Spectra Energy Partners, LP
Form 10-K
March 11, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

or

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

For the transition period from to

Commission file number 001-33556

SPECTRA ENERGY PARTNERS, LP

(Exact name of registrant as specified in its charter)

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

713-627-5400

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

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

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

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

Estimated aggregate market value of the Common Units held by non-affiliates of the registrant at June 30, 2008: $265,000,000.

At March 6, 2009, there were 48,852,175 Common Units, 21,638,730 Subordinated Units and 1,438,291 General Partner Units outstanding.

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SPECTRA ENERGY PARTNERS, LP

FORM 10-K FOR THE YEAR ENDED

DECEMBER 31, 2008

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

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

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PART I

Item 1. *Business.*

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

General

Spectra Energy Partners, LP, through our subsidiaries and equity affiliates, is engaged in the transportation of natural gas through interstate pipeline systems with over 2,200 miles of pipelines that serve the southeastern United States, and the storage of natural gas in underground facilities with aggregate working gas storage capacity of approximately 42 billion cubic feet (Bcf) that are located in southeast Texas, south central Louisiana and southwest Virginia. We are a Delaware master limited partnership formed on March 19, 2007.

We transport and store natural gas for a broad mix of customers, including local gas distribution companies (LDC), municipal utilities, interstate and intrastate pipelines, direct industrial users, electric power generators, marketers and producers. In addition to serving directly connected southeastern markets, our pipeline and storage systems have access to customers in the mid-Atlantic, northeastern and midwestern regions of the United States through numerous interconnections with major pipelines. Our rates are regulated under the Federal Energy Regulatory Commission (FERC) rate-making policies, and, in the case of Market Hub s storage facility in Texas, by the Texas Railroad Commission (TRC).

Our operations and activities are managed by our general partner, Spectra Energy Partners (DE) GP, LP, which in turn is managed by its general partner, Spectra Energy Partners GP, LLC, (the General Partner). The General Partner is wholly owned by a subsidiary of Spectra Energy Corp (Spectra Energy). Spectra Energy is a separate, publicly traded entity which trades on the New York Stock Exchange under the symbol SE.

Initial Public Offering

On July 2, 2007, immediately prior to the closing of our initial public offering (IPO), Spectra Energy contributed to us 100% of the ownership of East Tennessee Natural Gas, LLC (East Tennessee), 50% of the ownership of Market Hub Partners Holding (Market Hub), and a 24.5% interest in Gulfstream Natural Gas System, L.L.C. (Gulfstream). Spectra Energy indirectly owned 100% of us prior to the closing of the IPO. On July 2, 2007, we issued 11.5 million common units to the public, representing 17% of our outstanding equity. Spectra Energy retained an 83% equity interest in us, including common units, subordinated units and a 2% general partner interest. As a result of the 2008 acquisition of the Saltville Gas Storage L.L.C (Saltville) assets discussed below, Spectra Energy now has an 84% ownership interest in us.

Gas Transportation and Storage

Our sole segment, Gas Transportation and Storage includes East Tennessee and Saltville. Prior to the Saltville acquisition, East Tennessee was considered our sole reportable segment. The Gas Transportation and Storage segment provides interstate transportation and storage of natural gas and the storage and redelivery of liquefied natural gas (LNG) for customers in the southeastern U.S. These operations are primarily subject to the FERC s and the Department of Transportation s (DOT) rules and regulations.

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General

East Tennessee

We own and operate 100% of the 1,510-mile East Tennessee interstate natural gas transportation system, which extends from central Tennessee eastward into southwest Virginia and northern North Carolina, and southward into northern Georgia. East Tennessee supports the energy demands of the southeast and mid-Atlantic regions of the United States through connections to 28 receipt points and more than 175 delivery points and has market delivery capability of approximately 1.5 billion cubic feet per day (Bcf/d) of natural gas. East Tennessee also owns and operates an LNG storage facility in Kingsport, Tennessee with working gas storage capacity of 1.1 Bcf and regasification capability of 150 million cubic feet per day (MMcf/d).

Saltville

We own and operate 100% of the Saltville natural gas storage facilities which consists of 5.5 Bcf of total storage capacity. The storage facilities interconnect with the East Tennessee Natural Gas system in southwest Virginia. This salt cavern facility offers high deliverability salt cavern and reservoir storage capabilities and is strategically located near markets in Tennessee, Virginia and North Carolina.

Customers and Contracts

Gas Transportation and Storage s customers include LDCs, utilities, industrial companies, natural gas marketers and producers and electric power generators. Gas Transportation and Storage s largest customer in 2008 was Atmos Energy Corporation, which accounted for approximately 14% of Gas Transportation and Storage s revenues.

Gas Transportation and Storage has contracts with its customers to provide firm transportation and storage services. Payments under these services are based on the volume of capacity reserved on the system regardless of the capacity actually used, plus a variable charge based on the volume of natural gas actually transported. As a result, firm transportation revenues typically remain relatively constant over the term of the contract. Maximum and minimum rates for services are governed by the applicable FERC-approved natural gas tariff.

In 2005, East Tennessee entered into a rate settlement with its customers which established new base rates under the tariff. The 2005 rate settlement provides rate certainty through the settlement s expiration in 2010, at which time East Tennessee s rates will remain the same, subject to further negotiation or the filing of a rate case. Neither regulation nor the terms of the settlement require East Tennessee to file a rate case at any time.

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In September 2008, Saltville placed into effect new rates approved by the FERC as a result of a rate proceeding initiated by us to satisfy a certificate condition. A rate settlement with customers was reached in August 2008 on this rate proceeding which was subsequently approved by the FERC in December 2008 and which includes a rate moratorium until October 1, 2011.

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

As of December 31, 2008, Gas Transportation and Storage s firm transportation and storage contracts had a weighted average remaining life of approximately eight years. For the year ended December 31, 2008, 97% of Gas Transportation and Storage s revenues were derived from capacity reservation charges under firm contracts (including LNG storage services), with the remainder representing variable usage fees under firm and interruptible transportation contracts.

Source of Supply

Although Gas Transportation and Storage does not own the natural gas transported or stored on its systems, gas supply attachments are a critical factor for its customers. The majority of the gas supply benefiting our customers comes from the Gulf Coast region through Tennessee Gas Pipeline Company, and to a lesser degree Texas Eastern Transmission, L.P. (Texas Eastern Transmission), a subsidiary of Spectra Energy, Southern Natural Gas Company, Columbia Gulf Transmission Company and Midwestern Gas Pipeline System. Our customers also receive natural gas supply from the Appalachian region through several producers and receive natural gas supply through the Jewell Ridge and Nora Laterals that connect to Appalachian supply basins. Natural gas withdrawn from East Tennessee s LNG storage facility and other on-system storage fields, including our Saltville natural gas storage facility, provide customers with additional supply sources used to supplement supplies during periods of peak demand.

Competition

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

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

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

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Gulfstream

General

We own a 24.5% interest in the approximate 745-mile Gulfstream interstate natural gas transportation system which extends from Pascagoula, Mississippi and Mobile, Alabama across the Gulf of Mexico and into Florida. The Gulfstream pipeline currently includes approximately 295 miles of onshore pipeline in Florida, 15 miles of onshore pipeline in Alabama and Mississippi, and 435 miles of offshore pipeline in the Gulf of Mexico. Facilities also include gas treatment facilities and a compressor station in Coden, Alabama. Gulfstream supports the south and central Florida markets through its connection to eight receipt points and 23 delivery points and has market delivery capability of approximately 1.25 Bcf/d of natural gas. Spectra Energy and The Williams Companies, Inc. (Williams) own the remaining 25.5% and 50% interests in Gulfstream, respectively, and jointly operate the system.

Customers, Contracts and Supply

In 2008, Florida Power & Light Company, Florida Power Corporation and Tampa Electric Company and its affiliates accounted for approximately 49%, 25% and 10%, respectively, of Gulfstream s revenues.

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

As of December 31, 2008, Gulfstream s firm transportation and storage contracts had a weighted average remaining life of 19 years. For the year ended December 31, 2008, 94% of Gulfstream s revenues were derived from capacity reservation charges under firm contracts, 3% of revenues were derived from variable usage fees under firm contracts and 3% of revenues were derived from interruptible transportation contracts.

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Gulfstream shippers increasingly have the option of buying natural gas supplies from a wide range of producers in the Eastern Gulf of Mexico and from onshore sites along the entire Gulf Coast. Gulfstream is connected to processing plants and supply pipelines in the Mobile Bay area. Currently, shippers have the ability to source supply at eight access points. In addition, anticipated increasing LNG imports along the Gulf Coast should further diversify the gas supplies available to Gulfstream s customers, potentially offsetting some of the risks associated with offshore Gulf of Mexico natural gas production.

Starting in September 2008, Gulfstream shippers have access to supplies delivered by Spectra Energy s Southeast Header Supply, LLC (SESH) joint venture. SESH originates in Perryville, LA and interconnects with Gulfstream near Coden, Alabama.

Competition

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

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

Market Hub

General

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

The Egan storage facility, located in Acadia Parish, Louisiana, has a working gas capacity of approximately 22 Bcf, and includes a 38-mile pipeline system that interconnects with seven interstate pipeline systems and one intrastate pipeline system. Egan offers access to Gulf Coast, midwest, southeast and northeast markets.

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The Moss Bluff storage facility, located in Liberty County, Texas, has a working gas capacity of approximately 15 Bcf, and includes a 20-mile pipeline system that interconnects with two interstate pipeline systems and three intrastate pipeline systems. Moss Bluff offers access to Texas, northeast and midwest markets.

Customer, Contracts and Supply

Market Hub provides storage services to a broad mix of customers including marketers, electric power generators, gas producers, pipelines and LDCs. In 2008, Spectra Energy subsidiaries accounted for 10% of Market Hub s revenues.

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

As of December 31, 2008, Market Hub s firm storage contracts had a weighted average remaining life of approximately three years, which is typical of the shorter contract life of market based storage facilities as compared to transportation systems. For the year ended December 31, 2008, approximately 88% of Market Hub s revenues were derived from capacity reservation fees under firm storage contracts, with the remaining 12% primarily from interruptible storage contracts, including park and loan and wheeling services.

Egan has aggregate receipt capacity from major interconnecting pipelines of approximately 3.5 Bcf/d compared to an injection capability of 1.3 Bcf/d. Moss Bluff has aggregate receipt capacity from major interconnecting pipelines of approximately 1.7 Bcf/d compared to an injection capability of 0.6 Bcf/d. Egan has access to major interstate pipelines, while Moss Bluff has access to major interstate and intrastate pipelines. This level of supply connectivity gives customers access to a broad range of natural gas supply sources from existing onshore and offshore Gulf Coast and Mid-Continent production areas as well as LNG supplies.

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Competition

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

Contract Mix Summary

We compete for transportation and storage customers based on the specific type of service a customer needs, operating flexibility, available capacity and price. As noted previously, we provide a significant portion of our transportation and storage services through firm contracts and derive a smaller portion of our revenue through interruptible contracts, seeking to maximize the portion of physical capacity sold under firm contracts. To the extent that physical capacity that is contracted for firm service is not being fully utilized, we can contract such capacity for interruptible service. The table below summarizes certain information regarding our contracts and revenues as of and for the year ended December 31, 2008:

	Revenue Composition % Firm Contracts				
Asset	Capacity Reservation Fees	Variable Fees	Interruptible Contracts	% of Physical Capacity Subscribed Under Firm Contracts	Weighted Average Remaining Contract Life (in years)(a)
East Tennessee	99%	1%	%	96%	8
Saltville	89	7	4	96	8
Gulfstream	94	3	3	90	19
Market Hub	88		12	100	3

(a) The average life of each contract is calculated based on contract revenues.

Supplies and Raw Materials

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

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

The recent sharp declines in both economic activity and basic consumer prices are beginning to impact the costs of certain materials used in our maintenance and expansion projects. Specialty steel prices in particular have declined 10-15% from recent highs, and the effect is being seen in lower prices for steel pipe and related materials. The ultimate impact of lower consumer prices will depend upon the length and depth of the worldwide contraction in economic activity.

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

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Regulations

Our interstate gas transmission pipeline and our storage operations are regulated by the FERC with the exception of Moss Bluff. The FERC regulates natural gas transportation in U.S. interstate commerce including the establishment of rates for services. The FERC also regulates the construction of U.S. interstate pipelines and storage facilities including extension, enlargement and abandonment of facilities. In addition, the Moss Bluff intrastate storage operations are subject to oversight by the TRC.

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

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

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

Environmental Matters

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

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

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

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

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

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

For more information on environmental matters involving us, including possible liability and capital costs, see Item 8. Financial Statements and Supplementary Data, Note 14 of Notes to Consolidated Financial Statements.

Except to the extent discussed in Note 14, compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise protecting the environment, is incorporated into the routine cost structure of our partnership and is not expected to have a material adverse effect on our competitive position, consolidated results of operations, financial position or cash flows.

Employees

We do not have any employees. We are managed by the directors and officers of our general partner. Our general partner or its affiliates currently employ 77 people who spend a majority of their time operating the East Tennessee and Saltville facilities, and 5 people who are primarily dedicated to us. Market Hub is operated by Spectra Energy pursuant to an operating and maintenance agreement and the employees who operate the Market Hub assets are therefore not included in the above numbers. Gulfstream is operated by Spectra Energy (with respect to business functions) and Williams (with respect to technical functions) pursuant to an operating and maintenance agreement, and therefore, the employees who operate the Gulfstream assets are not included in the above numbers.

Executive Officers

The following table sets forth information regarding our executive officers.

Name	Age	Position
Gregory J. Rizzo	52	President and Chief Executive Officer and Director
Laura Buss Sayavedra	41	Vice President and Chief Financial Officer

Gregory J. Rizzo was elected to the Board of Directors of Spectra Energy Partners GP, LLC in May 2007. He was named to his current position in December 2008. He also serves as Group Vice President of U.S. Regulatory Affairs for Spectra Energy Corp, which was spun off from Duke Energy Corporation in January 2007. Mr. Rizzo previously served as Group Vice President for Duke Energy Gas Transmission Northeast Pipelines from March 2004 until assuming his position in January 2007. Prior to then, Mr. Rizzo served as Executive Vice President of Duke Energy Gas Transmission from February 2003 until March 2004 and Senior Vice President Marketing and Capacity Management from March 2002 until February 2003.

Laura Buss Sayavedra was named to her current position in May 2008. Prior to that, she was Vice President, Strategic Development and Analysis for Spectra Energy Corp, which was spun off from Duke Energy Corporation. She previously served at Duke Energy Gas Transmission as General Manager, Strategic Planning and Development from July 2005 to December 2006. Prior to then, she served as Vice President, Operations and Analytics of Duke Energy North America from May 2004 to June 2005 and Senior Director of Energy Marketing from January 2003 to April 2004.

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Glossary

Terms used to describe our business are defined below.

Allowance for Funds Used During Construction (AFUDC). An accounting convention of regulators that represents the estimated composite interest costs of debt and a return on equity funds used to finance construction. The allowance is capitalized in the property accounts and included in income.

Available Cash*:* For any quarter ending prior to liquidation:

(a) the sum of:

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

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

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

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

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

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

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

British Thermal Unit (Btu). A standard unit for measuring thermal energy or heat commonly used as a gauge for the energy content of natural gas and other fuels.

Cubic Foot (cf). The most common unit of measurement of gas volume; the amount of natural gas required to fill a volume of one cubic foot under stated conditions of temperature, pressure and water vapor.

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

Derivative. A financial instrument or contract in which the price is based on the value of underlying securities, equity indices, debt instruments, commodities or other benchmarks or variables. Often used to hedge risk, derivatives involve the exchange of rights or obligations, but not the direct transfer of property.

Environmental Protection Agency (EPA). The U.S. agency that is responsible for researching and setting national standards for a variety of environmental programs, and delegates to states the responsibility for issuing permits and for monitoring and enforcing compliance.

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Federal Energy Regulatory Commission (FERC). The U.S. agency that regulates the transportation of natural gas in interstate commerce.

Liquefied Natural Gas (LNG*).* Natural gas that has been converted to a liquid by cooling it to minus 260 degrees Fahrenheit.

Local Distribution Company (LDC). A company that obtains the major portion of its revenues from the operations of a retail distribution system for the delivery of gas for ultimate consumption.

Operating Expenditures*.* All of our expenditures and expenditures of our subsidiaries, including, but not limited to, taxes, payments to the general partner for reimbursements of expenses incurred by the general partner on our behalf, non-pro rata purchases of units, interest payments, payments made in the ordinary course of business under interest rate swap agreements and commodity hedge contracts and maintenance capital expenditures, subject to the following:

(a) Payments (including prepayments) of principal of and premium on indebtedness do not constitute operating expenditures.

(b) Operating expenditures do not include:

(1) expansion capital expenditures;

(2) payment of transaction expenses (including taxes) relating to interim capital transactions;

(3) distributions to unitholders; and

(4) non-pro rata purchases of units of any class made with the proceeds of an interim capital transaction.

Where capital expenditures consist of both maintenance capital expenditures and expansion capital expenditures, the general partner, with the concurrence of the Board of Directors of the general partner s conflicts committee (the Conflicts Committee), shall determine the allocation between the amounts paid for each.

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

(a) the sum of:

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

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

(b) the sum of:

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

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

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Organic Growth. Growth due to the expansion or optimization of existing assets.

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

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

(1) distribution of Available Cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

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

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

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

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

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

Throughput. The amount of natural gas transported through a pipeline system.

Transmission System. An interconnected group of natural gas pipelines and associated facilities for transporting natural gas in bulk between points of supply and delivery points to industrial customers, LDCs, or for delivery to other natural gas transmission systems.

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Additional Information

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

Item 1A. *Risk Factors***.**

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

Risks Related to our Business

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

In order to make cash distributions at our minimum distribution rate of $0.30 per common unit per complete quarter, or $1.20 per unit per year, we will require Available Cash of approximately $21.1 million per quarter, or $84.6 million per year, depending on the actual number of common units and subordinated units outstanding. We may not have sufficient Available Cash from operating surplus each quarter to enable us to make cash distributions at the minimum distribution rate. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from operations, which will fluctuate based on, among other things:

- the rates charged for transportation and storage services, and the volumes of natural gas contracted by customers for transportation and storage services;

- the overall demand for natural gas in the southeastern and mid-Atlantic regions of the United States and the quantities of natural gas available for transport, especially from the Gulf of Mexico, Appalachian and mid-Continent areas;

- regulatory action affecting the demand for natural gas, the supply of natural gas, the rates we can charge, contracts for services, existing contracts, operating costs and operating flexibility;

- regulatory and economic limitations on the development of LNG import terminals in the Gulf Coast region;

- successful development of LNG import terminals in the eastern or northeastern United States, which could provide customers with more basin choices when purchasing natural gas and provide producers with additional choices of where to drill. These changes could reduce the need for natural gas to be transported on the East Tennessee pipeline system and for the development of additional natural gas storage capacity in the Gulf Coast region; and

- the level of operating and maintenance, and general and administrative costs.

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

- the level of capital expenditures to complete construction projects;
- the cost and form of payment of acquisitions;
- debt service requirements and other liabilities;
- fluctuations in working capital needs;
- the ability to borrow funds and access capital markets;
- restrictions on distributions contained in debt agreements; and
- the amount of cash reserves established by our general partner.

Gulfstream and Market Hub are controlled by Spectra Energy and other third parties who are responsible for the management and operations of those assets. As a result, we cannot control the amount of cash that will be received from Gulfstream and Market Hub, and we may be required to contribute significant cash to fund their operations.

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

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

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

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

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

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

Under the FERC policy, a regulated service provider and a customer may mutually agree to sign a contract for service at a negotiated rate which may be above or below the FERC regulated recourse rate for that

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service. For 2008, all of Gulfstream s firm revenues were derived from such negotiated rate contracts, approximately 46% of Gas Transportation and Storage s firm revenues were derived from capacity reservation charges under negotiated rate contracts. These negotiated rate contracts are not subject to adjustment for increased costs which could be produced by inflation or other factors relating to the specific facilities being used to perform the services. It is possible that Gulfstream s, East Tennessee s and Saltville s costs to perform services under these negotiated rate contracts will exceed the negotiated rates. If this occurs, it could decrease cash flows from Gulfstream, East Tennessee and Saltville.

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

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

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

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

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

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

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

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

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

Our primary exposure to market risk occurs at the time existing transportation and storage contracts expire and are subject to renegotiation and renewal. A portion of the revenue generated by our systems in 2008 is attributable to firm capacity reservation fees that are set to expire on or prior to December 31, 2011. For Gas Transportation and Storage, Gulfstream, and Market Hub, those portions were 34%, 0% and 51%, respectively. Upon expiration, we may not be able to extend contracts with existing customers or obtain replacement contracts at favorable rates or on a long-term basis.

The extension or replacement of existing contracts depends on a number of factors beyond our control, including:

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

Our key markets are projected to continue to exhibit higher than average annual growth in natural gas demand versus the North American and U.S. lower 48 average growth rates through 2018 of approximately 1.5% according to ICF International. This demand growth is primarily driven by the natural gas-fired electric generation sector.

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

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

We rely on a limited number of customers for a significant portion of revenues. For the year ended December 31, 2008, the three largest customers for Gas Transportation and Storage were Atmos Energy Corporation, CNX Gas Company LLC and KGen Murray I and II LLC; for Gulfstream were Florida Power & Light Company, Florida Power Corporation (d/b/a Progress Energy Florida, Inc.) and Tampa Electric Company and its affiliates; and for Market Hub were Texas Eastern Transmission, NiSource and AGL Resources. In 2008, these customers accounted for approximately 31%, 84% and 28% of the operating revenues for Gas Transportation and Storage, Gulfstream and Market Hub, respectively. While most of these customers are subject to long-term contracts, the loss of all or even a portion of the contracted volumes of these customers as a result of competition, creditworthiness, inability to negotiate extensions or replacements of contracts or otherwise, could have a material adverse effect on our financial condition, results of operations and ability to make distributions, unless we are able to contract for comparable volumes from other customers at favorable rates.

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

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

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

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

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

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

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

- a decrease in our liquidity as a result of our using a significant portion of our Available Cash or borrowing capacity to finance the project or acquisition;
- an inability to complete expansion projects on schedule or within the budgeted cost due to the unavailability of required construction personnel, equipment or materials, and the risk of cost overruns resulting from inflation or increased costs of materials, labor and equipment;

an inability to complete expansion projects on schedule due to accidents, weather conditions or an inability to obtain necessary permits;

an inability to receive cash flows from a newly built or acquired asset until it is operational;

unforeseen difficulties operating in new product areas or new geographic areas; and

customer losses at the acquired business.

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

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

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

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

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

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

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

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

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

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

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

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

We do not own all of the land on which our pipelines and facilities are located, which could disrupt our operations.

We do not own all of the land on which our pipelines and facilities have been constructed, and we are therefore subject to the possibility of more onerous terms and/or increased costs to retain necessary land use if we do not have valid rights-of-way or if such rights-of-way lapse or terminate. We obtain the rights to construct and operate our pipelines on land owned by third parties and governmental agencies for a specific period of time. Our loss of these rights, through our inability to renew right-of-way contracts or otherwise, could have a material adverse effect on our business, results of operations and financial condition and our ability to make cash distributions.

Our operations are subject to operational hazards and unforeseen interruptions.

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

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

operator error;

environmental pollution;

explosions and blowouts;

risks related to underwater pipelines in the Gulf of Mexico, which are susceptible to damage from shifting as a result of water currents (as seen in the Gulf of Mexico following Hurricanes Katrina, Rita, Gustav and Ike), as well as damage from vessels;

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- risks related to pipeline that traverses areas in Florida where karst conditions exist. Karst conditions refers to terrain, usually found where limestone or other carbonate rock is present, that may subside or result in a sinkhole collapse when the underlying water table changes; and

- risks related to operating in a marine environment.

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

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

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

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

At December 31, 2008, we had $31 million in term debt and $209 million in revolving debt under our $500 million credit facility. We continue to have the ability to incur additional debt, subject to limitations in our credit facility. Our level of debt could have important consequences, including the following:

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

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

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

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

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

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

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

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

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

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

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

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

The long-term effect of terrorist attacks and the threat of future terrorist attacks on our industry in general, and on us in particular, is not known at this time. However, the U.S. government has issued warnings that energy assets, including the U.S. pipeline infrastructure, may be the future target of terrorist organizations. Increased security measures taken by us as a precaution against possible terrorist attacks have resulted in increased costs. Uncertainty surrounding continued hostilities in the Middle East or other sustained military campaigns may affect our operations in unpredictable ways, including the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror. Any terrorist attack on our facilities or pipelines or those of our customers could have a material adverse effect on our business.

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

Risks Inherent in an Investment in Us

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In order to comply with certain FERC rate-making policies applicable to entities that pass through taxable income to their owners, we have adopted certain requirements regarding those investors who may own our common and subordinated units. Eligible Holders are individuals or entities subject to United States federal income taxation on the income generated by us or entities not subject to United States federal income taxation on the income generated by us, so long as all of the entity s owners are subject to such taxation. If a unitholder is not

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a person who fits the requirements to be an Eligible Holder, such unitholder will not receive distributions or allocations of income and loss on the unitholder s units and the unitholder runs the risk of having the units redeemed by us at the lower of the unitholder s purchase price cost or the then-current market price. The redemption price will be paid in cash or by delivery of a promissory note, as determined by our general partner.

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

Pursuant to an omnibus agreement we entered into with Spectra Energy, our general partner and certain of their affiliates, Spectra Energy will receive reimbursement for the payment of operating expenses related to our operations and for the provision of various general and administrative services for our benefit, including costs for rendering administrative staff and support services, and overhead allocated to us, which amounts will be determined by our general partner in its sole discretion. Payments for these services will be substantial and will reduce the amount of cash available for distribution. In addition, under Delaware partnership law, our general partner has unlimited liability for our obligations, such as our debts and environmental liabilities, except for contractual obligations that are expressly made without recourse to our general partner. To the extent our general partner incurs obligations on our behalf, we are obligated to reimburse or indemnify it. If we are unable or unwilling to reimburse or indemnify our general partner, our general partner may take actions to cause us to make payments of these obligations and liabilities. Any such payments could reduce the amount of our cash otherwise available for distribution.

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

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

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

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

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

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

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

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

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

Our general partner has the right, at a time when there are no subordinated units outstanding and it has received incentive distributions at the highest level to which it is entitled (48%) for each of the prior four consecutive fiscal quarters, to reset the initial cash target distribution levels at higher levels based on the distribution at the time of the exercise of the reset election. Following a reset election by our general partner, the minimum quarterly distribution amount will be reset to an amount equal to the average cash distribution amount per common unit for the two fiscal quarters immediately preceding the reset election (such amount is referred to as the reset minimum quarterly distribution) and the target distribution levels will be reset to correspondingly higher levels based on percentage increases above the reset minimum quarterly distribution amount.

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

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

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

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

The unitholders will be unable initially to remove our general partner without its consent because the general partner and its affiliates own sufficient units to be able to prevent its removal. The vote of the holders of at least 66 2/3% of all outstanding units voting together as a single class is required to remove our general partner. Our general partner and our affiliates own 84% of our aggregate outstanding common and subordinated

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

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

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

We have a holding company structure in which our subsidiaries conduct operations and own our operating assets, which may affect our ability to make distributions.

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

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

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

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

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

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

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

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

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

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

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

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

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

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-

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current market price. As a result, our common unitholders may be required to sell their common units at an undesirable time or price and may not receive any return on their investment. A common unitholder may also incur a tax liability upon a sale of their units. As of March 6, 2009, our general partner and its affiliates own approximately 76% of our outstanding common units. At the end of the subordination period, assuming no additional issuances of common units (other than for the conversion of the subordinated units into common units), our general partner and its affiliates will own approximately 84% of our aggregate outstanding common units.

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

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

- we were conducting business in a state but had not complied with that particular state s partnership statute; or

- our common unitholder s right to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitutes control of our business.

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

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

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

Tax Risks to Common Unitholders

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

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

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35% and would likely pay state income tax at varying rates. Distributions would generally be taxed again as corporate distributions, and no

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income, gains, losses or deductions would flow through to the common unitholders. Because a tax would be imposed upon us as a corporation, our cash available for distribution would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to a common unitholder, likely causing a substantial reduction in the value of our common units.

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

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

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

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

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

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

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

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

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

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

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

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

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

When we issue additional units or engage in certain other transactions, we determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of the unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders. Moreover, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of the unitholders.

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

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

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

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

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

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

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

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

Item 3. ***Legal Proceedings.***

For information regarding legal proceedings, including regulatory and environmental matters, see Notes 5 and 14 of Notes to Consolidated Financial Statements.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

None.

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PART II

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

Our common units have been listed on the New York Stock Exchange (NYSE) under the symbol SEP since June 27, 2007. Prior to that, our equity securities were not listed on any exchange or traded on any public trading market. Prior to the IPO, the operations comprising our partnership were owned by Spectra Energy. The following table sets forth the high and low closing sales prices of the common units, as reported by the NYSE, as well as the amount of cash distributions declared per quarter from the closing of our IPO through December 31, 2008.

Common Unit Data by Quarter

	Distributions per Common Unit	Distributions per Subordinated Unit	Unit Price Range(a) High	Low
2007				
Second Quarter(b)			$ 29.29	$ 26.50
Third Quarter			$ 30.99	$ 24.65
Fourth Quarter	$ 0.30	$ 0.30	$ 26.73	$ 23.70
2008				
First Quarter	$ 0.32	$ 0.32	$ 25.97	$ 21.17
Second Quarter	$ 0.33	$ 0.33	$ 26.15	$ 22.84
Third Quarter	$ 0.34	$ 0.34	$ 25.00	$ 17.06
Fourth Quarter	$ 0.35	$ 0.35	$ 30.00	$ 12.10

(a) Unit prices represent the intra-day high and low unit price.
(b) From June 27, 2007, the commencement of trading.

As of March 6, 2009, there were approximately 23 holders of record of our common units. A cash distribution to unitholders of $0.36 per unit was declared on January 27, 2009 and was paid on February 13, 2009, which is a $0.01 per unit increase over the cash distribution of $0.35 per unit paid on November 14, 2008.

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Unit Performance Graph

The following graph reflects the comparative changes in the value from June 27, 2007, the first trading day of our common units on the NYSE, through December 31, 2008 of $100 invested in (1) Spectra Energy Partners common units, (2) the Standard & Poor s 500 Stock Index, and (3) the Alerian MLP Index. The amounts included in the table were calculated assuming the reinvestment of distributions, at the time distributions were paid.

	June 27, 2007	December 31, 2007	2008
Spectra Energy Partners	$ 100.00	$ 90.42	$ 74.64
S&P 500	100.00	98.36	60.50
Alerian MLP Index	100.00	91.97	53.84

Market Repurchases

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

Distributions of Available Cash

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

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

Minimum Quarterly Distribution. The Minimum Quarterly Distribution, as set forth in the partnership agreement, is $0.30 per unit per quarter, or $1.20 per unit per year. The quarterly distribution as of January 27, 2009 is $0.36 per unit, or $1.44 per unit annualized. There is no guarantee that this distribution rate will be maintained or that we will pay the Minimum Quarterly Distribution on the units in any quarter. Even if our cash distribution policy is not modified or revoked, the amount of distributions paid under our policy and the decision to make any distribution is determined by our general partner, taking into consideration the terms of the partnership agreement. We will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is existing, under our credit agreement.

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General Partner Interest and Incentive Distribution Rights. Our general partner is entitled to 2% of all quarterly distributions since inception. This general partner interest is represented by 1,438,291 general partner units. Our general partner has the right, but not the obligation, to contribute a proportionate amount of capital to us to maintain its current general partner interest. The general partner s initial 2% interest in these distributions will be reduced if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to maintain its 2% general partner interest.

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

Equity Compensation Plans

The information relating to our equity compensation plans required by Item 5 is included in Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters contained herein.

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Item 6. ***Selected Financial Data.***

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

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

	2008	2007	2006	2005	2004
		(In millions, except per-unit amounts)			
Statements of Operations(a)					
Operating revenues	$ 124.9	$ 121.1	$ 101.5	$ 84.6	$ 81.7
Operating income	51.9	60.6	47.9	28.1	33.6
Equity in earnings of unconsolidated affiliates	61.4	55.6	41.1	46.3	36.5
Net income	101.3	202.9(b)	68.1	59.0	55.4
Net Income per Limited Partner Unit(c)					
Common unit	$ 1.40	$ 0.68	n/a	n/a	n/a
Subordinated unit	1.40	0.68	n/a	n/a	n/a
Cash distributions declared per unit	1.34	0.30	n/a	n/a	n/a

	2008	2007	December 31, 2006 (In millions)	2005	2004
Balance Sheet					
Total assets	$ 1,601.5	$ 1,611.3	$ 1,399.5	$ 1,336.7	$ 1,345.9
Long-term debt	390.0	400.0	150.0	150.0	150.0

(a) Historical amounts for years ended December 31, 2007, 2006 and 2005 have been recast to retroactively reflect the Saltville acquisition.

(b) Includes a benefit of $110.5 million from the reversal of deferred income tax liabilities in 2007.

(c) Reflective of general and limited partners interests in Net Income since the closing of our IPO on July 2, 2007. See Item 8. Financial Statements and Supplementary Data, Note 7 for further discussion.

n/a indicates not applicable

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

INTRODUCTION

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

EXECUTIVE OVERVIEW

In 2008, our focus was to continue to deliver on the strategies we had communicated in conjunction with our IPO in 2007. This included a significant focus on growth opportunities that will support our cash distribution objectives. During 2008, we placed approximately $130 million in new expansion projects into service and also completed the Saltville acquisition. We continue to deliver on our primary business objective of increasing cash distributions per unit. We have increased the quarterly cash distributions each quarter of 2008 from $0.32 per unit for the fourth quarter of 2007 to $0.36 per unit for the fourth quarter of 2008, or 13%.

We reported net income of $101.3 million for 2008 compared with $202.9 million for the prior year. The decrease was due to a tax benefit of $110.5 million in 2007 from the reversal of income tax liabilities as a result of our limited partnership structure, partially offset by strong revenues from new firm transportation contracts at East Tennessee and increased equity earnings from Gulfstream and Market Hub.

In April 2008, we completed the acquisition of the equity interests of the Saltville natural gas storage facilities and the P-25 natural gas pipeline from Spectra Energy for a purchase price of $107 million. The Saltville acquisition represented a transaction among entities under common control. Accordingly, the consolidated financial statements and related information presented herein have been recast to include the historical results of Saltville and the P-25 pipeline for all periods presented. See Note 1 of Notes to Consolidated Financial Statements for further discussion.

Effective upon the completion of the Saltville acquisition, our sole business segment, Gas Transportation and Storage, includes East Tennessee and Saltville, and aligns the operations of our partnership with the chief operating decision maker s view of the business. All prior period information discussed herein has been recast to reflect the new segment structure.

The consolidated results of operations, financial position and cash flows for periods prior to our IPO on July 2, 2007 and for periods prior to the Saltville acquisition may not necessarily be indicative of the actual results of operations, financial position and cash flows had those entities operated separately during those periods.

Business Strategies

Our primary business objective is to increase our cash available for distribution to unitholders over time by executing the following strategies:

- *Build on our contracted capacity position for natural gas transportation and storage on our systems by further expanding our customer base and diverse sources of natural gas supply.* Our transportation and storage systems have access to numerous natural gas producing regions, including the Gulf Coast, Mid- Continent and Appalachian regions. Additionally, we are seeking to attach new sources of supply, including LNG, to enhance the attractiveness of our system to current and future customers.

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

- *Opportunistically pursue acquisitions.* We may expand our existing natural gas transportation and storage businesses by pursuing acquisitions that add value and are accretive to cash available for

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distribution. We would pursue acquisitions in areas where our assets currently operate that provide the opportunity for operational efficiencies or higher capacity utilization of existing assets, as well as acquisitions in new geographic areas of operation in order to grow the scale of our business.

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

Significant Economic Factors for Our Business

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

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

Supply and Demand Dynamics

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

Growing Markets

Our key markets are projected to continue to exhibit higher than average annual growth in natural gas demand versus the North American and U.S. Lower 48 average growth rates through 2018 of approximately 1.5% according to ICF International. This demand growth is primarily driven by the natural gas-fired electric generation sector.

Growth of Natural Gas Storage Facilities

Natural gas storage plays an important role in the natural gas transportation industry, due to the need to balance seasonal pricing, provide gas for power generation, and to balance the difference in timing of natural gas supplies and natural gas demand. A substantial number of natural gas storage projects have been announced in recent years and are in various stages of development, especially in Mississippi, Texas and Louisiana. In 2008, 63.3 Bcf of natural gas storage came into service in this region, while another 32.1 Bcf was delayed or cancelled. The southeastern region of the United States has a large number of high-deliverability, salt-cavern storage facilities, and the demand for this type of storage is expected to continue to grow. An increased supply of storage capacity competing with Market Hub s storage facilities could negatively impact our operations.

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Regulation

Government regulation of natural gas transportation and storage has a significant impact on our business. Rates are regulated under the FERC rate-making policies, and, in the case of our storage facility in Texas, by the TRC. The FERC regulatory policies govern the rates that each pipeline is permitted to charge customers for interstate transportation and storage of natural gas. Under certain circumstances, we are permitted to enter into contracts with customers under negotiated rates that differ from the rates imposed by the FERC.

RESULTS OF OPERATIONS(a)

	2008	2007	2006
		(In millions)	
Operating revenues	$ 124.9	$ 121.1	$ 101.5
Operating, maintenance and other expenses	46.7	34.1	32.2
Depreciation and amortization	26.3	26.4	21.4
Operating income	51.9	60.6	47.9
Equity in earnings of unconsolidated affiliates	61.4	55.6	41.1
Other income and expenses, net	0.9	0.4	2.1
Interest income	3.5	5.5	
Interest expense	17.8	17.1	7.7
Earnings before income taxes	99.9	105.0	83.4
Income tax expense (benefit)	(1.4)	(97.9)	15.3
Net income	$ 101.3	$ 202.9	$ 68.1
Adjusted EBITDA(b)	$ 78.2	$ 87.0	$ 69.3
Cash Available for Distribution(b)	119.0	126.3	92.5

(a) Historical amounts for years ended December 31, 2007 and 2006 have been recast to retroactively reflect the Saltville acquisition.
(b) See Reconciliation of Non-GAAP Measures. for a reconciliation of this measure to its most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles (GAAP).

2008 Compared to 2007

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

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

- a $6.2 million increase from lower net pipeline fuel recoveries recognized by East Tennessee in the 2008 period compared to the 2007 period,

- a $4.0 million increase in public company costs and governance expenses from a full year s activity in 2008 compared to only six months of activity in 2007 subsequent to the July 2, 2007 formation of Spectra Energy Partners, a $2.2 million increase from higher project costs at East Tennessee related to activities around the proposed Greenway expansions,

a $1.5 million increase in general and administrative expenses as a result of increased outside services and labor costs, partially offset by

a $1.3 million decrease in ad valorem tax expense primarily related to lower tax rates and lower franchise tax.

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

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

	2008	2007	Increase (Decrease)	2006	Increase (Decrease)
			(In millions)		
Gulfstream					
Operating revenues	$ 206.7	$ 185.3	$ 21.4	$ 180.3	$ 5.0
Operating, maintenance and other expenses	31.1	15.9	15.2	33.1	(17.2)
Depreciation and amortization	30.3	30.0	0.3	30.4	(0.4)
Gain (loss) on sale of assets	(0.6)		(0.6)	0.1	(0.1)
Other income and expenses, net	11.1	3.9	7.2	0.3	3.6
Interest expense	45.0	47.9	(2.9)	48.8	(0.9)
Net income	$ 110.8	$ 95.4	$ 15.4	$ 68.4	$ 27.0
Spectra Energy Partners share	$ 27.5	$ 23.5	$ 4.0	$ 16.8	$ 6.7

Gulfstream Owned 24.5%

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

a $21.4 million increase in revenues driven primarily by the Phase III and Phase IV expansion contracts,

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

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

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

	2008	2007	Increase (Decrease)	2006	Increase (Decrease)
			(In millions)		
Market Hub					
Operating revenues	$ 98.0	$ 91.3	$ 6.7	$ 78.8	$ 12.5

Operating, maintenance and other expenses	20.0	23.6		(3.6)	30.3	(6.7)
Depreciation and amortization	10.6	9.1		1.5	7.8	1.3
Gains on sale of other assets and other income and expenses	0.2	7.0		(6.8)	10.6	(3.6)
Interest income	3.1	2.3		0.8		2.3
Interest expense	1.0	3.6		(2.6)	2.6	1.0
Income tax expense	0.4	0.1		0.3		0.1
Net income	$ 69.3	$ 64.2	$	5.1	$ 48.7	$ 15.5
Spectra Energy Partners share	$ 33.9	$ 32.1	$	1.8	$ 24.3	$ 7.8

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Market Hub Owned 50%

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

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

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

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

Income Tax Expense (Benefit). Our income tax benefit in 2008 was $1.4 million compared to an income tax benefit of $97.9 million in the same period in 2007. As previously discussed, we recorded a one-time benefit of $110.5 million in the third quarter of 2007 from the reversal of deferred income tax liabilities. Effective July 2, 2007, as a result of our master limited partnership structure, we are no longer subject to federal income taxes. In addition, a tax benefit of $2.5 million was recognized in the second quarter of 2008 due to the elimination of deferred income tax liabilities associated with Saltville s change in tax status as a result of the acquisition by Spectra Energy Partners.

2007 Compared to 2006

Operating Revenues. The $19.6 million increase was primarily due to new firm transportation contracts with contract terms varying from 10 to 15 years, from the Jewell Ridge expansion project placed into service during the fourth quarter of 2006, and additional firm transportation contracts on the Patriot lateral pipeline.

Operating, Maintenance and Other. The $1.9 million increase was driven by:

a $5.7 million increase due to net capitalization in 2006 of previously expensed project costs for Jewell Ridge. We expense project costs until such time as recovery of costs is determined to be probable. At that time, these costs are capitalized to property, plant and equipment and operating expenses are reduced,

a $3.2 million increase due to lower capitalization of expenses as a result of lower capital spending in 2007 as compared to 2006,

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a $2.6 million increase in general and administrative cost primarily related to the acquisition of Saltville which was completed in 2008, and

a $1.9 million increase in pipeline integrity costs in the 2007 period, partially offset by

a $11.0 million increase in net pipeline fuel recoveries that reduced operating costs in 2007. The higher net recoveries primarily resulted from a timing difference related to the recognition of recoveries and

a $1.0 million decrease in ad valorem taxes as a result of lower negotiated 2007 rates.

Depreciation and Amortization. The $5.0 million increase is primarily due to the Jewell Ridge expansion project placed in service in the fourth quarter of 2006.

Equity in Earnings of Unconsolidated Affiliates. The $14.5 million increase consisted of a $7.8 million increase in earnings from Market Hub and a $6.7 million increase in earnings from Gulfstream.

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

Gulfstream s net income increased $27.0 million to $95.4 million in 2007 compared to $68.4 million in 2006. The increase was primarily driven by:

a $5.0 million increase in revenues related to increased demand for transportation services due to warmer summer weather and a favorable gas to oil commodity price relationship for Gulfstream s generation customers,

a $5.0 million decrease in expenses primarily resulting from $2.5 million of capitalization of previously expensed project costs of the Phase IV expansion project in 2007 compared to $2.8 million in project costs expensed in 2006,

a $12.2 million decrease in ad valorem taxes primarily as a result of favorable valuations, and

a $3.6 million increase in other income and expenses, net primarily due to a 2006 charge related to a sales and use tax matter, increased interest income and increased AFUDC resulting from higher capital spending in 2007.

Market Hub s net income increased $15.5 million to $64.2 million in 2007 compared to $48.7 million in 2006. The increase was primarily due to:

a $12.5 million increase in revenues primarily resulting from a $6.7 million increase in new firm storage revenues associated with additional Egan storage capacity that was placed in service during the third quarter 2006 and a $5.8 million increase resulting from higher demand for short-term interruptible storage services,

a $6.7 million decrease in operating expenses, primarily driven by a $4.6 million decrease in corporate costs charged by Spectra Energy in 2007 as compared to allocated costs from Duke Energy Corporation in 2006, and a $1.7 million reduction in property and other taxes due to the favorable resolution of ad valorem tax matters in 2007, and

$2.3 million of interest income from affiliates recognized in 2007 related to notes receivable from affiliates, partially offset by

a $3.6 million decrease in gains on sales of other assets primarily as a result of property insurance gain in 2006 of $10.6 million as compared to $7.0 million in 2007.

a $1.3 million increase in depreciation primarily due to an Egan expansion project placed in service in 2006.

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Other Income and Expenses, Net. Other income and expenses in 2006 primarily represented the equity component of AFUDC resulting from the Jewell Ridge expansion project placed in service in 2006.

Interest Income. The $5.5 million recognized in 2007 represents interest earned on marketable securities purchased with a portion of the IPO proceeds.

Interest Expense. The $9.4 million increase mainly results from the term and revolver borrowings entered into on July 2, 2007.

Income Tax Expense (Benefit). We recorded an income tax benefit in 2007 of $97.9 million compared to income tax expense of $15.3 million in 2006. Effective July 2, 2007, as a result of our master limited partnership structure, we are no longer subject to federal income taxes. Therefore, in the third quarter of 2007, we recorded a one-time benefit of $110.5 million from the reversal of deferred income tax liabilities. This tax benefit was partially offset by taxes on higher earnings of East Tennessee in the 2007 period. We are still subject to Tennessee state income tax.

Matters Affecting Future Results

We plan to continue earnings growth through capital efficient projects, such as transportation and storage expansion to support a two-pronged supply push / market pull strategy, as well as continued focus on optimizing the performance of the existing operations through organizational efficiencies and cost control. Supply push is when producers agree to pay to transport specified volumes of natural gas in order to support the construction of new pipelines. Market pull is taking gas away from established liquid supply points and building pipeline transportation capacity to satisfy end-user demand in new markets or demand growth in existing markets.

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

Adjusted EBITDA and Cash Available for Distribution

Adjusted EBITDA

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

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

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

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

Cash Available for Distribution

We define Cash Available for Distribution as our Adjusted EBITDA plus Cash Available for Distribution from Gulfstream and Market Hub, less cash paid for interest expense, net, and maintenance capital expenditures. Cash Available for Distribution does not reflect changes in working capital balances.

For Gulfstream and Market Hub, we define Cash Available for Distribution as Adjusted EBITDA less cash paid for interest expense, net, and maintenance capital expenditures. Cash Available for Distribution does not reflect changes in their working capital balances.

Cash Available for Distribution should not be viewed as indicative of the actual amount of cash available for distribution or that we plan to distribute for a given period.

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

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

Spectra Energy Partners

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

	2008	2007 (In millions)	2006
Net income	$ 101.3	$ 202.9	$ 68.1
Add:			
Interest expense	17.8	17.1	7.7
Income tax expense (benefit)	(1.4)	(97.9)	15.3
Depreciation and amortization	26.3	26.4	21.4
Less:			
Equity in earnings of Gulfstream	27.5	23.5	16.8
Equity in earnings of Market Hub	33.9	32.1	24.3
Interest income	3.5	5.5	
Other income and expenses, net	0.9	0.4	2.1
Adjusted EBITDA	78.2	87.0	69.3
Add:			
Cash Available for Distribution from Gulfstream	30.4	28.9	23.8
Cash Available for Distribution from Market Hub	36.0	31.9	19.5
Less:			
Cash paid for interest expense, net	14.3	10.3	8.6
Maintenance capital expenditures	11.3	11.2	11.5
Cash Available for Distribution	$ 119.0	$ 126.3	$ 92.5

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Spectra Energy Partners

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

	2008	2007 (In millions)	2006
Net cash provided by operating activities	$ 139.2	$ 84.9	$ 74.8
Interest income	(3.5)	(5.5)	
Interest expense	17.8	17.1	7.7
Income tax expense current	0.6	5.7	0.1
Distributions received from Gulfstream	(28.5)	(16.8)	(20.3)
Distributions received from Market Hub	(43.2)	(5.9)	
Changes in working capital and other	(4.2)	7.5	7.0
Adjusted EBITDA	78.2	87.0	69.3
Add:			
Cash Available for Distribution from Gulfstream	30.4	28.9	23.8
Cash Available for Distribution from Market Hub	36.0	31.9	19.5
Less:			
Cash paid for interest expense, net	14.3	10.3	8.6
Maintenance capital expenditures	11.3	11.2	11.5
Cash Available for Distribution	$ 119.0	$ 126.3	$ 92.5

Gulfstream

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

	2008	2007 (In millions)	2006
Net income	$ 110.8	$ 95.4	$ 68.4
Add:			
Interest expense	45.0	47.9	48.8
Depreciation and amortization	30.3	30.0	30.4
Less:			
Other income and expenses, net	11.1	3.9	0.4
Adjusted EBITDA 100%	175.0	169.4	147.2
Less:			
Cash paid for interest expense, net	49.5	49.9	49.5
Maintenance capital expenditures	1.3	1.4	0.6
Cash Available for Distribution 100%	$ 124.2	$ 118.1	$ 97.1
Adjusted EBITDA 24.5%	$ 42.9	$ 41.5	$ 36.1
Cash Available for Distribution 24.5%	$ 30.4	$ 28.9	$ 23.8

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Market Hub

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

	2008	2007 (In millions)	2006
Net income	$ 69.3	$ 64.2	$ 48.7
Add:			
Interest expense	1.0	3.6	2.6
Income tax expense	0.4	0.1	
Depreciation and amortization	10.6	9.1	7.8
Less:			
Interest income	3.1	2.2	
Other income and expenses, net	0.2	7.1	10.6
Adjusted EBITDA 100%	78.0	67.7	48.5
Less:			
Cash paid for interest expense, net			
Maintenance capital expenditures	5.9	4.0	9.6
Cash Available for Distribution 100%	$ 72.1	$ 63.7	$ 38.9
Adjusted EBITDA 50%	$ 39.0	$ 33.9	$ 24.3
Cash Available for Distribution 50%	$ 36.0	$ 31.9	$ 19.5

Effective January 1, 2009, we have revised the calculation of Cash Available for Distribution, within the definition contained in the partnership agreement. As discussed in Item 8. Financial Statements and Supplementary Data, Note 1, for our regulated entities that apply Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation, we expense preliminary project costs until such time that management determines that recovery of these costs is probable. At that time, we capitalize those costs, which reduces operating expenses in that period. The revised calculation for Cash Available for Distribution will now add back project development expenses to EBITDA as those costs are initially incurred and it will deduct the expense reductions in the period the costs are capitalized. These project costs do not represent operating cash flow activity.

The effects of this change on the three years ended December 31, 2008 would have been as follows:

Spectra Energy Partners

	2008	2007 (In millions)	2006
Cash Available for Distribution, as previously reported	$ 119.0	$ 126.3	$ 92.5
Add:			
Change in Cash Available for Distribution from Gulfstream	0.3	(0.6)	0.7
Preliminary project costs, net	2.2		(5.7)
Cash Available for Distribution, as revised	$ 121.5	$ 125.7	$ 87.5

Gulfstream

	2008	2007	2006
		(In millions)	
Cash Available for Distribution, as previously reported	$ 124.2	$ 118.1	$ 97.1
Add:			
Preliminary project costs, net	1.1	(2.5)	2.8
Cash Available for Distribution, as revised 100%	$ 125.3	$ 115.6	$ 99.9
Cash Available for Distribution, as revised 24.5%	$ 30.7	$ 28.3	$ 24.5

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Regulatory Accounting

We account for our regulated operations at East Tennessee and Saltville under the provisions of SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. As a result, we record assets that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds to customers for previous collections for costs that either are not likely to or have yet to be incurred. We continually assess whether the regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders to other regulated entities. Based on this continual assessment, we believe the existing regulatory assets are probable of recovery. This assessment reflects the current political and regulatory climate, and is subject to change in the future. If future recovery of costs ceases to be probable, asset write-offs would be required to be recognized in operating income. Additionally, regulatory agencies can provide flexibility in the manner and timing of the depreciation of property, plant and equipment and amortization of regulatory assets. Total regulatory assets were $10.0 million as of December 31, 2008 and $9.6 million as of December 31, 2007. We had no regulatory liabilities for the periods included in the financial statements.

Impairment of Goodwill

Goodwill of our sole operating segment, Gas Transportation and Storage, was $118.3 million at both December 31, 2008 and 2007. We evaluate for the impairment of goodwill under SFAS No. 142, Goodwill and Other Intangible Assets. As required by SFAS No. 142, we perform an annual goodwill impairment test and update the test if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Key assumptions used in the analysis include, but are not limited to, the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, we incorporate expected growth rates, regulatory stability and the ability to renew contracts, as well as other factors that affect our revenue and expense forecasts.

Equity Method Investments

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

Revenue Recognition

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

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LIQUIDITY AND CAPITAL RESOURCES

Known Trends and Uncertainties

We will rely primarily upon cash flows from operations, which includes our Gas Transportation and Storage segment and cash distributions received from Gulfstream and Market Hub, and additional financing transactions to fund our liquidity and capital requirements for 2009. As of December 31, 2008, we had negative net working capital of $23.6 million as compared to negative $37.3 million as of December 31, 2007, both of which included the $50.0 million note payable on demand to Market Hub. Additionally, we have access to a revolving credit facility with a capacity of $500.0 million, of which we consider $244 million available at December 31, 2008.

Cash flows from operations for our business are fairly stable given that most of our revenues are derived from regulated operations that primarily represent fee-based services. See Part I, Item 1A. Risk Factors for discussion of factors that could affect these cash flows.

As we execute on our strategic objectives around organic expansion opportunities, capital expenditures could be significant, ranging from $60 million to $100 million per year over the next few years. The timing and extent of these expenditures are likely to vary significantly from year to year, depending primarily on general economic conditions and market requirements. Given that we expect to continue to pursue expansion opportunities over the next several years, capital resources will continue to include long-term borrowings on our current credit facilities and possibly securing additional sources of capital including debt and/or equity. However, as a result of our ongoing strong earnings performance expected in existing operations, we expect to maintain a capital structure and liquidity profile that supports our strategic objectives and therefore will continue to monitor market requirements and our liquidity and make adjustments to these plans as needed.

Operating Cash Flows

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

Net cash provided by operating activities increased $10.1 million to $84.9 million in 2007 compared to 2006. This change was driven primarily by higher earnings.

Investing Cash Flows

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

- $154.6 million of net purchases of available-for-sale securities in the 2007 period that were held as collateral for the term loan as compared to $123.0 million of net proceeds in 2008 from the liquidation of such securities. As permitted by the terms of the credit facility, proceeds were used for capital and investment expenditures. This $277.6 million decrease in cash used was primarily offset by

- a $60.3 million increase in investment expenditures representing capital contributions to Gulfstream and Market Hub in 2008 used to fund their expansion projects,

- a $4.7 million cash portion of the Saltville acquisition in the 2008 second quarter, and

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

Capital and investment expenditures for 2008 totaled $135.6 million and included $124.3 million for expansion projects, primarily at Gulfstream and Market Hub, and $11.3 million for East Tennessee and Saltville maintenance projects. We estimate total 2009 capital and investment expenditures of approximately $75 million, of which $60 million is expected to be used for expansion projects primarily at Gulfstream and Market Hub and $15 million for maintenance and other projects.

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In response to increased Appalachian production activity, East Tennessee held the Greenway Project open season in February 2008 and received strong demand for new capacity. These open season results provide opportunities for multi-year expansion projects. In addition, East Tennessee has smaller project opportunities from this open season that can be completed within the existing right-of-ways, like Greenway/Nora, the first project arising from the Greenway open season. Construction has been completed and commercial service commenced on December 1, 2008. East Tennessee continues to evaluate additional opportunities arising from the Greenway open seasons and is developing plans for a multi-year program.

Given our objective of growth through acquisitions and expansions of existing assets, we anticipate that we will continue to invest significant amounts of capital to grow and acquire assets. Expansion capital expenditures may vary significantly based on investment opportunities.

Expansion capital and investment expenditures in 2008 included the completion of Glade Springs, CNX and Greenway Nora projects, the completion of Market Hub s Egan Cavern 4 and continued expansion of Egan Cavern 3 and Moss Bluff Cavern 4, and Gulfstream s Phase III and Phase IV expansions that were placed partially into service in the third quarter of 2008.

Significant 2009 expansion projects, including those of Gulfstream and Market Hub, are expected to include:

- Gulfstream The Phase IV compression project and the final completion of Phase III are expected to be completed in the first quarter of 2009.

- Egan Egan Cavern 3 is expected to be placed into initial gas service in the second half of 2009. The expected final working capacity at completion of Egan Cavern 3 is 8.0 Bcf to be in service in 2012.

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

- East Tennessee Preliminary development efforts will continue on the Greenway expansion program.

Net cash flows used in investing activities totaled $205.0 million in 2007 compared to $91.8 million in 2006. This $113.2 million change was driven primarily by:

- $154.6 million of net purchases of available-for-sale securities in the 2007 period that were held as collateral for the term portion of the $500.0 million credit facility, and

- a $28.3 million increase in investment expenditures representing capital contributions to Gulfstream and Market Hub in 2007 used to fund their expansion projects, partially offset by

- a $61.4 million reduction in expansion capital expenditures in 2007, primarily the result of the completion of the Jewell Ridge expansion project in 2006, and

- proceeds on sales of assets in 2007 of $8.3 million.

Financing Cash Flows

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

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

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

- $74.8 million of distributions to partners in 2008, partially offset by
- $362.4 million of net transfers to parent in 2007, which included an initial cash distribution of $345.0 million to Spectra Energy on July 2, 2007, and
- $12.5 million of dividends in 2007 by East Tennessee to its parent prior to the IPO.

Net cash flows provided by financing activities in 2007 totaled $135.0 million compared to $15.6 million in 2006. This $119.4 million increase was driven primarily by:

- $300.0 million net issuances of long-term debt and notes payable to affiliates in 2007, and
- $230.2 million of net cash received in the 2007 period upon the issuance of common units to the public in the IPO, partially offset by
- an initial cash distribution of $345.0 million to Spectra Energy on July 2, 2007 and net transfers to Spectra Energy of $17.4 million compared to net transfers from Spectra Energy of $15.6 million in 2006,
- distributions to partners of $20.3 million in 2007, and
- $12.5 million of dividends in 2007 by East Tennessee to its parent prior to the IPO.

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

Available Credit Facility and Restrictive Debt Covenants. Credit markets in the U.S. have recently experienced varying degrees of volatility and contraction that has limited the supply of credit. This volatility has been caused by many factors, including concerns about creditworthiness in the overall market, especially the financial services sector, which has culminated in the failure or consolidation of several large financial and investment institutions. During this credit contraction, we have been able to draw on our committed and available credit facilities in amounts sufficient to fund liquidity needs.

We have an outstanding credit facility with an aggregate of approximately $500 million in bank commitments, of which approximately $31 million ($16.1 million unfunded) were allocated to Lehman Brothers Commercial Bank (Lehman) as of December 31, 2008. As a result of the bankruptcy filing of Lehman s parent, we consider the unfunded commitment from Lehman to be unavailable. Currently, we are working to identify replacement lenders for the portion of our credit facility currently held by Lehman. We believe that the commitments of the other lenders under our credit facility is sufficient to fund our working capital and short-term requirements, and that a potential default by Lehman would not materially affect our liquidity.

Our obligations under the revolving portion of our credit facility are unsecured and the term borrowings are secured by qualifying investment-grade securities in an amount equal to or greater than the outstanding principal amount of the loan. The terms of the credit facility allow for liquidation of collateral to fund capital expenditures or certain acquisitions provided that an equal amount of term loan is converted to a revolving loan. Investments in marketable securities totaling $31.6 million at December 31, 2008 and $154.6 million at December 31, 2007 were pledged as collateral against the term loan. The revolving credit facility bears interest based on the London InterBank Offering Rate (LIBOR). The credit facility prohibits us from making distributions of Available Cash to unitholders if any default or event of default, as defined, exists. In addition, the credit facility contains covenants, among others, limiting our ability to make other restricted distributions or dividends on account of the purchase, redemption, retirement, acquisition, cancellation or termination of partnership interests, and is also subject to certain financial covenants. These financial covenants include financial leverage and interest coverage ratios. The terms of the credit agreement require us to maintain a ratio of total debt to Adjusted EBITDA, as defined in the credit agreement, of 5.0 or less. As of December 31, 2008, the ratio was 2.8. The terms of the credit agreement also require us to maintain a ratio of Adjusted EBITDA, as defined in the credit agreement, to interest expense of

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2.5 or greater. As of December 31, 2008, the ratio was 10.2. Adjusted EBITDA, as defined in the credit agreement, and therefore these ratios are affected by substantially the same economic and other drivers as those discussed under Results of Operations. We are not aware of any events that would cause us to not comply with such covenants in the near future. The credit facility does not contain material adverse change clauses.

Cash Distributions. The partnership agreement requires that, within 45 days after the end of each quarter, we distribute all of our Available Cash, as defined, to unitholders of record on the applicable record date. We have increased the quarterly cash distributions each quarter of 2008 from $0.32 per unit for the fourth quarter of 2007 to $0.36 per unit for the fourth quarter of 2008, or 13%. A cash distribution to our unitholders of $0.36 per unit was declared on January 27, 2009 and was paid on February 13, 2009, which is a $0.01 per unit increase over the cash distribution paid on November 14, 2008.

Off Balance Sheet Arrangements

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

Gulfstream has $850 million aggregate principal amount of senior notes outstanding, none of which is included on our consolidated balance sheets.

Contractual Obligations

We enter into contracts that require payment of cash at certain specified periods, based on certain specified minimum quantities and prices. The following table summarizes our contractual cash obligations for each of the periods presented. The table below excludes all amounts classified as Current Liabilities on the Consolidated Balance Sheets other than Current Maturities of Long-Term Debt. It is expected that the majority of current liabilities on the Consolidated Balance Sheets will be paid in cash in 2009.

Contractual Obligations as of December 31, 2008

	Payments Due by Period				
	Total	**2009**	**2010 & 2011**	**2012 & 2013**	**2014 & Beyond**
			(In millions)		
Long-term debt(a)	$ 441.8	$ 13.8	$ 27.6	$ 400.4	$
Note payable affiliates(a)	52.6	52.6			
Operating leases	0.5	0.1	0.2	0.2	
Purchase obligations					
Material/capital purchases					
Other purchase obligations	2.0	2.0			
Total contractual cash obligations	$ 496.9	$ 68.5	$ 27.8	$ 400.6	$

(a) See Note 11 of Notes to Consolidated Financial Statements. Amounts include scheduled interest payments over the life of the debt.

Quantitative and Qualitative Disclosures About Market Risk

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

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Interest Rate Risk

We are exposed to risk resulting from changes in interest rates as a result of our issuance of variable and fixed rate debt and investments in short-term securities. We manage interest rate exposure by limiting variable- rate exposures to percentages of total capitalization and by monitoring the effects of market changes in interest rates. We may also enter into financial derivative instruments, including, but not limited to, interest rate swaps to manage and mitigate interest rate risk exposure.

Based on a sensitivity analysis as of December 31, 2008, it was estimated that if market interest rates average 1% higher (lower) in 2009 than in 2008, interest expense, net of offsetting impacts in interest income, would increase (decrease) by $1.2 million. Comparatively, based on a sensitivity analysis as of December 31, 2007, had interest rates averaged 1% higher (lower) in 2008 than in 2007, it was estimated that interest expense, net of offsetting interest income, would have fluctuated by approximately $2.9 million. These amounts were estimated by considering the effect of the hypothetical interest rates on variable-rate securities outstanding, adjusted for interest rate hedges, investments, and cash and cash equivalents outstanding as of December 31, 2008 and 2007. If interest rates changed significantly, we would likely take action to manage our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our financial structure.

Credit Risk

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

Where exposed to credit risk, we analyze the counterparties financial condition prior to entering into an agreement, establish credit limits and monitor the appropriateness of these limits on an ongoing basis. We also obtain cash, letters of credit or parental guarantees from customers to provide credit support, where appropriate, based on our financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each transaction. Over 90% of our credit exposures for transportation and storage services are either with customers who have an investment-grade rating (or the equivalent based on an evaluation by Spectra Energy), or are secured by collateral.

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

Market Hub, our 50% equity investment, also has gas imbalances created primarily by park and loan services. Increases in gas prices and gas price volatility can materially increase Market Hub s credit risk related to gas loaned to customers. The highest amount of gas loaned out by Market Hub over the past 12 months at any one time to customers has been approximately 3.7 Bcf. The market value of that volume, assuming an average market price of $6.00 per MMBtu, would be $22 million. Market Hub s credit exposure from gas loans is managed consistent with the program described above, and Market Hub obtains security deposits as necessary from third parties and affiliates to cover any excess exposure.

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

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OTHER ISSUES

Global Climate Change. Policymakers at regional, federal and international levels continue to evaluate potential legislative and regulatory compliance mechanisms to achieve reductions in global greenhouse gas (GHG) emissions in the effort to address the challenge of climate change. It is likely that our assets and operations in the U.S. are or will become subject to direct and indirect effects of current and possible future global climate change regulatory actions in the jurisdictions in which those assets and operations are located.

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

The United States is not a signatory to the United Nations-sponsored Kyoto Protocol, nor has the federal government adopted a mandatory GHG emissions reduction requirement. However, in 2008, the EPA initiated an Advanced Notice of Proposed Rulemaking to examine whether GHG emissions could be effectively regulated under the existing Clean Air Act. In addition, several legislative proposals have been introduced and discussed in the U.S. Congress that would impose GHG emissions constraints, though final legislation has yet to advance.

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

Due to the speculative outlook regarding any U.S. federal and state policies, we cannot estimate the potential effect of GHG policies on our future consolidated results of operations, financial position or cash flows. We continue to monitor the development of greenhouse gas regulatory policies in the states in which we operate.

Other. For additional information on other issues related to us, see Item 8. Financial Statements and Supplementary Data, Notes 5 and 14 of Notes to Consolidated Financial Statements.

New Accounting Pronouncements

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

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

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

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Item 8. ***Financial Statements and Supplementary Data.***

Management s Annual Report on Internal Control over Financial Reporting

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

Our management, including our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2008 based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2008.

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of

Spectra Energy Partners, LP

Houston, Texas

We have audited the accompanying consolidated balance sheets of Spectra Energy Partners, LP and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, partners capital/predecessor equity and comprehensive income, and cash flows of Spectra Energy Partners, LP and subsidiaries and Spectra Energy Partners Predecessor for each of the three years in the period ended December 31, 2008 (collectively, Spectra Energy Partners, LP and subsidiaries and Spectra Energy Partners Predecessor are the Company). Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits. The consolidated financial statements give retroactive effect to the acquisition of 100% of the equity interests of Saltville Gas Storage Company L.L.C. (Saltville) and the P-25 pipeline from Spectra Energy Corp by the Company on April 4, 2008, which has been accounted for in a manner similar to a pooling of interests as described in Notes 1 and 2 to the consolidated financial statements.

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

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

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

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In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, after giving retroactive effect to the acquisition of Saltville and the P-25 pipeline described in Notes 1 and 2 to the consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

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

/s/ Deloitte & Touche LLP

Houston, Texas

March 11, 2009

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2008	2007	2006
	(In millions, except per-unit amounts)		
Operating Revenues			
Transportation of natural gas	$ 107.0	$ 100.6	$ 82.9
Storage of natural gas and other	17.9	20.5	18.6
Total operating revenues	124.9	121.1	101.5
Operating Expenses			
Operating, maintenance and other	20.2	26.4	14.1
Operating, maintenance and other affiliates	23.4	3.3	12.7
Depreciation and amortization	26.3	26.4	21.4
Property and other taxes	3.1	4.4	5.4
Total operating expenses	73.0	60.5	53.6
Operating Income	51.9	60.6	47.9
Other Income and Expenses			
Equity in earnings of unconsolidated affiliates	61.4	55.6	41.1
Other income and expenses, net	0.9	0.4	2.1
Total other income and expenses	62.3	56.0	43.2
Interest Income	3.5	5.5	
Interest Expense	17.8	17.1	7.7
Earnings Before Income Taxes	99.9	105.0	83.4
Income Tax Expense (Benefit)(a)	(1.4)	(97.9)	15.3
Net Income	$ 101.3	$ 202.9	$ 68.1
Calculation of Limited Partners Interest in Net Income:			
Net income	$ 101.3	$ 202.9	n/a(b)
Less:			
Net income attributable to predecessor operations	1.6	156.7	n/a
General partner s interest in net income	2.5	0.9	n/a
Limited partners interest in net income	$ 97.2	$ 45.3	n/a
Basic and diluted net income per limited partner unit	$ 1.40	$ 0.68	n/a
Weighted average limited partners units outstanding basic and diluted	69.4	66.2	n/a

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

(b) Not applicable

See Notes to Consolidated Financial Statements

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(In millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 30.9	$ 14.9
Receivables, trade (net of allowance for doubtful accounts of $0.5 and $0.3 at December 31, 2008 and 2007, respectively)	11.4	11.5
Receivables affiliates	0.8	2.2
Natural gas imbalance receivables	2.2	1.3
Natural gas imbalance receivables affiliates	2.5	1.3
Inventory	3.0	2.7
Fuel tracker		2.4
Other	1.5	
Total current assets	52.3	36.3
Investments and Other Assets		
Investments in unconsolidated affiliates	573.3	495.1
Goodwill	118.3	118.3
Other investments	31.6	154.8
Total investments and other assets	723.2	768.2
Property, Plant and Equipment		
Cost	969.6	930.0
Less accumulated depreciation and amortization	154.4	133.7
Net property, plant and equipment	815.2	796.3
Regulatory Assets and Deferred Debits	10.8	10.5
Total Assets	$ 1,601.5	$ 1,611.3

See Notes to Consolidated Financial Statements

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(In millions)	
LIABILITIES AND PARTNERS CAPITAL		
Current Liabilities		
Accounts payable	$ 4.4	$ 6.8
Accounts payable affiliates	7.6	1.2
Taxes accrued	2.4	3.5
Interest accrued	0.8	1.6
Natural gas imbalance payables	3.2	3.1
Note payable affiliates	50.0	50.0
Fuel tracker	2.8	
Other	4.7	7.4
Total current liabilities	75.9	73.6
Long-term Debt	390.0	400.0
Deferred Credits and Other Liabilities		
Deferred income taxes	8.8	10.7
Other	8.4	3.3
Total deferred credits and other liabilities	17.2	14.0
Commitments and Contingencies		
Partners Capital		
Predecessor equity		98.4
Common units (48.9 million and 44.6 million units issued and outstanding at December 31, 2008 and 2007, respectively)	794.5	699.3
Subordinated units (21.6 million units issued and outstanding)	304.7	303.5
General partner units (1.4 million units issued and outstanding)	21.4	19.0
Accumulated other comprehensive income (loss)	(2.2)	3.5
Total partners capital	1,118.4	1,123.7
Total Liabilities and Partners Capital	$ 1,601.5	$ 1,611.3

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2008	2007	2006
		(In millions)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 101.3	$ 202.9	$ 68.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	26.3	26.4	21.4
Deferred income tax expense (benefit)	(2.0)	(103.6)	15.2
Equity in earnings of unconsolidated affiliates	(61.4)	(55.6)	(41.1)
Distributions received from unconsolidated affiliates	71.7	22.7	20.3
Decrease (increase) in:			
Receivables	3.7	(14.8)	(0.1)
Taxes receivable affiliates	(0.2)	1.5	
Other current assets	(1.2)	1.6	(1.1)
Increase (decrease) in:			
Accounts payable	2.5	8.4	(0.8)
Taxes accrued	(1.1)	3.8	(3.3)
Other current liabilities	(1.4)	(4.5)	(8.9)
Other, assets	1.2	1.6	(9.2)
Other, liabilities	(0.2)	(5.5)	14.3
Net cash provided by operating activities	139.2	84.9	74.8
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(47.0)	(30.4)	(91.8)
Investment expenditures	(88.6)	(28.3)	
Acquisition of Saltville and P-25 pipeline	(4.7)		
Proceeds from sales of assets		8.3	
Purchases of available-for-sale securities	(1,132.0)	(1,439.0)	
Proceeds from sales and maturities of available-for-sale securities	1,255.0	1,284.4	
Net cash used in investing activities	(17.3)	(205.0)	(91.8)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt under credit facilities	1,785.0	380.0	
Payments for the redemption of debt under credit facilities	(1,795.0)	(130.0)	
Proceeds from note payable affiliates		50.0	
Proceeds from issuance of common units		230.2	
Dividends to parent		(12.5)	
Distributions to partners	(95.1)	(20.3)	
Transfers from (to) parent, net	(0.8)	(362.4)	15.6
Net cash provided by (used in) financing activities	(105.9)	135.0	15.6
Net increase (decrease) in cash and cash equivalents	16.0	14.9	(1.4)
Cash and cash equivalents at beginning of the period	14.9		1.4
Cash and cash equivalents at end of the period	$ 30.9	$ 14.9	$

Supplemental Disclosures			
Cash paid for interest, net of amount capitalized	$ 14.3	$ 10.3	$ 8.6
Cash paid for income taxes	0.9	6.5	3.2

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SPECTRA ENERGY PARTNERS, LP

CONSOLIDATED STATEMENTS OF PARTNERS CAPITAL/PREDECESSOR

EQUITY AND COMPREHENSIVE INCOME

	Predecessor Equity	Partners Capital Limited Partners Common	Subordinated	General Partner	Accumulated Other Comprehensive Income (Loss)	Total
		(In millions)				
December 31, 2005	$ 1,001.1	$	$	$	$ 4.1	$ 1,005.2
Net income	68.1					68.1
Reclassification of cash flow hedges into earnings					(0.3)	(0.3)
Total comprehensive income						67.8
Net change in parent advances	24.1					24.1
December 31, 2006	1,093.3				3.8	1,097.1
Net income attributable to the period January 1, 2007 through July 2, 2007	156.7					156.7
Net income attributable to the period July 3, 2007 through December 31, 2007		30.5	14.8	0.9		46.2
Reclassification of cash flow hedges into earnings					(0.3)	(0.3)
Total comprehensive income						202.6
Dividends to parent	(12.5)					(12.5)
Distributions to partners		(13.4)	(6.5)	(0.4)		(20.3)
Net change in parent advances	(373.4)					(373.4)
Conversion to Spectra Energy Partners, LP	(765.7)	452.0	295.2	18.5		
Issuance of common units		230.2				230.2
December 31, 2007	98.4	699.3	303.5	19.0	3.5	1,123.7
Net income	1.6	66.9	30.3	2.5		101.3
Unrealized net loss on cash flow hedges					(6.2)	(6.2)
Reclassification of cash flow hedges into earnings					0.5	0.5
Total comprehensive income						95.6
Net change in parent advances	(0.8)					(0.8)
Acquisition of Saltville and P-25 pipeline	(99.2)					(99.2)
Excess purchase price over net acquired assets		(7.6)		(0.2)		(7.8)
Issuance of units		100.2		2.1		102.3
Attributed deferred tax expense		(0.2)	(0.1)			(0.3)
Distributions to partners		(64.1)	(29.0)	(2.0)		(95.1)

December 31, 2008	$		$ 794.5	$	304.7	$	21.4	$	(2.2)	$ 1,118.4

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SPECTRA ENERGY PARTNERS, LP

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1. Summary of Operations and Significant Accounting Policies

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

Nature of Operations. Spectra Energy Partners, LP, through its subsidiaries and equity affiliates are engaged in the transportation of natural gas through interstate pipeline systems that serve the southeastern United States, and the storage of natural gas in underground facilities that are located in southeast Texas, south central Louisiana and southwest Virginia. We are a Delaware master limited partnership formed on March 19, 2007.

Initial Public Offering. On July 2, 2007, immediately prior to the closing of our initial public offering (IPO), Spectra Energy Corp (Spectra Energy) contributed to us 100% of the ownership of East Tennessee Natural Gas LLC (East Tennessee) less certain working capital balances retained as per the partnership agreements, 50% of the ownership of Market Hub Partners Holding (Market Hub), formerly Market Hub Partners Holding, LLC, and a 24.5% interest in Gulfstream Natural Gas System, L.L.C. (Gulfstream). See Note 3 for further information regarding the working capital transfers. Spectra Energy indirectly owned 100% of our partnership prior to the closing of the IPO.

On July 2, 2007, we completed our IPO. We issued 11.5 million common units to the public, representing 17% of our outstanding equity. Net cash of $230.2 million was received by us upon closing of the IPO. Spectra Energy retained an 83% equity interest in our partnership, including common units, subordinated units and a 2% general partner interest. Approximately $26.0 million of these proceeds were distributed to Spectra Energy, $194.0 million was used to purchase qualifying investment-grade securities, and $10.0 million was retained by us to meet working capital requirements. Also on July 2, 2007, we borrowed $194.0 million in term debt using the investment-grade securities as collateral and borrowed an additional $125.0 million of revolving debt. Proceeds from these borrowings, totaling $319.0 million, were distributed to Spectra Energy.

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Acquisitions. On April 4, 2008, we completed the acquisition of the equity interests of Saltville Gas Storage Company L.L.C. (Saltville) and the P-25 pipeline from Spectra Energy Capital, LLC (collectively, hereafter referred to as the Saltville acquisition). The Saltville acquisition represented a transfer of entities under common control. Accordingly, the Consolidated Financial Statements and related information presented herein have been recast to include the historical results of Saltville and the P-25 pipeline for all periods presented. See Note 2 for further discussion.

Basis of Presentation. For periods prior to the closing of the IPO, the combined financial statements were prepared from the separate records maintained by Spectra Energy Capital, LLC for the entities that were originally contributed to us and for the operations included in the Saltville acquisition, and are based on Spectra Energy Capital, LLC s historical ownership percentages of those operations. The combined financial results of these entities are treated as the historical results of our partnership for financial statement reporting purposes. Both the combined financial statements of East Tennessee, Saltville, Market Hub and Gulfstream, as well as the consolidated financial statements of our partnership for the periods post-IPO, are hereafter referred to as the Consolidated Financial Statements. The historical data for periods prior to the closing of the IPO and for periods prior to the Saltville acquisition may not necessarily be indicative of the actual results of operations had those entities been operated separately during those periods. Because a direct ownership relationship did not exist among entities comprising our partnership prior to July 2, 2007 and prior to the Saltville acquisition on April 4, 2008, the net investment in our partnership is shown as Predecessor Equity in the applicable Consolidated Financial Statements.

We generally account for investments in 20% to 50%-owned affiliates, and investments in less than 20%-owned affiliates where we have the ability to exercise significant influence, under the equity method. Accordingly, the consolidated historical financial statements for our partnership reflect the consolidation of East Tennessee and Saltville, and the investments in Market Hub and Gulfstream using the equity method of accounting. All intercompany balances and transactions have been eliminated in consolidation.

Spectra Energy managed its cash on a centralized basis for the entire Spectra Energy consolidated group, which in the periods up to the completion of our IPO, included the various assets and operations of the companies comprising our partnership. Gulfstream did not participate in the centralized cash management activity of Spectra Energy. The individual cash accounts maintained at the business unit levels (i.e. within our entities) were swept to a Spectra Energy corporate account on a daily basis, creating an Advance Receivable between Spectra Energy (or other affiliates/corporate entities) and the individual entities that now comprise our partnership. Therefore, our financials do not reflect any cash balances prior to the IPO. These net advances did not bear interest and were carried as unsecured, intercompany balances. Spectra Energy and our entities settled the cumulative advance balances through equity distributions or contributions prior to our IPO. Therefore, the consolidated net advances have been reclassified to Predecessor Equity in the Consolidated Balance Sheets.

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

Transactions between us and Spectra Energy and its affiliates have been identified in the Consolidated Financial Statements as transactions between affiliates. See Note 3 for further discussion.

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 Consolidated Financial Statements and Notes to Consolidated Financial Statements. Although these estimates are based on our best available knowledge at the time, actual results could differ.

Fair Value Measurements. Effective January 1, 2008, we adopted the required provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, for financial assets and liabilities.

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SFAS No. 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 requires entities to, among other things, maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SFAS No. 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. In accordance with SFAS No. 157, these two types of inputs have created the following fair value hierarchy:

Level 1 Quoted unadjusted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 Model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

Cash and Cash Equivalents. Highly liquid investments with original maturities of three months or less at the date of acquisition, except for the investments that are pledged as collateral against long-term debt as discussed in Note 11, are considered cash equivalents.

Inventory. Inventory consists primarily of other materials and supplies and is recorded at cost, using average cost.

Natural Gas Imbalances. The Consolidated Balance Sheets include in-kind balances as a result of differences in gas volumes received and delivered for customers. Since settlement of imbalances is in-kind, changes in these balances do not have an effect on our Consolidated Statements of Cash Flows. Natural gas volumes owed to or by us are valued at natural gas market index prices as of the balance sheet dates.

Investments. We may actively invest a portion of our cash balances in various financial instruments, including taxable or tax-exempt debt securities. In addition, we invest in short-term money market securities, some of which are restricted due to debt collateral requirements. We have classified all investments that are debt securities with maturity dates over one year as available-for-sale under SFAS No. 115, Accounting For Certain Investments in Debt and Equity Securities, and they are carried at fair market value. Investments in money-market securities are accounted for at fair value. Realized gains and losses and dividend and interest income related to these securities, including any amortization of discounts or premiums arising at acquisition, are included in earnings. The cost of securities sold is determined using the specific identification method. Purchases and sales of available-for-sale securities are presented on a gross basis within Cash Flows from Investing Activities in the accompanying Consolidated Statements of Cash Flows.

Goodwill. We evaluate goodwill for potential impairment under the guidance of SFAS No. 142, Goodwill and Other Intangible Assets. Under this standard, goodwill is subject to an annual test for impairment. We have designated August 31 as the date we perform the annual review for goodwill impairment. Under the provisions of SFAS No. 142, we perform the annual review for goodwill impairment at the reporting unit level, which we have determined to be an operating segment or one level below.

Impairment testing of goodwill consists of a two-step process. The first step involves a comparison of the implied fair value of a reporting unit with its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of

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the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Additional impairment tests are performed between the annual reviews if events or changes in circumstances make it more likely than not that the fair value of a reporting unit is below its carrying amount.

We completed our annual goodwill impairment test as of August 31, 2008 and no impairments were identified. We primarily use a discounted cash flow analysis to determine fair value for our reporting unit. Key assumptions in the determination of fair value include the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, we incorporate expected long-term growth rates, regulatory stability and the ability to renew contracts, as well as other factors that affect our revenue, expense and capital expenditure projections. We did not record any impairment of goodwill in 2008, 2007 and 2006, and there have been no additions, amortization or other changes in the carrying amount of goodwill during the years then ended. Goodwill of our sole operating segment, Gas Transportation and Storage, was $118.3 million at both December 31, 2008 and 2007.

Property, Plant and Equipment. Property, plant and equipment are stated at historical cost less accumulated depreciation. We capitalize all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of funds used during construction. The cost of renewals and betterments that extend the useful life or increase the expected output of property, plant and equipment is also capitalized. The cost of repairs, replacements and major maintenance projects that do not extend the useful life or increase the expected output of property, plant and equipment, is expensed as incurred. Depreciation is generally computed over the asset s estimated useful life using the straight-line method. The composite weighted-average depreciation rates were 2.8% for 2008, 3.0% for 2007 and 2.6% for 2006. See also Allowance for Funds Used During Construction (AFUDC) discussed below.

When we retire our regulated property, plant and equipment, we charge the original cost plus the cost of retirement, less salvage value, to accumulated depreciation and amortization. When we sell entire regulated operating units, or retire or sell non-regulated properties, the cost is removed from the property account and the related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded in earnings, unless otherwise required by the applicable regulatory body.

Unamortized Debt Expense. Debt expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt issues. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations to finance regulated assets and operations are amortized consistent with regulatory treatment of those items, where appropriate.

Environmental Expenditures. We expense environmental expenditures related to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate current or future revenues are expensed or capitalized, as appropriate. Undiscounted liabilities are recorded when the necessity for environmental remediation becomes probable and the costs can be reasonably estimated, or when other potential environmental liabilities are reasonably estimable and probable.

Cost-Based Regulation. We account for our regulated operations at East Tennessee and Saltville under the provisions of SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. The economic effects of regulation can result in a regulated company recording assets for costs that have been or are expected to be approved for recovery from customers or recording liabilities for amounts that are expected to be returned to customers in the rate-setting process in a period different from the period in which the amounts would be recorded by an unregulated enterprise. Accordingly, we record assets and liabilities that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. We continually assess whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders applicable to other regulated entities. Based on this continual assessment, we believe the existing regulatory assets are probable of recovery. These regulatory assets are classified in the

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Consolidated Balance Sheets as Regulatory Assets and Deferred Debits. We had no regulatory liabilities as of December 31, 2008 and 2007. We periodically evaluate the applicability of SFAS No. 71, and consider factors such as regulatory changes and the effect of competition. If cost-based regulation ends or competition increases, we may have to reduce certain of our asset balances to reflect a market basis lower than cost and write-off the associated regulatory assets. See Note 5 for further discussion.

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

Significant Customers. Customers accounting for 10% or more of consolidated revenues during 2008, 2007 or 2006 are as follows:

	% of Revenues		
Customer	**2008**	**2007**	**2006**
Atmos Energy Corporation	14%	15%	16%
KGen Murray I and II, LLC	(a)	(a)	11

(a) Percentage less than 10%

Allowance for Funds Used During Construction. AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction and expansion of new regulated facilities, consists of two components, an equity component and an interest expense component. The equity component is a non-cash item. AFUDC is capitalized as a component of property, plant and equipment, with offsetting credits to the Consolidated Statements of Operations through Other Income and Expenses, Net for the equity component and Interest Expense for the interest expense component. After construction is completed, we are permitted to recover these costs through inclusion in the rate base and in the depreciation provision. The total amount of AFUDC included in the Consolidated Statements of Operations was $1.1 million in 2008 (an equity component of $0.9 million and an interest expense component of $0.2 million), $0.3 million in 2007 (an equity component of $0.2 million and an interest expense component of $0.1 million) and $3.0 million in 2006 (an equity component of $2.1 million and an interest expense component of $0.9 million).

Preliminary Project Costs. Project costs, including expenditures for preliminary surveys, plans, investigations, environmental studies, regulatory applications and other costs incurred for the purpose of determining the feasibility of capital expansion projects, are initially included in operating expenses. If and when it is determined that recovery of such costs through regulated revenues of the completed project is probable, the inception-to-date costs of the project are recognized as Property, Plant and Equipment in accordance with the provisions of SFAS No. 71 and operating expenses are reduced.

Income Taxes. Our Gas Transportation and Storage operations were subject to corporate income tax under tax sharing agreements with Spectra Energy in 2007 and with Duke Energy Corporation (Duke Energy) in 2006 prior to the spin-off of Spectra Energy from Duke Energy on January 2, 2007. During those periods, income taxes were calculated by us on the basis of our separate company income and deductions related to Gas Transportation and Storage in accordance with respective established practices of Spectra Energy and Duke Energy. Deferred income taxes have been provided for temporary differences between the GAAP and tax carrying amounts of assets and liabilities. These differences create taxable or tax deductible amounts for future periods.

Market Hub and Gulfstream are not subject to federal income tax, but rather the taxable income or loss of these entities is reported on the income tax returns of the respective members. Market Hub is subject to Texas income (franchise) taxes under a tax sharing agreement with Spectra Energy.

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We adopted Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FAS 109, on January 1, 2007. The implementation of FIN 48 had no material impact on the consolidated financial statements.

Segment Reporting. SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, establishes standards for a public company to report financial and descriptive information about its reportable operating segments in interim and annual financial reports. Operating segments are components of an enterprise about which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and evaluate performance. Two or more operating segments may be aggregated into a single reportable segment provided aggregation is consistent with the objective and basic principles of SFAS No. 131, if the segments have similar economic characteristics, and the segments are considered similar under criteria provided by SFAS No. 131. There is no aggregation within our defined business segment. A description of our reportable segment, consistent with how business results are reported internally to management and the disclosure of segment information in accordance with SFAS No. 131, is presented in Note 4.

Distributions from Unconsolidated Affiliates. We consider distributions received from unconsolidated affiliates which do not exceed cumulative equity in earnings subsequent to the date of investment to be a return on investment and classify these amounts as operating activities within the accompanying Consolidated Statements of Cash Flows. Cumulative distributions received in excess of cumulative equity in earnings subsequent to the date of investment are considered to be a return of investment and are classified as investing activities.

Cash Flow Hedges. We have entered into interest rate swaps which were designated as effective cash flow hedges. Changes in the fair value of a derivative designated and qualified as a cash flow hedge, to the extent effective, are reported as Accumulated Other Comprehensive Income (Loss) (AOCI) until earnings are affected by the hedged transaction.

New Accounting Pronouncements 2008. The following new accounting pronouncements were adopted during 2008 and the effect of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

SFAS No. 157, Fair Value Measurements. SFAS No. 157, defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements that Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13. Also in February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 and FSP No. FAS 157-1 effective January 1, 2008 did not have a material impact on our consolidated results of operations, financial position or cash flows. See Note 12 for further discussion. As permitted under FSP No. FAS 157-2, we have elected to defer the adoption of SFAS No. 157 for our goodwill impairment test until January 1, 2009, and do not expect the adoption of FSP No. FAS 157-2 to measure these items will have a material impact on our consolidated results of operations, financial position or cash flows.

In October 2008, the FASB issued *FSP No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active,* which clarifies the application of SFAS No. 157 in determining the fair value of a financial asset when the market for that financial asset is not active. FSP No. FAS 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. Revisions in

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fair values resulting from a change in the valuation technique or its application would be accounted for as a change in accounting estimate. The adoption of FSP No. FAS 157-3 had no impact on our consolidated results of operations, financial position or cash flows.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. In February 2007, the FASB issued SFAS No. 159, which permits entities to choose to measure certain financial instruments at fair value. We have determined to not elect fair value measurements for financial assets and financial liabilities included in the scope of SFAS No. 159.

2006. The following significant accounting pronouncements were adopted during 2006 and the effect of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

Federal Energy Regulatory Commission Accounting Order. In 2005, the Federal Energy Regulatory Commission (FERC) issued an Order on Accounting for Pipeline Assessment Costs that requires most pipeline inspection and integrity assessment activities to be recognized as expenses as incurred. In the Order, the FERC confirmed that pipeline betterments and replacements, including those resulting from integrity inspections, will continue to be capitalized when appropriate. This FERC Order was effective for pipeline inspection and integrity assessment costs incurred on or subsequent to January 1, 2006 and increased our annual expenses $1.2 million in 2008, $3.2 million in 2007 and $1.9 million in 2006. Pipeline inspection and integrity assessment costs capitalized prior to the effective date of the rule were not affected.

Pending. The following new accounting pronouncements have been issued, but have not yet been adopted as of December 31, 2008:

SFAS No. 141R, Business Combinations. In December 2007, the FASB issued SFAS No. 141R which replaces SFAS No. 141, Business Combinations. SFAS No. 141R requires the acquiring entity in a business combination to recognize all and only the assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 and cannot be early adopted.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. In March 2008, the FASB issued SFAS No. 161 which amends and expands the disclosure requirements for SFAS No. 133 with the intent to provide users of financial statements an enhanced understanding of how and why derivative instruments are used, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. We adopted the provisions of SFAS No. 161 effective January 1, 2009 as required.

EITF 07-4, Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships. In March 2008, the FASB ratified a consensus reached by the Emerging Issues Task Force (EITF) that addresses the application of the two-class method for master limited partnerships (MLPs) when incentive distribution rights (IDRs) are present and entitle the IDR holder to a portion of distributions. The final consensus states that when earnings exceed distributions, the computation of earnings per unit (EPU) should be based on the terms of the partnership agreement. Accordingly, any contractual limitations on the distributions to IDR holders (e.g., limitations that only entitle IDR holders to available cash) would need to be determined for each reporting period. The guidance in EITF 07-4 is effective for periods that begin after December 15, 2008, and would be accounted for as a change in accounting principle through retrospective application. Early application is not permitted. As we currently follow the guidance of *EITF 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share* , no change to our current practice of computing net income per limited partner unit is anticipated. However, because our distributions to IDR holders are limited to available cash, the EPU attributable to IDRs will continue to be limited to our available cash.

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FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. In April 2008, the FASB issued FSP No. FAS 142-3 which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The adoption of the provisions of FSP No. FAS 142-3 on January 1, 2009 had no impact on our consolidated results of operations, financial position or cash flows.

2. Acquisitions

On April 4, 2008, we completed the Saltville acquisition from Spectra Energy at a purchase price of $107.0 million, which included the issuance of 4,207,641 common units and 85,870 general partner units, and a cash payment of $4.7 million to Spectra Energy. Saltville assets include three separate natural gas storage facilities adjacent to the East Tennessee system in southwest Virginia with approximately 5.5 billion cubic feet of working capacity. The P-25 pipeline, now part of the operations of East Tennessee, is a 72-mile, eight-inch natural gas pipeline with a capacity of 40 million cubic feet per day that runs parallel to the East Tennessee system in Virginia. The Saltville storage assets and the P-25 pipeline are strategically integrated with our East Tennessee system. The completion of the Saltville acquisition allows for a streamlined regulatory structure under the FERC jurisdiction, an enhanced operational flexibility that will benefit both East Tennessee and Saltville customers and a broader array of organic expansion opportunities for our pipeline and storage assets.

Spectra Energy s ownership of our partnership increased from 83% to 84% as a result of receipt of the new common and general partner units. The $7.8 million excess purchase price over the book value of net assets acquired was recorded as a reduction to Partners Capital, and the $102.3 million of common and general partner units issued were recorded as increases to Partners Capital.

As discussed in Note 1, the Saltville acquisition represented a transfer of entities under common control, which requires that the assets and liabilities acquired be recorded at historical book value and that our financial statements be presented on a basis similar to the pooling method of accounting, whereby all historical periods are retroactively adjusted to furnish comparative financial information as if the transaction had occurred immediately prior to the earliest period presented.

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Consolidated Statements of Operations. The historical Consolidated Statements of Operations for the years ended December 31, 2007 and 2006 have been recast to retroactively reflect the Saltville acquisition, as presented below.

	Year Ended December 31, 2007				Year Ended December 31, 2006			
	Previously Reported	Saltville	Eliminations	As Recast	Previously Reported	Saltville	Eliminations	As Recast
	(In millions)							
Operating Revenues								
Transportation of natural gas	$ 98.2	$ 2.7	$ (0.3)	$ 100.6	$ 80.6	$ 2.4	$ (0.1)	$ 82.9
Storage of natural gas and other	1.9	19.7	(1.1)	20.5	2.0	19.5	(2.9)	18.6
Total operating revenues	100.1	22.4	(1.4)	121.1	82.6	21.9	(3.0)	101.5
Operating Expenses								
Operating, maintenance and other	15.7	10.7		26.4	9.0	5.1		14.1
Operating, maintenance and other affiliates	4.3	0.4	(1.4)	3.3	12.8	2.9	(3.0)	12.7
Depreciation and amortization	23.2	3.2		26.4	19.0	2.4		21.4
Property and other taxes	2.8	1.6		4.4	4.2	1.2		5.4
Total operating expenses	46.0	15.9	(1.4)	60.5	45.0	11.6	(3.0)	53.6
Operating Income	54.1	6.5		60.6	37.6	10.3		47.9
Other Income and Expenses								
Equity in earnings of unconsolidated affiliates	55.6			55.6	41.1			41.1
Other income and expenses, net	0.3	0.1		0.4	1.8	0.3		2.1
Total other income and expenses	55.9	0.1		56.0	42.9	0.3		43.2
Interest Income	5.5			5.5				
Interest Expense	17.1			17.1	8.2	(0.5)		7.7
Earnings Before Income Taxes	98.4	6.6		105.0	72.3	11.1		83.4
Income Tax Expense (Benefit)	(99.1)	1.2		(97.9)	10.7	4.6		15.3
Net Income	$ 197.5	$ 5.4	$	$ 202.9	$ 61.6	$ 6.5	$	$ 68.1

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Consolidated Balance Sheet. The historical Consolidated Balance Sheet as of December 31, 2007 has been recast to retroactively reflect the Saltville acquisition, as presented below.

	December 31, 2007			
	Previously Reported	Saltville	Eliminations	As Recast
	(In millions)			
ASSETS				
Current Assets				
Cash and cash equivalents	$ 14.9	$	$	$ 14.9
Receivables, trade	9.9	1.6		11.5
Receivables affiliates	1.9		0.3	2.2
Natural gas imbalance receivables	0.8	0.5		1.3
Natural gas imbalance receivables affiliates	3.9	1.1	(3.7)	1.3
Inventory	2.6	0.1		2.7
Fuel tracker	2.4			2.4
Total current assets	36.4	3.3	(3.4)	36.3
Investments and Other Assets				
Investments in unconsolidated affiliates	495.1			495.1
Goodwill	118.3			118.3
Other investments	154.8			154.8
Total investments and other assets	768.2			768.2
Property, Plant and Equipment				
Cost	821.4	108.6		930.0
Less accumulated depreciation and amortization	128.8	4.9		133.7
Net property, plant and equipment	692.6	103.7		796.3
Regulatory Assets and Deferred Debits	10.4	0.1		10.5
Total Assets	$ 1,507.6	$ 107.1	$ (3.4)	$ 1,611.3

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	December 31, 2007			
	Previously Reported	Saltville	Eliminations	As Recast
	(In millions)			
LIABILITIES AND PARTNERS CAPITAL				
Current Liabilities				
Accounts payable	$ 6.1	$ 0.7	$	$ 6.8
Accounts payable affiliates	0.9		0.3	1.2
Taxes accrued	2.9	0.6		3.5
Interest accrued	1.6			1.6
Natural gas imbalance payables	0.8	2.3		3.1
Natural gas imbalance payables affiliates	3.2	0.5	(3.7)	
Note payable affiliates	50.0			50.0
Other	5.8	1.6		7.4
Total current liabilities	71.3	5.7	(3.4)	73.6
Long-term Debt	400.0			400.0
Deferred Credit and Other Liabilities				
Deferred income taxes	8.4	2.3		10.7
Other	2.6	0.7		3.3
Total deferred credits and other liabilities	11.0	3.0		14.0
Partners Capital				
Predecessor equity		98.4		98.4
Common units	699.3			699.3
Subordinated units	303.5			303.5
General partner units	19.0			19.0
Accumulated other comprehensive income	3.5			3.5
Total partners capital	1,025.3	98.4		1,123.7
Total Liabilities and Partners Capital	$ 1,507.6	$ 107.1	$ (3.4)	$ 1,611.3

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Consolidated Statement of Cash Flows. The historical Consolidated Statements of Cash Flows for the years ended December 31, 2007 and 2006 have been recast to retroactively reflect the Saltville acquisition, as presented below.

	Year Ended December 31, 2007			
	Previously Reported	Saltville	Eliminations	As Recast
	(In millions)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 197.5	$ 5.4	$	$ 202.9
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	23.2	3.2		26.4
Deferred income tax expense (benefit)	(104.6)	1.0		(103.6)
Equity in earnings of unconsolidated affiliates	(55.6)			(55.6)
Distributions received from unconsolidated affiliates	22.7			22.7
Decrease (increase) in:				
Receivables	(15.3)	0.8	(0.3)	(14.8)
Taxes receivables affiliates	1.5			1.5
Other current assets		1.6		1.6
Increase (decrease) in:				
Accounts payable	7.9	0.2	0.3	8.4
Taxes accrued	3.2	0.6		3.8
Other current liabilities	(4.7)	0.2		(4.5)
Other, assets	0.9	0.7		1.6
Other, liabilities	(4.3)	(1.2)		(5.5)
Net cash provided by operating activities	72.4	12.5		84.9
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures	(27.0)	(3.4)		(30.4)
Investment expenditures	(28.3)			(28.3)
Proceeds from sales of assets		8.3		8.3
Purchases of available-for-sale securities	(1,439.0)			(1,439.0)
Proceeds from sales and maturities of available-for-sale securities	1,284.4			1,284.4
Net cash provided by (used in) investing activities	(209.9)	4.9		(205.0)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of debt under credit facilities	380.0			380.0
Payments for the redemption of debt under credit facilities	(130.0)			(130.0)
Proceeds from note payable affiliates	50.0			50.0
Proceeds from issuance of common units	230.2			230.2
Dividends to parent	(12.5)			(12.5)
Distributions to partners	(20.3)			(20.3)
Transfers to parent, net	(345.0)	(17.4)		(362.4)
Net cash provided by (used in) financing activities	152.4	(17.4)		135.0
Net increase in cash and cash equivalents	14.9			14.9
Cash and cash equivalents at beginning of period				

Cash and cash equivalents at end of period	$ 14.9	$	$	$ 14.9

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	Previously Reported	Saltville	Eliminations	As Recast
	Year Ended December 31, 2006 (In millions)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$ 61.6	$ 6.5	$	$ 68.1
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	19.0	2.4		21.4
Deferred income tax expense	12.8	2.4		15.2
Equity in earnings of unconsolidated affiliates	(41.1)			(41.1)
Distributions received from unconsolidated affiliates	20.3			20.3
Decrease (increase) in:				
Receivables	0.1	(0.4)	0.2	(0.1)
Other current assets	(0.9)	(0.2)		(1.1)
Increase (decrease) in:				
Accounts payable	(0.8)	0.2	(0.2)	(0.8)
Taxes accrued	(3.3)			(3.3)
Other current liabilities	(8.9)			(8.9)
Other, assets	(9.5)	0.3		(9.2)
Other, liabilities	13.0	1.3		14.3
Net cash provided by operating activities	62.3	12.5		74.8
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures	(85.9)	(5.9)		(91.8)
Net cash used in investing activities	(85.9)	(5.9)		(91.8)
CASH FLOWS FROM FINANCING ACTIVITIES				
Transfers from (to) parent, net	23.6	(8.0)		15.6
Net cash provided by (used in) financing activities	23.6	(8.0)		15.6
Net decrease in cash and cash equivalents		(1.4)		(1.4)
Cash and cash equivalents at beginning of period		1.4		1.4
Cash and cash equivalents at end of period	$	$	$	$

Consolidated Statements of Partners Capital/Predecessor Equity. The historical Consolidated Statements of Partners Capital/Predecessor Equity for the years ended December 31, 2007 and 2006 have been recast to retroactively reflect the Saltville acquisition, as presented below.

	Previously Reported	Saltville (In millions)	As Recast
December 31, 2005	$ 895.7	$ 109.5	$ 1,005.2
Net income	61.6	6.5	