximately \$151 million as of the issuance date) aggregate principal amount of 4.791% notes due in 2041. Net proceeds from the offering will be used for general corporate purposes.

Spectra Energy Corp and Spectra Capital have an effective shelf registration statement on file with the SEC to register the issuance of unspecified amounts of various equity and debt securities, respectively. Spectra Energy Partners also has an effective shelf registration statement on file with the SEC to register the issuance of unspecified amounts of limited partner common units and various debt securities. In addition, as of the date of this report, certain of our subsidiaries in Canada had 1.2 billion Canadian dollars (approximately \$1.2 billion) in the aggregate available for issuance in the Canadian market under debt shelf prospectuses.

## **OTHER ISSUES**

*New Accounting Pronouncements.* See Note 21 of Notes to Condensed Consolidated Financial Statements for discussion.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Our exposure to market risk is described in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2010. We believe our exposure to market risk has not changed materially since then.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

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

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2011, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective at the reasonable assurance level.

#### **Changes in Internal Control over Financial Reporting**

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2011 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

We have no material pending legal proceedings that are required to be disclosed hereunder. For information regarding other legal proceedings, including regulatory and environmental matters, see Notes 4 and 16 of Notes to Condensed Consolidated Financial Statements, which information is incorporated by reference into this Part II.

### Item 1A. Risk Factors.

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our financial condition or future results. Other than the risk factor below, there have been no material changes to those risk factors.

*We are subject to pipeline safety laws and regulations, compliance with which may require significant capital expenditures, increase our cost of operations and affect or limit our business plans.*

Our interstate pipeline operations are subject to pipeline safety regulation administered by the PHMSA of the U.S. Department of Transportation. These laws and regulations require us to comply with a significant set of requirements for the design, construction, maintenance and operation of our interstate pipelines. These regulations, among other things, include requirements to monitor and maintain the integrity of our pipelines. The regulations determine the pressures at which our pipelines can operate.

In 2010, serious pipeline incidents on systems unrelated to ours focused the attention of Congress and the public on pipeline safety. Legislative proposals have been introduced in Congress that would strengthen the PHMSA's enforcement and penalty authority, and expand the scope of its oversight. In August 2011, the PHMSA initiated an Advance Notice of Proposed Rulemaking announcing its consideration of substantial revisions in its regulations to increase pipeline safety. The PHMSA also has issued guidance that states it will focus near-term enforcement efforts on recordkeeping and integrity management, following urgent National Transportation Safety Board recommendations related to pipeline pressure and recordkeeping. Because it is uncertain what legislation or regulatory changes will be enacted, we cannot determine the impact that such legislation or regulatory changes may have on our operations or financial condition at this time. Pipeline failures or failure to comply with applicable regulations could result in reduction of allowable operating pressures as authorized by the PHMSA, which would reduce available capacity on our pipelines. Should any of these risks materialize, it may have a material adverse effect on our operations, earnings, financial condition and cash flows.

### Item 6. Exhibits.

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

were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;

may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement;

may apply contract standards of materiality that are different from materiality under the applicable securities laws; and

were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

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

(a) Exhibits

**Exhibit**

**Number**

|          |                                                                                                                                                                                                                                                                                                               |
|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1     | Acknowledgement and Waiver Agreement, dated as of September 6, 2011, by and among ConocoPhillips, ConocoPhillips Gas Company, Spectra Energy Corp, Spectra Energy DEFS Holding, LLC and Spectra Energy DEFS Holding Corp (filed as Exhibit No. 10.1 to Form 8-K of Spectra Energy Corp on September 12, 2011) |
| 10.2     | Credit Agreement, dated as of October 18, 2011, among Spectra Energy Capital, LLC, as Borrower, Spectra Energy Corp, as Parent, the Initial Lenders named therein and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit No. 10.1 to Form 8-K of Spectra Energy Corp on October 20, 2011)   |
| *31.1    | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                      |
| *31.2    | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                      |
| *32.1    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                       |
| *32.2    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                       |
| *101.INS | XBRL Instance Document.                                                                                                                                                                                                                                                                                       |
| *101.SCH | XBRL Taxonomy Extension Schema.                                                                                                                                                                                                                                                                               |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase.                                                                                                                                                                                                                                                                 |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase.                                                                                                                                                                                                                                                                  |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase.                                                                                                                                                                                                                                                                       |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase.                                                                                                                                                                                                                                                                |

\* Filed herewith.

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

**SIGNATURES**

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

SPECTRA ENERGY CORP

Date: November 8, 2011

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

Date: November 8, 2011

/s/ J. PATRICK REDDY  
**J. Patrick Reddy**  
**Chief Financial Officer**