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)

Delaware	**20-5413139**
(State or other jurisdiction of incorporation)	**(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 x   No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes x   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 x   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 x

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

SPECTRA ENERGY CORP

FORM 10-Q FOR THE QUARTER ENDED

September 30, 2011

INDEX

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;

- 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)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating Revenues				
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
Operating Expenses				
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
Gains on Sales of Other Assets and Other, net	3		7	
Operating Income	361	341	1,320	1,175
Other Income and Expenses				
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
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

Common Stock Data				
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)

	September 30, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 74	$ 130
Receivables, net	886	1,018
Inventory	423	287
Other	225	203
Total current assets	1,608	1,638
Investments and Other Assets		
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
Property, Plant and Equipment		
Cost	23,075	22,162
Less accumulated depreciation and amortization	5,484	5,182
Net property, plant and equipment	17,591	16,980
Regulatory Assets and Deferred Debits	1,080	1,065
Total Assets	$ 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)

	September 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
Current Liabilities		
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
Total current liabilities	2,513	2,523
Long-term Debt	10,234	10,169
Deferred Credits and Other Liabilities		
Deferred income taxes	3,863	3,555
Regulatory and other	1,581	1,694
Total deferred credits and other liabilities	5,444	5,249
Commitments and Contingencies		
Preferred Stock of Subsidiaries	258	258
Equity		
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
Total controlling interests	7,939	7,809
Noncontrolling interests	827	678
Total equity	8,766	8,487
Total Liabilities and Equity	$ 27,215	$ 26,686

See Notes to Condensed Consolidated Financial Statements.

SPECTRA ENERGY CORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

	Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
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
CASH FLOWS FROM INVESTING ACTIVITIES		
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)
CASH FLOWS FROM FINANCING ACTIVITIES		
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)
Cash and cash equivalents at beginning of period	130	166
Cash and cash equivalents at end of period	$ 74	$ 156

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 Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income: Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income: Other	Noncontrolling Interests	Total
December 31, 2010	$ 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 hedges					1		1
Reclassification of cash flow hedges into 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 issued		38				154	192
Other, net					8		8
September 30, 2011	$ 1	$ 4,793	$ 1,871	$ 1,650	$ (376)	$ 827	$ 8,766
December 31, 2009	$ 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 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)
September 30, 2010	$ 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 Issuance of Long-Term Debt	Payments for the Redemption of Long-Term 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 Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income Foreign Currency Translation Adjustments (in millions)	Accumulated Other Comprehensive Income Other	Total Equity
September 30, 2010					
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 Allocation (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 Revenues	Intersegment Revenues	Total Operating Revenues (a)	Segment EBIT/ Consolidated Earnings from Continuing Operations before Income Taxes (a)
		(in millions)		
Three Months Ended September 30, 2011				
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
Three Months Ended September 30, 2010				
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
Nine Months Ended September 30, 2011				
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
Nine Months Ended September 30, 2010				
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

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.

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 Earning	Income Tax Expense (Benefit)	Income From Discontinued Operations, Net of Tax
		(in millions)		
Three Months Ended September 30, 2011				
Other	$ 50	$ 11	$ 4	$ 7
Total consolidated	$ 50	$ 11	$ 4	$ 7
Three Months Ended September 30, 2010				
Other	$	$ 2	$ 1	$ 1
Total consolidated	$	$ 2	$ 1	$ 1
Nine Months Ended September 30, 2011				
Other	$ 182	$ 36	$ 13	$ 23
Total consolidated	$ 182	$ 36	$ 13	$ 23
Nine Months Ended September 30, 2010				
Other	$ 107	$ 6	$ (11)	$ 17
Total consolidated	$ 107	$ 6	$ (11)	$ 17

7. Comprehensive Income

Components of comprehensive income (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	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

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 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 Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 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, 2011	December 31, 2010
	(in millions)	
Natural gas	$ 278	$ 175
NGLs	75	41
Materials and supplies	70	71

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 Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 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 Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 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, 2010	Increases (Decreases) (a)	September 30, 2011
		(in millions)	
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

(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, 2011	December 31, 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, 2011	December 31, 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 Commercial Paper	Revolving Credit (in millions)	Letters of Credit	Total	Available Credit Facilities Capacity
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:

		September 30, 2011 (in millions)			
Description	**Condensed Consolidated Balance Sheet Caption**	**Total**	**Level 1**	**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		
Total Assets		$156	$ 18	$ 138	$
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	
Total Liabilities		$ 23	$	$ 16	$ 7

		December 31, 2010 (in millions)			
Description	**Condensed Consolidated Balance Sheet Caption**	**Total**	**Level 1**	**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		
Total Assets		$ 369	$ 25	$ 344	$
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	

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 Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 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 Book Value	September 30, 2011 Approximate Fair Value	December 31, 2010 Book Value	December 31, 2010 Approximate Fair Value
	(in millions)			
Notes receivable, current (a)	$ 49	$ 49	$ 50	$ 51
Notes receivable, noncurrent (b)	71	71	71	71

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 Ended September 30,		Nine Months 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 Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	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 Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	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 Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(in millions)			
U.S.				
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
Canada				
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)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
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)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total operating revenues	$	$	$ 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)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
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)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Total operating revenues	$	$	$ 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)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$	$ 4	$ 70	$	$ 74
Receivables (payables) consolidated subsidiaries	45	(46)	1		
Receivables other			886		886
Other current assets	14	17	617		648
Total current assets	59	(25)	1,574		1,608
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
Total Assets	$ 8,135	$ 18,698	$ 26,907	$ (26,525)	$ 27,215
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
Total current liabilities	53	1,345	1,676	(561)	2,513
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
Equity					
Controlling interests	7,939	11,408	14,556	(25,964)	7,939
Noncontrolling interests			827		827
Total equity	7,939	11,408	15,383	(25,964)	8,766
Total Liabilities and Equity	$ 8,135	$ 18,698	$ 26,907	$ (26,525)	$ 27,215

Spectra Energy Corp

Condensed Consolidating Balance Sheet

December 31, 2010

(Unaudited)

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
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
Total current assets	13	246	1,379		1,638
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
Total Assets	$ 7,904	$ 17,820	$ 26,195	$ (25,233)	$ 26,686
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
Total current liabilities	(68)	1,500	1,662	(571)	2,523
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
Equity					
Controlling interests	7,809	10,683	13,979	(24,662)	7,809
Noncontrolling interests			678		678
Total equity	7,809	10,683	14,657	(24,662)	8,487
Total Liabilities and Equity	$ 7,904	$ 17,820	$ 26,195	$ (25,233)	$ 26,686

Spectra Energy Corp

Condensed Consolidating Statements of Cash Flows

Nine Months Ended September 30, 2011

(Unaudited)

(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
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
CASH FLOWS FROM INVESTING ACTIVITIES					
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)
CASH FLOWS FROM FINANCING ACTIVITIES					
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					