

Spectra Energy Corp.  
Form 10-Q  
May 08, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-33007

SPECTRA ENERGY CORP  
(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of incorporation) 20-5413139  
5400 Westheimer Court  
Houston, Texas 77056  
(Address of principal executive offices, including zip code) (IRS Employer Identification No.)  
713-627-5400  
(Registrant's telephone number, including area code)

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

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

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

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

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

Number of shares of Common Stock, \$0.001 par value, outstanding as of March 31, 2014: 670,685,199

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 FORM 10-Q FOR THE QUARTER ENDED  
 March 31, 2014  
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements represent management’s intentions, plans, expectations, assumptions and beliefs about future events. These forward-looking statements are identified by terms and phrases such as: anticipate, believe, intend, estimate, expect, continue, should, could, may, plan, project, predict, will, potential, forecast, and similar expressions. Forward-looking statements are subject to risks, uncertainties and other factors, many of which are outside our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Factors used to develop these forward-looking statements and that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

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

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

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## PART I. FINANCIAL INFORMATION

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

|   | Three Months<br>Ended March 31, |         |
|---|---------------------------------|---------|
|   | 2014                            | 2013    |
| Operating Revenues                                    |                                 |         |
| Transportation, storage and processing of natural gas | \$887                           | \$800   |
| Distribution of natural gas                           | 626                             | 625     |
| Sales of natural gas liquids                          | 187                             | 112     |
| Transportation of crude oil                           | 71                              | 13      |
| Other   | 72                              | 39      |
| Total operating revenues                              | 1,843                           | 1,589   |
| Operating Expenses                                    |                                 |         |
| Natural gas and petroleum products purchased          | 528                             | 465     |
| Operating, maintenance and other                      | 363                             | 332     |
| Depreciation and amortization                         | 200                             | 186     |
| Property and other taxes                              | 113                             | 100     |
| Total operating expenses                              | 1,204                           | 1,083   |
| Operating Income                                      | 639                             | 506     |
| Other Income and Expenses                             |                                 |         |
| Equity in earnings of unconsolidated affiliates       | 161                             | 110     |
| Other income and expenses, net                        | 9                               | 33      |
| Total other income and expenses                       | 170                             | 143     |
| Interest Expense                                      | 178                             | 149     |
| Earnings Before Income Taxes                          | 631                             | 500     |
| Income Tax Expense                                    | 164                             | 130     |
| Net Income  | 467                             | 370     |
| Net Income—Noncontrolling Interests                   | 48                              | 30      |
| Net Income—Controlling Interests                      | \$419                           | \$340   |
| Common Stock Data                                     |                                 |         |
| Weighted-average shares outstanding                   |                                 |         |
| Basic   | 670                             | 669     |
| Diluted   | 672                             | 670     |
| Earnings per share                                    |                                 |         |
| Basic   | \$0.63                          | \$0.51  |
| Diluted   | \$0.62                          | \$0.51  |
| Dividends per share                                   | \$0.335                         | \$0.305 |

See Notes to Condensed Consolidated Financial Statements.

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SPECTRA ENERGY CORP  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)  
 (In millions)

|   | Three Months<br>Ended March 31, |        |
|---|---------------------------------|--------|
|   | 2014                            | 2013   |
| Net Income  | \$467                           | \$370  |
| Other comprehensive income (loss)                                       |                                 |        |
| Foreign currency translation adjustments                                | (248                            | ) (189 |
| Unrealized mark-to-market net gain on hedges                            | 2                               | 3      |
| Reclassification of cash flow hedges into earnings                      | 2                               | 2      |
| Pension and benefits impact (net of taxes of \$3 and \$4, respectively) | 7                               | 11     |
| Other   | —                               | 1      |
| Total other comprehensive income (loss)                                 | (237                            | ) (172 |
| Total Comprehensive Income, net of tax                                  | 230                             | 198    |
| Less: Comprehensive Income—Noncontrolling Interests                     | 44                              | 27     |
| Comprehensive Income—Controlling Interests                              | \$186                           | \$171  |

See Notes to Condensed Consolidated Financial Statements.

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SPECTRA ENERGY CORP  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)  
 (In millions)

|   | March 31,<br>2014 | December 31,<br>2013 |
|---|-------------------|----------------------|
| <b>ASSETS</b>   |                   |                      |
| Current Assets  |                   |                      |
| Cash and cash equivalents                             | \$ 193            | \$ 201               |
| Receivables, net                                      | 1,378             | 1,336                |
| Inventory   | 148               | 263                  |
| Fuel tracker  | 199               | 28                   |
| Other   | 254               | 253                  |
| Total current assets                                  | 2,172             | 2,081                |
| Investments and Other Assets                          |                   |                      |
| Investments in and loans to unconsolidated affiliates | 3,033             | 3,043                |
| Goodwill  | 4,788             | 4,810                |
| Other   | 393               | 385                  |
| Total investments and other assets                    | 8,214             | 8,238                |
| Property, Plant and Equipment                         |                   |                      |
| Cost  | 28,283            | 28,456               |
| Less accumulated depreciation and amortization        | 6,673             | 6,627                |
| Net property, plant and equipment                     | 21,610            | 21,829               |
| Regulatory Assets and Deferred Debits                 | 1,388             | 1,385                |
| Total Assets  | \$33,384          | \$ 33,533            |



See Notes to Condensed Consolidated Financial Statements.

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

|  | March 31,<br>2014 | December 31,<br>2013 |
|--|-------------------|----------------------|
| <b>LIABILITIES AND EQUITY</b>  |                   |                      |
| <b>Current Liabilities</b>   |                   |                      |
| Accounts payable   | \$611             | \$ 440               |
| Commercial paper   | 917               | 1,032                |
| Taxes accrued  | 87                | 72                   |
| Interest accrued   | 160               | 201                  |
| Current maturities of long-term debt   | 905               | 1,197                |
| Other  | 1,007             | 1,097                |
| Total current liabilities  | 3,687             | 4,039                |
| <br>   |                   |                      |
| Long-term Debt   | 12,600            | 12,488               |
| <br>   |                   |                      |
| <b>Deferred Credits and Other Liabilities</b>  |                   |                      |
| Deferred income taxes  | 5,094             | 4,968                |
| Regulatory and other   | 1,400             | 1,457                |
| Total deferred credits and other liabilities   | 6,494             | 6,425                |
| <br>   |                   |                      |
| <b>Commitments and Contingencies</b>   |                   |                      |
| <br>   |                   |                      |
| Preferred Stock of Subsidiaries  | 258               | 258                  |
| <br>   |                   |                      |
| <b>Equity</b>  |                   |                      |
| Preferred stock, \$0.001 par, 22 million shares authorized, no shares outstanding  | —                 | —                    |
| Common stock, \$0.001 par, 1 billion shares authorized, 671 million and 670 million shares outstanding at March 31, 2014 and December 31, 2013, respectively | 1                 | 1                    |
| Additional paid-in capital   | 4,880             | 4,869                |
| Retained earnings  | 2,577             | 2,383                |
| Accumulated other comprehensive income   | 1,008             | 1,241                |
| Total controlling interests  | 8,466             | 8,494                |
| Noncontrolling interests   | 1,879             | 1,829                |
| Total equity   | 10,345            | 10,323               |
| <br>   |                   |                      |
| Total Liabilities and Equity   | \$33,384          | \$ 33,533            |

See Notes to Condensed Consolidated Financial Statements.

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SPECTRA ENERGY CORP  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In millions)

|   | Three Months<br>Ended March 31, |          |
|---|---------------------------------|----------|
|   | 2014                            | 2013     |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                 |          |
| Net income  | \$467                           | \$370    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |          |
| Depreciation and amortization   | 203                             | 189      |
| Deferred income tax expense   | 153                             | 121      |
| Equity in earnings of unconsolidated affiliates                                   | (161 )                          | (110 )   |
| Distributions received from unconsolidated affiliates                             | 89                              | 79       |
| Other   | (65 )                           | (67 )    |
| Net cash provided by operating activities   | 686                             | 582      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                 |          |
| Capital expenditures  | (374 )                          | (426 )   |
| Investments in and loans to unconsolidated affiliates                             | (18 )                           | (87 )    |
| Acquisitions, net of cash acquired  | —                               | (1,254 ) |
| Purchases of held-to-maturity securities  | (198 )                          | (293 )   |
| Proceeds from sales and maturities of held-to-maturity securities                 | 167                             | 266      |
| Purchases of available-for-sale securities  | (13 )                           | (612 )   |
| Proceeds from sales and maturities of available-for-sale securities               | 5                               | 619      |
| Distributions received from unconsolidated affiliates                             | 22                              | 6        |
| Other changes in restricted funds   | 7                               | 7        |
| Net cash used in investing activities   | (402 )                          | (1,774 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                 |          |
| Proceeds from the issuance of long-term debt                                      | 300                             | 1,848    |
| Payments for the redemption of long-term debt                                     | (284 )                          | (495 )   |
| Net increase (decrease) in commercial paper                                       | (102 )                          | 166      |
| Distributions to noncontrolling interests   | (39 )                           | (32 )    |
| Contributions from noncontrolling interests                                       | 6                               | —        |
| Dividends paid on common stock  | (228 )                          | (208 )   |
| Proceeds from the issuance of Spectra Energy Partners, LP common units            | 52                              | —        |
| Other   | 5                               | 8        |
| Net cash provided by (used in) financing activities                               | (290 )                          | 1,287    |
| Effect of exchange rate changes on cash   | (2 )                            | (1 )     |
| Net increase (decrease) in cash and cash equivalents                              | (8 )                            | 94       |
| Cash and cash equivalents at beginning of period                                  | 201                             | 94       |
| Cash and cash equivalents at end of period  | \$193                           | \$188    |
| Supplemental Disclosures  |                                 |          |
| Property, plant and equipment non-cash accruals                                   | \$107                           | \$188    |

See Notes to Condensed Consolidated Financial Statements.

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

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income<br>Foreign<br>Currency<br>Translation<br>Adjustments | Other    | Noncontrolling<br>Interests | Total    |
|---|-----------------|----------------------------------|----------------------|---|----------|-----------------------------|----------|
| December 31, 2013   | \$1             | \$4,869                          | \$2,383              | \$1,557   | \$(316 ) | \$ 1,829                    | \$10,323 |
| Net income  | —               | —                                | 419                  | —   | —        | 48                          | 467      |
| Other comprehensive income<br>(loss)                                    | —               | —                                | —                    | (244 )  | 11       | (4 )                        | (237 )   |
| Dividends on common stock   | —               | —                                | (225 )               | —   | —        | —                           | (225 )   |
| Stock-based compensation  | —               | (2 )                             | —                    | —   | —        | —                           | (2 )     |
| Distributions to noncontrolling<br>interests                            | —               | —                                | —                    | —   | —        | (39 )                       | (39 )    |
| Contributions from noncontrolling<br>interests                          | —               | —                                | —                    | —   | —        | 6                           | 6        |
| Spectra Energy common stock<br>issued                                   | —               | 3                                | —                    | —   | —        | —                           | 3        |
| Spectra Energy Partners, LP<br>common units issued                      | —               | 10                               | —                    | —   | —        | 36                          | 46       |
| Transfer of interests in subsidiaries<br>to Spectra Energy Partners, LP | —               | —                                | —                    | —   | —        | 5                           | 5        |
| Other, net  | —               | —                                | —                    | —   | —        | (2 )                        | (2 )     |
| March 31, 2014  | \$1             | \$4,880                          | \$2,577              | \$1,313   | \$(305 ) | \$ 1,879                    | \$10,345 |
| December 31, 2012   | \$1             | \$5,297                          | \$2,165              | \$2,044   | \$(535 ) | \$ 871                      | \$9,843  |
| Net income  | —               | —                                | 340                  | —   | —        | 30                          | 370      |
| Other comprehensive income<br>(loss)                                    | —               | —                                | —                    | (186 )  | 17       | (3 )                        | (172 )   |
| Dividends on common stock   | —               | —                                | (205 )               | —   | —        | —                           | (205 )   |
| Distributions to noncontrolling<br>interests                            | —               | —                                | —                    | —   | —        | (32 )                       | (32 )    |
| Spectra Energy common stock<br>issued                                   | —               | 6                                | —                    | —   | —        | —                           | 6        |
| Other, net  | —               | (5 )                             | 1                    | —   | —        | 4                           | —        |
| March 31, 2013  | \$1             | \$5,298                          | \$2,301              | \$1,858   | \$(518 ) | \$ 870                      | \$9,810  |

See Notes to Condensed Consolidated Financial Statements.

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SPECTRA ENERGY CORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

The terms “we,” “our,” “us” and “Spectra Energy” as used in this report refer collectively to Spectra Energy Corp and its subsidiaries unless the context suggests otherwise. These terms are used for convenience only and are not intended as a precise description of any separate legal entity within Spectra Energy. The term “Spectra Energy Partners” refers to our Spectra Energy Partners operating segment. The term “SEP” refers to Spectra Energy Partners, LP, our master limited partnership.

**Nature of Operations.** Spectra Energy Corp, through its subsidiaries and equity affiliates, owns and operates a large and diversified portfolio of complementary natural gas-related energy assets, and owns and operates a crude oil pipeline system that connects Canadian and U.S. producers to refineries in the U.S. Rocky Mountain and Midwest regions. We currently operate in three key areas of the natural gas industry: gathering and processing, transmission and storage, and distribution. We provide transmission and storage of natural gas to customers in various regions of the northeastern and southeastern United States, the Maritime Provinces in Canada, the Pacific Northwest in the United States and Canada, and in the province of Ontario, Canada. We also provide natural gas sales and distribution services to retail customers in Ontario, and natural gas gathering and processing services to customers in western Canada. We also own a 50% interest in DCP Midstream, LLC (DCP Midstream), based in Denver, Colorado, one of the leading natural gas gatherers in the United States based on wellhead volumes, and one of the largest U.S. producers and marketers of natural gas liquids (NGLs).

**Basis of Presentation.** The accompanying Condensed Consolidated Financial Statements include our accounts and the accounts of our majority-owned subsidiaries, after eliminating intercompany transactions and balances. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013, and reflect all normal recurring adjustments that are, in our opinion, necessary to fairly present our results of operations and financial position. Amounts reported in the Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, primarily in our gas distribution operations, as well as changing commodity prices on certain of our processing operations and other factors.

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

2. Acquisition of Express-Platte

In March 2013, we acquired 100% of the ownership interests in the Express-Platte crude oil pipeline system for \$1.5 billion, consisting of \$1.25 billion in cash and \$260 million of acquired debt, before working capital adjustments. The Express-Platte pipeline system, which begins in Hardisty, Alberta, and terminates in Wood River, Illinois, is comprised of both the Express and Platte crude oil pipelines. The Express pipeline carries crude oil to U.S. refining markets in the Rockies area, including Montana, Wyoming, Colorado and Utah. The Platte pipeline, which interconnects with Express pipeline in Casper, Wyoming, transports crude oil predominantly from the Bakken shale and western Canada to refineries in the Midwest. In 2013, subsidiaries of Spectra Energy contributed a 100% interest in the U.S. portion of Express-Platte and sold a 100% ownership interest in the Canadian portion to SEP.





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The following table summarizes the fair values of the assets and liabilities acquired as of the date of the acquisition.

|  | Purchase Price<br>Allocation<br>(in millions) |   |
|--|---|---|
| Cash purchase price                            | \$1,250                                       |   |
| Working capital and other purchase adjustments | 71  |   |
| Total  | 1,321   |   |
| Cash   | 67  |   |
| Receivables                                    | 25  |   |
| Other current assets                           | 9   |   |
| Property, plant and equipment                  | 1,251   |   |
| Accounts payable                               | (18   | ) |
| Other current liabilities                      | (17   | ) |
| Deferred credits and other liabilities         | (259  | ) |
| Long-term debt, including current portion      | (260  | ) |
| Total assets acquired/liabilities assumed      | 798   |   |
| Goodwill                                       | \$523   |   |

The purchase price is greater than the sum of fair values of the net assets acquired, resulting in goodwill as noted above. The goodwill reflects the value of the strategic location of the pipeline and the opportunity to grow the business. Goodwill related to the acquisition of Express-Platte is not deductible for income tax purposes.

The allocation of the fair values of assets and liabilities acquired related to the acquisition of Express-Platte was finalized in the first quarter of 2014, resulting in the following adjustments to amounts reported as of December 31, 2013: a \$60 million decrease in Property, Plant and Equipment, a \$1 million decrease in Other Current Assets and a \$24 million decrease in Deferred Credits and Other Liabilities, resulting in a \$37 million increase in Goodwill. Pro forma results of operations that reflect the acquisition of Express-Platte as if the acquisition had occurred as of the beginning of 2013 are not presented as they do not materially differ from actual results reported in our Condensed Consolidated Statements of Operations.

### 3. Business Segments

In November 2013, Spectra Energy contributed substantially all of its remaining U.S. transmission, storage and liquids assets to SEP (the U.S. Assets Dropdown). As a result of this transaction, we realigned our reportable segments structure. Amounts presented herein for 2013 segment information have been recast to conform to our current segment reporting presentation. There were no changes to consolidated data as a result of the recast of our segment information.

We currently manage our business in four reportable segments: Spectra Energy Partners, Distribution, Western Canada Transmission & Processing and Field Services. The remainder of our business operations is presented as "Other," and consists of unallocated corporate costs and employee benefit plan assets and liabilities, 100%-owned captive insurance subsidiaries, and other miscellaneous activities.

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

The presentation of our Spectra Energy Partners segment is reflective of the parent-level focus by our CODM, considering the resource allocation and governance provisions associated with SEP's master limited partnership

structure. SEP maintains a capital and cash management structure that is separate from Spectra Energy's, is self-funding and maintains its own lines of bank credit and cash management accounts. It is in this context that our CODM evaluates the Spectra Energy Partners segment as a whole, without regard to any of SEP's individual businesses. These factors, coupled with a different cost of capital of our other businesses, serve to differentiate how our Spectra Energy Partners segment is managed as compared to how SEP is managed.

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Spectra Energy Partners provides transmission, storage and gathering of natural gas for customers in various regions of the northeastern and southeastern United States and operates a crude oil pipeline system that connects Canadian and U.S. producers to refineries in the U.S. Rocky Mountain and Midwest regions. The natural gas transmission and storage operations are primarily subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC). The crude oil transportation operations are primarily subject to regulation by the FERC in the U.S. and the National Energy Board (NEB) in Canada. Our Spectra Energy Partners segment is composed of the operations of SEP, less governance costs, which are included in "Other."

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

Western Canada Transmission & Processing provides transmission of natural gas, natural gas gathering and processing services, and NGLs extraction, fractionation, transportation, storage and marketing to customers in western Canada, the northern tier of the United States and the Maritime Provinces in Canada. This segment conducts business mostly through BC Pipeline, BC Field Services, and the NGL marketing and Canadian Midstream businesses, and Maritimes & Northeast Pipeline Limited Partnership (M&N Canada). BC Pipeline and BC Field Services operations are primarily subject to the rules and regulations of the NEB.

Field Services gathers, compresses, treats, processes, transports, stores and sells natural gas. In addition, this segment produces, fractionates, transports, stores, sells, markets and trades NGLs, and recovers and sells condensate. It conducts operations through DCP Midstream, which is owned 50% by us and 50% by Phillips 66. DCP Midstream gathers raw natural gas through gathering systems located in nine major conventional and non-conventional natural gas producing regions: Mid-Continent, Rocky Mountain, East Texas-North Louisiana, Barnett Shale, Gulf Coast, South Texas, Central Texas, Antrim Shale and Permian Basin. DCP Midstream Partners, LP (DCP Partners) is a publicly-traded master limited partnership, of which DCP Midstream acts as general partner. As of March 31, 2014, DCP Midstream had an approximate 23% ownership interest in DCP Partners, including DCP Midstream's limited partner and general partner interests.

Our reportable segments offer different products and services and are managed separately as business units. Management evaluates segment performance based on earnings from continuing operations before interest, taxes, and depreciation and amortization (EBITDA). Cash, cash equivalents and short-term investments are managed at the parent-company levels, so the associated gains and losses from foreign currency transactions, and interest and dividend income are excluded from the segments' EBITDA. Our segment EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate EBITDA in the same manner. Transactions between reportable segments are accounted for on the same basis as transactions with unaffiliated third parties.

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## Business Segment Data

| Condensed Consolidated Statements of Operations | Unaffiliated Revenues | Intersegment Revenues | Total Operating Revenues | Segment EBITDA/ Consolidated Earnings before Income Taxes |
|---|-----------------------|-----------------------|--------------------------|---|
|   |                       | (in millions)         |                          |   |
| Three Months Ended March 31, 2014               |                       |                       |                          |   |
| Spectra Energy Partners                         | \$581                 | \$—                   | \$581                    | \$429   |
| Distribution                                    | 718                   | —                     | 718                      | 226   |
| Western Canada Transmission & Processing        | 541                   | 34                    | 575                      | 237   |
| Field Services                                  | —                     | —                     | —                        | 130   |
| Total reportable segments                       | 1,840                 | 34                    | 1,874                    | 1,022   |
| Other   | 3                     | 15                    | 18                       | (17)  |
| Eliminations                                    | —                     | (49)                  | (49)                     | —   |
| Depreciation and amortization                   | —                     | —                     | —                        | 200   |
| Interest expense                                | —                     | —                     | —                        | 178   |
| Interest income and other                       | —                     | —                     | —                        | 4   |
| Total consolidated                              | \$1,843               | \$—                   | \$1,843                  | \$631   |
| Three Months Ended March 31, 2013               |                       |                       |                          |   |
| Spectra Energy Partners                         | \$459                 | \$—                   | \$459                    | \$347   |
| Distribution                                    | 699                   | —                     | 699                      | 220   |
| Western Canada Transmission & Processing        | 428                   | 15                    | 443                      | 190   |
| Field Services                                  | —                     | —                     | —                        | 88  |
| Total reportable segments                       | 1,586                 | 15                    | 1,601                    | 845   |
| Other   | 3                     | 15                    | 18                       | (14)  |
| Eliminations                                    | —                     | (30)                  | (30)                     | —   |
| Depreciation and amortization                   | —                     | —                     | —                        | 186   |
| Interest expense                                | —                     | —                     | —                        | 149   |
| Interest income and other                       | —                     | —                     | —                        | 4   |
| Total consolidated                              | \$1,589               | \$—                   | \$1,589                  | \$500   |

## 4. Regulatory Matters

Union Gas. In January 2014, Union Gas filed a notice of motion seeking leave to appeal to the Ontario Court of Appeal (Court of Appeal) for the unsuccessful appeal to the Ontario Divisional Court on the OEB's treatment of 2011 revenues derived from the optimization of our upstream transportation contracts. A decision from the Court of Appeal on the notice of motion was issued in April 2014 granting leave to appeal. A hearing is expected later this year.

Union Gas filed an application with the OEB in May 2013 for the annual disposition of the 2012 non-commodity deferral account balances. A decision on that application was issued by the OEB in March 2014. Among other things, the OEB determined that revenues derived from the optimization of Union Gas' upstream transportation contracts in 2012 will be treated as revenues and included in utility earnings instead of a reduction to gas costs. The decision also denied a proposal to recover certain over-refunds to customers and reduced incentive amounts related to Union Gas' 2011 energy conservation program. As a result of this OEB decision, Union Gas recognized pre-tax income of \$10 million, comprised of a \$32 million increase in Transportation, Storage and Processing of Natural Gas revenues, a \$15 million decrease in Distribution of Natural Gas revenues and a \$7 million decrease in Other revenues on the Condensed Consolidated Statements of Operations for the three months ended March 31, 2014.

On May 2, 2014, Union Gas filed an application with the OEB for the annual disposition of its 2013 non-commodity deferral account balances. The combined impact is a net payable to customers of approximately \$20 million which is primarily reflected as Current Liabilities—Other on the Condensed Consolidated Balance Sheet at March 31, 2014. A hearing and decision from the OEB is expected later this year.

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## 5. Income Taxes

Income tax expense for the three-month period ended March 31, 2014 was \$164 million, compared to \$130 million for the same period in 2013. The higher tax expense was driven mainly by higher earnings. The effective tax rate for income from continuing operations was 26% in both the three-month periods ended March 31, 2014 and 2013.

There was no material net change in unrecognized tax benefits recorded during the three-month period ended March 31, 2014. Although uncertain, we believe it is reasonably possible that the total amount of unrecognized tax benefits could decrease by approximately \$5 million to \$10 million prior to March 31, 2015.

In September 2013, the U.S. Treasury and the Internal Revenue Service (IRS) issued final regulations regarding the deduction and capitalization of expenditures related to tangible property (tangible property regulations). The final IRS regulations apply to amounts paid to acquire, produce, or improve tangible property as well as dispositions of such property and are for tax years beginning on or after January 1, 2014. Early adoption of the regulations is permitted. We are currently evaluating the tangible property regulations and awaiting the release of additional regulations and industry specific guidance. We will continue to monitor any future changes in the tangible property regulations and evaluate these impacts on our financial statements.

## 6. Earnings per Common Share

Basic earnings per common share (EPS) is computed by dividing net income from controlling interests by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income from controlling interests by the diluted weighted-average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options, stock-based performance unit awards and phantom stock awards, were exercised, settled or converted into common stock.

The following table presents our basic and diluted EPS calculations:

|  | Three Months<br>Ended March 31,<br>2014          2013<br>(in millions, except<br>per-share amounts) |        |
|--|---|--------|
| Net income—controlling interests           | \$419   | \$340  |
| Weighted-average common shares outstanding |   |        |
| Basic                                      | 670   | 669    |
| Diluted                                    | 672   | 670    |
| Basic earnings per common share            | \$0.63  | \$0.51 |
| Diluted earnings per common share          | \$0.62  | \$0.51 |

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## 7. Accumulated Other Comprehensive Income

The following table presents the net of tax changes in Accumulated Other Comprehensive Income (AOCI) by component and amounts reclassified out of AOCI to Net Income, excluding amounts attributable to noncontrolling interests:

|                            | Foreign<br>Currency<br>Translation<br>Adjustments | Pension and<br>Post-retirement<br>Benefit Plan<br>Obligations | Gas<br>Purchase<br>Contract<br>Hedges | Other   | Total<br>Accumulated<br>Other<br>Comprehensive<br>Income |
|----------------------------|---|---|---------------------------------------|---------|--|
|                            | (in millions)                                     |   |                                       |         |  |
| December 31, 2013          | \$ 1,557  | \$ (304 )   | \$ (11 )                              | \$ (1 ) | \$ 1,241   |
| Reclassified to net income | —   | —   | 2                                     | —       | 2  |
| Other AOCI activity        | (244 )  | 7   | 2                                     | —       | (235 )   |
| March 31, 2014             | \$ 1,313  | \$ (297 )   | \$ (7 )                               | \$ (1 ) | \$ 1,008   |
| December 31, 2012          | \$ 2,044  | \$ (507 )   | \$ (23 )                              | \$ (5 ) | \$ 1,509   |
| Reclassified to net income | —   | —   | 2                                     | —       | 2  |
| Other AOCI activity        | (186 )  | 11  | 3                                     | 1       | (171 )   |
| March 31, 2013             | \$ 1,858  | \$ (496 )   | \$ (18 )                              | \$ (4 ) | \$ 1,340   |

Reclassifications to Net Income are primarily included in Other Income and Expenses, Net on our Condensed Consolidated Statements of Operations.

## 8. Inventory

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

|                        | March 31,<br>2014 | December 31,<br>2013 |
|------------------------|-------------------|----------------------|
|                        | (in millions)     |                      |
| Natural gas            | \$57              | \$ 155               |
| NGLs                   | 15                | 30                   |
| Materials and supplies | 76                | 78                   |
| Total inventory        | \$148             | \$ 263               |

## 9. Investments in and Loans to Unconsolidated Affiliates

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

| Three Months<br>Ended March 31, |      |
|---------------------------------|------|
| 2014                            | 2013 |
| (in millions)                   |      |



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|   |         |         |
|---|---------|---------|
| Operating revenues                            | \$3,915 | \$2,612 |
| Operating expenses                            | 3,645   | 2,450   |
| Operating income                              | 270     | 162     |
| Net income                                    | 203     | 120     |
| Net income attributable to members' interests | 165     | 91      |

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DCP Partners issues, from time to time, limited partner units to the public, which are recorded by DCP Midstream directly to its equity. Our proportionate share of gains from those issuances, totaling \$48 million in the first quarter of 2014 and \$43 million in the first quarter of 2013, are reflected in Equity in Earnings of Unconsolidated Affiliates in the Condensed Consolidated Statements of Operations.

## 10. Goodwill

The following presents changes in goodwill during 2014:

|                               | Goodwill<br>(in millions) |
|-------------------------------|---------------------------|
| December 31, 2013             | \$ 4,810                  |
| Acquisition of Express-Platte | 37                        |
| Foreign currency translation  | (59 )                     |
| March 31, 2014                | \$ 4,788                  |

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

## 11. Marketable Securities and Restricted Funds

We routinely invest excess cash and various restricted balances in securities such as commercial paper, bankers acceptances, corporate debt securities, treasury bills and money market funds in the United States and Canada. We do not purchase marketable securities for speculative purposes, therefore we do not have any securities classified as trading securities. While we do not routinely sell marketable securities prior to their scheduled maturity dates, some of our investments may be held and restricted for insurance purposes, so these investments are classified as available-for-sale (AFS) marketable securities as they may occasionally be sold prior to their scheduled maturity dates due to the unexpected timing of cash needs. Initial investments in securities are classified as purchases of the respective type of securities (AFS marketable securities or held-to-maturity (HTM) marketable securities). Maturities of securities are classified within proceeds from sales and maturities of securities in the Condensed Consolidated Statements of Cash Flows.

AFS Securities. AFS securities are as follows:

|                                     | Estimated Fair Value |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | March 31,<br>2014    | December<br>31, 2013 |
|                                     | (in millions)        |                      |
| Corporate debt securities           | \$26                 | \$18                 |
| Money market funds                  | 1                    | 1                    |
| Total available-for-sale securities | \$27                 | \$19                 |

Our AFS securities are classified on the Condensed Consolidated Balance Sheets as follows:

|                                    | Estimated Fair Value |                      |
|------------------------------------|----------------------|----------------------|
|                                    | March 31,<br>2014    | December<br>31, 2013 |
|                                    | (in millions)        |                      |
| Restricted funds                   |                      |                      |
| Investments and other assets—other | \$1                  | \$1                  |
| Non-restricted funds               |                      |                      |
| Current assets—other               | 2                    | 7                    |
| Investments and other assets—other | 24                   | 11                   |

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|                                     |      |      |
|-------------------------------------|------|------|
| Total available-for-sale securities | \$27 | \$19 |
|-------------------------------------|------|------|

At March 31, 2014, the weighted-average contractual maturity of outstanding AFS securities was two years.

There were no material gross unrealized holding gains or losses associated with investments in AFS securities at March 31, 2014 or December 31, 2013.

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HTM Securities. All of our HTM securities are restricted funds and are as follows:

| Description                       | Condensed Consolidated Balance Sheet Caption | Estimated Fair Value |                      |
|-----------------------------------|--|----------------------|----------------------|
|                                   |  | March 31,<br>2014    | December<br>31, 2013 |
|                                   |  | (in millions)        |                      |
| Bankers acceptances               | Current assets—other                         | \$57                 | \$35                 |
| Canadian government securities    | Current assets—other                         | 33                   | 34                   |
| Money market funds                | Current assets—other                         | 10                   | 3                    |
| Canadian government securities    | Investments and other assets—other           | 125                  | 131                  |
| Bankers acceptances               | Investments and other assets—other           | 10                   | 10                   |
| Total held-to-maturity securities |  | \$235                | \$213                |

All of our HTM securities are restricted funds pursuant to certain M&N Canada and Express-Platte debt agreements. The funds restricted for M&N Canada, plus future cash from operations that would otherwise be available for distribution to the partners of M&N Canada, are required to be placed in escrow until the balance in escrow is sufficient to fund all future debt service on the M&N Canada 6.90% senior secured notes. There are sufficient funds held in escrow to fund all future debt service on these M&N Canada notes as of March 31, 2014.

At March 31, 2014, the weighted-average contractual maturity of outstanding HTM securities was one year.

There were no material gross unrecognized holding gains or losses associated with investments in HTM securities at March 31, 2014 or December 31, 2013.

Other Restricted Funds. In addition to the portions of the AFS and HTM securities that were restricted funds as described above, we had other restricted funds totaling \$13 million at March 31, 2014 and \$19 million at December 31, 2013 classified as Current Assets—Other. These restricted funds are related to additional amounts for the M&N Canada debt service requirements and insurance.

Changes in restricted funds' balances are presented within Cash Flows from Investing Activities on our Condensed Consolidated Statements of Cash Flows.

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## 12. Debt and Credit Facilities

## Available Credit Facilities and Restrictive Debt Covenants

|  | Expiration Date | Total Credit Facilities Capacity<br>(in millions) | Commercial Paper Outstanding at March 31, 2014 | Available Credit Facilities Capacity |
|--|-----------------|---|--|--------------------------------------|
| Spectra Energy Capital, LLC                        |                 |   |  |                                      |
| Multi-year syndicated (a)<br>SEP                   | 2018            | \$1,000   | \$289  | \$711                                |
| Multi-year syndicated (b)<br>Westcoast Energy Inc. | 2018            | 2,000   | 284  | 1,716                                |
| Multi-year syndicated (c)<br>Union Gas             | 2016            | 271   | —  | 271                                  |
| Multi-year syndicated (d)                          | 2016            | 362   | 344  | 18                                   |
| Total  |                 | \$3,633   | \$917  | \$2,716                              |

Revolving credit facility contains a covenant requiring the Spectra Energy Corp consolidated debt-to-total (a) capitalization ratio, as defined in the agreement, to not exceed 65%. Per the terms of the agreement, collateralized debt is excluded from the calculation of the ratio. This ratio was 57% at March 31, 2014.

Revolving credit facility contains a covenant that requires SEP to maintain a ratio of total Consolidated Indebtedness-to-Consolidated EBITDA, as defined in the credit agreement, of 5.0 to 1 or less, provided that for (b) three fiscal quarters subsequent to certain acquisitions (such as the November 1, 2013 U.S. Assets Dropdown from Spectra Energy Corp), the ratio may be 5.5 to 1 or less. As of March 31, 2014, this ratio was 4.1 to 1 after giving effect to the U.S. Assets Dropdown.

U.S. dollar equivalent at March 31, 2014. The revolving credit facility is 300 million Canadian dollars and (c) contains a covenant that requires the Westcoast Energy Inc. non-consolidated debt-to-total capitalization ratio to not exceed 75%. The ratio was 42% at March 31, 2014.

U.S. dollar equivalent at March 31, 2014. The revolving credit facility is 400 million Canadian dollars and contains (d) a covenant that requires the Union Gas debt-to-total capitalization ratio to not exceed 75% and a provision which requires Union Gas to repay all borrowings under the facility for a period of two days during the second quarter of each year. The ratio was 64% at March 31, 2014.

The issuances of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facilities. As of March 31, 2014, there were no letters of credit issued under the credit facilities or revolving borrowing outstanding.

Our credit agreements contain various covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of March 31, 2014, we were in compliance with those covenants. In addition, our credit agreements allow for acceleration of payments or termination of the agreements due to nonpayment, or in some cases, due to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. Our debt and credit agreements do not contain provisions that trigger an acceleration of indebtedness based solely on the occurrence of a material adverse change in our financial condition or results of operations.

Term Loan. In 2013, Spectra Energy Capital, LLC (Spectra Capital) entered into a five-year \$300 million unsecured delayed-draw term loan agreement which allowed for up to one borrowing prior to January 15, 2014. The full \$300

million available under the agreement was borrowed on January 14, 2014. The borrowings are due in 2018 and are classified as Long-Term Debt on the Condensed Consolidated Balance Sheets. Proceeds from borrowing were used for general corporate purposes.

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## 13. Fair Value Measurements

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

|                                |   | March 31, 2014    |            |             |            |
|--------------------------------|---|-------------------|------------|-------------|------------|
| Description                    | Condensed Consolidated Balance Sheet Caption                | Total             | Level 1    | Level 2     | Level 3    |
|                                |   | (in millions)     |            |             |            |
| Corporate debt securities      | Cash and cash equivalents                                   | \$35              | \$—        | \$35        | \$—        |
| Corporate debt securities      | Current assets—other  | 2                 | —          | 2           | —          |
| Interest rate swaps            | Current assets—other  | 4                 | —          | 4           | —          |
| Corporate debt securities      | Investments and other assets—other                          | 24                | —          | 24          | —          |
| Interest rate swaps            | Investments and other assets—other                          | 15                | —          | 15          | —          |
| Money market funds             | Investments and other assets—other                          | 1                 | 1          | —           | —          |
| <b>Total Assets</b>            |   | <b>\$81</b>       | <b>\$1</b> | <b>\$80</b> | <b>\$—</b> |
| Commodity derivatives          | Current liabilities—other                                   | \$3               | \$—        | \$—         | \$3        |
| Interest rate swaps            | Current liabilities—other                                   | 3                 | —          | 3           | —          |
| Natural gas purchase contracts | Deferred credits and other liabilities—regulatory and other | 1                 | —          | —           | 1          |
| Commodity derivatives          | Deferred credits and other liabilities—regulatory and other | 1                 | —          | —           | 1          |
| <b>Total Liabilities</b>       |   | <b>\$8</b>        | <b>\$—</b> | <b>\$3</b>  | <b>\$5</b> |
|                                |   | December 31, 2013 |            |             |            |
| Description                    | Condensed Consolidated Balance Sheet Caption                | Total             | Level 1    | Level 2     | Level 3    |
|                                |   | (in millions)     |            |             |            |
| Corporate debt securities      | Cash and cash equivalents                                   | \$49              | \$—        | \$49        | \$—        |
| Corporate debt securities      | Current assets—other  | 7                 | —          | 7           | —          |
| Interest rate swaps            | Current assets—other  | 8                 | —          | 8           | —          |
| Corporate debt securities      | Investments and other assets—other                          | 11                | —          | 11          | —          |
| Interest rate swaps            | Investments and other assets—other                          | 15                | —          | 15          | —          |
| Money market funds             | Investments and other assets—other                          | 1                 | 1          | —           | —          |
| <b>Total Assets</b>            |   | <b>\$91</b>       | <b>\$1</b> | <b>\$90</b> | <b>\$—</b> |
| Natural gas purchase contracts | Deferred credits and other liabilities—regulatory and other | \$3               | \$—        | \$—         | \$3        |
| Interest rate swaps            | Deferred credits and other liabilities—regulatory and other | 6                 | —          | 6           | —          |
| <b>Total Liabilities</b>       |   | <b>\$9</b>        | <b>\$—</b> | <b>\$6</b>  | <b>\$3</b> |

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

|   | Three Months<br>Ended March 31,<br>2014      2013<br>(in millions) |     |
|---|--|-----|
| Derivative liabilities                    |  |     |
| Fair value, beginning of period           | \$3  | \$9 |
| Total realized/unrealized losses (gains): |  |     |
| Included in earnings                      | 4  | 1   |

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|  |     |   |     |   |
|--|-----|---|-----|---|
| Included in other comprehensive income   | (3  | ) | (4  | ) |
| Settlements  | 1   |   | —   |   |
| Fair value, end of period  | \$5 |   | \$6 |   |
| Total losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to liabilities held at the end of the period | \$3 |   | \$1 |   |

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## Level 1

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

## Level 2 Valuation Techniques

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

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

## Level 3 Valuation Techniques

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

For the natural gas purchases contracts and commodity derivatives, we utilize data obtained from third-party sources for the determination of fair value. The expected future cash flows arising from our swaps are discounted to present value. In addition, credit default swap rates or historical average credit default rates by credit rating are used to develop the adjustment for credit risk embedded in our positions. As these transactions are limited, we believe a Level 3 classification is appropriate.

## Financial Instruments

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

|  | March 31, 2014              |                        | December 31, 2013 |                        |
|--|-----------------------------|------------------------|-------------------|------------------------|
|  | Book Value<br>(in millions) | Approximate Fair Value | Book Value        | Approximate Fair Value |
| Note receivable, noncurrent (a)                  | \$71                        | \$71                   | \$71              | \$71                   |
| Long-term debt, including current maturities (b) | 13,494                      | 14,808                 | 13,668            | 14,701                 |

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

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

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

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

During the 2014 and 2013 periods, there were no material adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

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## 14. Risk Management and Hedging Activities

We are exposed to the impact of market fluctuations in the prices of NGLs and natural gas purchased as a result of our investment in DCP Midstream, and the ownership of the NGL marketing operations in western Canada and processing associated with our U.S. pipeline assets. Exposure to interest rate risk exists as a result of the issuance of variable and fixed-rate debt and commercial paper. We are exposed to foreign currency risk from our Canadian operations. We employ established policies and procedures to manage our risks associated with these market fluctuations, which may include the use of derivatives, mostly around interest rate and commodity exposures.

DCP Midstream manages their direct exposure to market prices separate from Spectra Energy, and utilizes various risk management strategies, including the use of commodity derivatives.

Effective January 2014, we instituted a commodity price risk management program at Western Canada Transmission and Processing's Empress NGL business and elected to not apply cash flow hedge accounting.

At March 31, 2014, we had "pay floating—receive fixed" interest rate swaps outstanding with a total notional principal amount of \$1,113 million to hedge against changes in the fair value of our fixed-rate debt that arise as a result of changes in market interest rates. These swaps also allow us to transform a portion of the underlying interest payments related to our long-term fixed-rate debt securities into variable-rate interest payments in order to achieve our desired mix of fixed and variable-rate debt.

Information about our interest rate swaps that had netting or rights of offset arrangements are as follows:

| Description | March 31, 2014   |   |            | December 31, 2013  |   |            |
|-------------|--|---|------------|--|---|------------|
|             | Gross Amounts Presented in the Condensed Consolidated Balance Sheets (in millions) | Amounts Not Offset in the Condensed Consolidated Balance Sheets | Net Amount | Gross Amounts Presented in the Condensed Consolidated Balance Sheets | Amounts Not Offset in the Condensed Consolidated Balance Sheets | Net Amount |
| Assets      | \$ 19  | \$ 2  | \$ 17      | \$ 23  | \$ 3  | \$ 20      |
| Liabilities | 3  | 2   | 1          | 6  | 3   | 3          |

At March 31, 2014, we had interest rate swaps with another counterparty which were in a liability position of \$2 million which could be terminated by the counterparty if one of our credit ratings falls below investment grade. In addition, we had one interest rate swap with a counterparty which was in a liability position of \$1 million which could be terminated at any time.

At March 31, 2014, we had commodity derivatives outstanding with a total notional amount of 121 million gallons. The longest dated commodity derivative contract we currently have expires in 2016.

Information about our commodity derivatives that had netting or rights of offset arrangements are as follows:

| March 31, 2014 |                      |   |
|----------------|----------------------|---|
| Gross Amounts  | Gross Amounts Offset | Net Amount Presented in the Condensed Consolidated Balance Sheets |
|                |                      |   |

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| Description | (in millions) |       |     |
|-------------|---------------|-------|-----|
| Assets      | \$133         | \$133 | \$— |
| Liabilities | 137           | 133   | 4   |

Substantially all of our commodity derivative agreements outstanding at March 31, 2014 have provisions that require collateral to be posted in the amount of the net liability position if one of our credit ratings falls below investment grade.

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Information regarding the impacts of commodity derivatives on our Condensed Consolidated Statement of Operations are as follows:

| Derivatives           | Condensed Consolidated Statement of Operations<br>Caption | Three Months<br>Ended March 31, |       |
|-----------------------|---|---------------------------------|-------|
|                       |   | 2014                            | 2013  |
|                       |   | (in millions)                   |       |
| Commodity derivatives | Sales of natural gas liquids                              | \$(3                            | ) n/a |

Other than interest rate swaps and commodity derivatives described above, we did not have any significant derivatives outstanding during the three months ended March 31, 2014.

#### 15. Commitments and Contingencies

##### Environmental

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

Like others in the energy industry, we and our affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of our ongoing operations, sites formerly owned or used by us, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state/provincial and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, we or our affiliates could potentially be held responsible for contamination caused by other parties. In some instances, we may share liability associated with contamination with other potentially responsible parties, and may also benefit from contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliated operations. We believe there are no matters outstanding that upon resolution will have a material effect on our consolidated results of operations, financial position or cash flows.

##### Litigation

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

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves for legal matters recorded as of March 31, 2014 or December 31, 2013 related to litigation.

##### Other Commitments and Contingencies

See Note 16 for a discussion of guarantees and indemnifications.

#### 16. Guarantees and Indemnifications

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

We have issued performance guarantees to customers and other third parties that guarantee the payment and performance of other parties, including certain non-100%-owned entities. In connection with our spin-off from Duke Energy Corporation (Duke Energy) in 2007, certain guarantees that were previously issued by us were assigned to, or replaced by, Duke Energy as guarantor in 2006. For any remaining guarantees of other Duke Energy obligations, Duke Energy has indemnified us against

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any losses incurred under these guarantee arrangements. The maximum potential amount of future payments we could have been required to make under these performance guarantees as of March 31, 2014 was approximately \$406 million, which has been indemnified by Duke Energy as discussed above. One of these outstanding performance guarantees, which has a maximum potential amount of future payment of \$201 million, expires in 2028. The remaining guarantees have no contractual expirations.

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

Westcoast Energy, Inc. (Westcoast), a 100%-owned subsidiary, has issued performance guarantees to third parties guaranteeing the performance of unconsolidated entities, such as equity method investments, and of entities previously sold by Westcoast to third parties. Those guarantees require Westcoast to make payment to the guaranteed third party upon the failure of such unconsolidated or sold entity to make payment under some of its contractual obligations, such as debt agreements, purchase contracts and leases. Certain guarantees that were previously issued by Westcoast for obligations of entities that remained a part of Duke Energy are considered guarantees of third party performance; however, Duke Energy has indemnified us against any losses incurred under these guarantee arrangements.

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

As of March 31, 2014, the amounts recorded for the guarantees and indemnifications described above are not material, both individually and in the aggregate.

## 17. Issuances of SEP Units

In the first quarter of 2014, SEP issued 1.1 million common units to the public, representing limited partner interests, and 24,000 general partner units to Spectra Energy in connection with its continuous offering program. Total net proceeds to SEP were \$53 million (net proceeds to Spectra Energy were \$52 million). Spectra Energy's ownership of SEP remained at approximately 84% following the unit issuances. In connection with the issuances of the units, a \$16 million gain (\$10 million net of tax) to Additional Paid-in Capital and a \$36 million increase in Equity-Noncontrolling Interests were recorded in the first quarter of 2014.

The following table presents the effects of the issuances of SEP units:

|  | Three Months<br>Ended March 31,<br>2014      2013<br>(in millions) |       |
|--|--|-------|
| Net income - controlling interests   | \$419  | \$340 |
| Increase in additional paid-in capital resulting from issuances of SEP units           | 10   | —     |
| Total net income - controlling interests and changes in equity - controlling interests | \$429  | \$340 |

## 18. Employee Benefit Plans

Retirement Plans. We have a qualified non-contributory defined benefit (DB) retirement plan for most U.S. employees and non-qualified, non-contributory, unfunded defined benefit plans which cover certain current and former U.S. executives. Our Westcoast subsidiary maintains qualified and non-qualified, contributory and non-contributory, DB and defined contribution (DC) retirement plans covering substantially all employees of our Canadian operations.



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Our policy is to fund our retirement plans, where applicable, on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants or as required by legislation or plan terms. We made contributions of \$5 million to our U.S. retirement plans in both of the three-month periods ended March 31, 2014 and 2013. We made total contributions to the Canadian DC and DB plans of \$16 million in the three months ended March 31, 2014 and \$23 million in the same period in 2013. We anticipate that we will make total contributions of approximately \$22 million to the U.S. plans and approximately \$39 million to the Canadian plans in 2014.

## Qualified and Non-Qualified Pension Plans—Components of Net Periodic Pension Cost

|   | Three Months<br>Ended March 31,<br>2014      2013<br>(in millions) |      |
|---|--|------|
| U.S.  |  |      |
| Service cost benefit earned                   | \$5  | \$5  |
| Interest cost on projected benefit obligation | 6  | 5    |
| Expected return on plan assets                | (10)   | (8)  |
| Amortization of loss                          | 3  | 5    |
| Net periodic pension cost                     | \$4  | \$7  |
| Canada  |  |      |
| Service cost benefit earned                   | \$7  | \$8  |
| Interest cost on projected benefit obligation | 13   | 13   |
| Expected return on plan assets                | (17)   | (17) |
| Amortization of loss                          | 6  | 9    |
| Net periodic pension cost                     | \$9  | \$13 |

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

## Other Post-Retirement Benefit Plans—Components of Net Periodic Benefit Cost

|   | Three Months<br>Ended March 31,<br>2014      2013<br>(in millions) |     |
|---|--|-----|
| U.S.  |  |     |
| Interest cost on accumulated post-retirement benefit obligation | \$2  | \$2 |
| Expected return on plan assets                                  | (1)  | (1) |
| Net periodic other post-retirement benefit cost                 | \$1  | \$1 |
| Canada  |  |     |
| Service cost benefit earned                                     | \$1  | \$1 |
| Interest cost on accumulated post-retirement benefit obligation | 1  | 2   |
| Net periodic other post-retirement benefit cost                 | \$2  | \$3 |

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## Retirement/Savings Plan

In addition to the retirement plans described above, we also have defined contribution employee savings plans available to both U.S. and Canadian employees. Employees may participate in a matching contribution where we match a certain percentage of before-tax employee contributions of up to 6% of eligible pay per pay period for U.S. employees and up to 5% of eligible pay per pay period for Canadian employees. We expensed pre-tax employer matching contributions of \$3 million in both of the three-month periods ended March 31, 2014 and 2013 for U.S. employees and \$3 million in both of the three-month periods for Canadian employees.

## 19. Consolidating Financial Information

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

Spectra Energy Corp  
Condensed Consolidating Statements of Operations  
(Unaudited)  
(In millions)

|   | Spectra<br>Energy<br>Corp | Spectra<br>Capital | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|---------------------------|--------------------|-------------------------------|--------------|--------------|
| Three Months Ended March 31, 2014               |                           |                    |                               |              |              |
| Total operating revenues                        | \$—                       | \$—                | \$ 1,844                      | \$(1 )       | \$1,843      |
| Total operating expenses                        | 4                         | —                  | 1,201                         | (1 )         | 1,204        |
| Operating income (loss)                         | (4 )                      | —                  | 643                           | —            | 639          |
| Equity in earnings of unconsolidated affiliates | —                         | —                  | 161                           | —            | 161          |
| Equity in earnings of consolidated subsidiaries | 415                       | 635                | —                             | (1,050 )     | —            |
| Other income and expenses, net                  | (1 )                      | 1                  | 9                             | —            | 9            |
| Interest expense                                | —                         | 65                 | 113                           | —            | 178          |
| Earnings before income taxes                    | 410                       | 571                | 700                           | (1,050 )     | 631          |
| Income tax expense (benefit)                    | (9 )                      | 156                | 17                            | —            | 164          |
| Net income                                      | 419                       | 415                | 683                           | (1,050 )     | 467          |
| Net income—noncontrolling interests             | —                         | —                  | 48                            | —            | 48           |
| Net income—controlling interests                | \$419                     | \$415              | \$ 635                        | \$(1,050 )   | \$419        |
| Three Months Ended March 31, 2013               |                           |                    |                               |              |              |
| Total operating revenues                        | \$—                       | \$—                | \$ 1,590                      | \$(1 )       | \$1,589      |
| Total operating expenses                        | 2                         | —                  | 1,082                         | (1 )         | 1,083        |
| Operating income (loss)                         | (2 )                      | —                  | 508                           | —            | 506          |
| Equity in earnings of unconsolidated affiliates | —                         | —                  | 110                           | —            | 110          |
| Equity in earnings of consolidated subsidiaries | 337                       | 509                | —                             | (846 )       | —            |
| Other income and expenses, net                  | (2 )                      | 3                  | 32                            | —            | 33           |
| Interest expense                                | —                         | 48                 | 101                           | —            | 149          |
| Earnings before income taxes                    | 333                       | 464                | 549                           | (846 )       | 500          |
| Income tax expense (benefit)                    | (7 )                      | 127                | 10                            | —            | 130          |
| Net income                                      | 340                       | 337                | 539                           | (846 )       | 370          |

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|                                     |       |       |       |         |       |
|-------------------------------------|-------|-------|-------|---------|-------|
| Net income—noncontrolling interests | —     | —     | 30    | —       | 30    |
| Net income—controlling interests    | \$340 | \$337 | \$509 | \$(846) | \$340 |

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Spectra Energy Corp  
Condensed Consolidating Statements of Comprehensive Income  
(Unaudited)  
(In millions)

|   | Spectra<br>Energy<br>Corp | Spectra<br>Capital | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|---------------------------|--------------------|-------------------------------|--------------|--------------|
| Three Months Ended March 31, 2014                   |                           |                    |                               |              |              |
| Net income  | \$419                     | \$415              | \$ 683                        | \$(1,050 )   | \$467        |
| Other comprehensive income (loss)                   | 2                         | —                  | (239 )                        | —            | (237 )       |
| Total comprehensive income, net of tax              | 421                       | 415                | 444                           | (1,050 )     | 230          |
| Less: comprehensive income—noncontrolling interests | —                         | —                  | 44                            | —            | 44           |
| Comprehensive income—controlling interests          | \$421                     | \$415              | \$ 400                        | \$(1,050 )   | \$186        |
| Three Months Ended March 31, 2013                   |                           |                    |                               |              |              |
| Net income  | \$340                     | \$337              | \$ 539                        | \$(846 )     | \$370        |
| Other comprehensive income (loss)                   | 4                         | —                  | (176 )                        | —            | (172 )       |
| Total comprehensive income, net of tax              | 344                       | 337                | 363                           | (846 )       | 198          |
| Less: comprehensive income—noncontrolling interests | —                         | —                  | 27                            | —            | 27           |
| Comprehensive income—controlling interests          | \$344                     | \$337              | \$ 336                        | \$(846 )     | \$171        |

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Spectra Energy Corp  
Condensed Consolidating Balance Sheet  
March 31, 2014  
(Unaudited)  
(In millions)

|   | Spectra<br>Energy<br>Corp | Spectra<br>Capital | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|---------------------------|--------------------|-------------------------------|--------------|--------------|
| Cash and cash equivalents                             | \$—                       | \$4                | \$ 189                        | \$—          | \$ 193       |
| Receivables—consolidated subsidiaries                 | 4                         | 6                  | —                             | (10 )        | —            |
| Receivables—other                                     | 1                         | 2                  | 1,375                         | —            | 1,378        |
| Other current assets                                  | 10                        | 11                 | 580                           | —            | 601          |
| Total current assets                                  | 15                        | 23                 | 2,144                         | (10 )        | 2,172        |
| Investments in and loans to unconsolidated affiliates | —                         | —                  | 3,033                         | —            | 3,033        |
| Investments in consolidated subsidiaries              | 13,497                    | 19,814             | —                             | (33,311 )    | —            |
| Advances receivable—consolidated subsidiaries—        | —                         | 4,489              | 461                           | (4,950 )     | —            |
| Notes receivable—consolidated subsidiaries            | —                         | —                  | 3,215                         | (3,215 )     | —            |
| Goodwill  | —                         | —                  | 4,788                         | —            | 4,788        |
| Other assets  | 37                        | 30                 | 326                           | —            | 393          |
| Property, plant and equipment, net                    | —                         | —                  | 21,610                        | —            | 21,610       |
| Regulatory assets and deferred debits                 | 2                         | 16                 | 1,370                         | —            | 1,388        |
| Total Assets  | \$ 13,551                 | \$ 24,372          | \$ 36,947                     | \$ (41,486 ) | \$ 33,384    |
| Accounts payable—other                                | \$ 3                      | \$—                | \$ 608                        | \$—          | \$ 611       |
| Accounts payable—consolidated subsidiaries            | —                         | —                  | 10                            | (10 )        | —            |
| Commercial paper                                      | —                         | 289                | 628                           | —            | 917          |
| Short-term borrowings—consolidated subsidiaries       | —                         | 415                | —                             | (415 )       | —            |
| Taxes accrued   | 1                         | —                  | 86                            | —            | 87           |
| Current maturities of long-term debt                  | —                         | 408                | 497                           | —            | 905          |
| Other current liabilities                             | 43                        | 61                 | 1,063                         | —            | 1,167        |
| Total current liabilities                             | 47                        | 1,173              | 2,892                         | (425 )       | 3,687        |
| Long-term debt  | —                         | 2,899              | 9,701                         | —            | 12,600       |
| Advances payable—consolidated subsidiaries            | 4,950                     | —                  | —                             | (4,950 )     | —            |
| Notes payable—consolidated subsidiaries               | —                         | 2,800              | —                             | (2,800 )     | —            |
| Deferred credits and other liabilities                | 88                        | 4,003              | 2,403                         | —            | 6,494        |
| Preferred stock of subsidiaries                       | —                         | —                  | 258                           | —            | 258          |
| Equity  |                           |                    |                               |              |              |
| Controlling interests                                 | 8,466                     | 13,497             | 19,814                        | (33,311 )    | 8,466        |
| Noncontrolling interests                              | —                         | —                  | 1,879                         | —            | 1,879        |
| Total equity  | 8,466                     | 13,497             | 21,693                        | (33,311 )    | 10,345       |
| Total Liabilities and Equity                          | \$ 13,551                 | \$ 24,372          | \$ 36,947                     | \$ (41,486 ) | \$ 33,384    |



Spectra Energy Corp  
Condensed Consolidating Balance Sheet  
December 31, 2013  
(Unaudited)  
(In millions)

|   | Spectra<br>Energy<br>Corp | Spectra<br>Capital | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|---------------------------|--------------------|-------------------------------|--------------|--------------|
| Cash and cash equivalents                             | \$—                       | \$12               | \$ 189                        | \$—          | \$ 201       |
| Receivables—consolidated subsidiaries                 | 176                       | 394                | —                             | (570 )       | —            |
| Receivables—other                                     | 1                         | —                  | 1,335                         | —            | 1,336        |
| Other current assets                                  | 40                        | 15                 | 489                           | —            | 544          |
| Total current assets                                  | 217                       | 421                | 2,013                         | (570 )       | 2,081        |
| Investments in and loans to unconsolidated affiliates | —                         | —                  | 3,043                         | —            | 3,043        |
| Investments in consolidated subsidiaries              | 13,244                    | 19,403             | —                             | (32,647 )    | —            |
| Advances receivable—consolidated subsidiaries—        | —                         | 4,038              | 677                           | (4,715 )     | —            |
| Notes receivable—consolidated subsidiaries            | —                         | —                  | 3,215                         | (3,215 )     | —            |
| Goodwill  | —                         | —                  | 4,810                         | —            | 4,810        |
| Other assets  | 39                        | 30                 | 316                           | —            | 385          |
| Property, plant and equipment, net                    | —                         | —                  | 21,829                        | —            | 21,829       |
| Regulatory assets and deferred debits                 | 3                         | 17                 | 1,365                         | —            | 1,385        |
| Total Assets  | \$13,503                  | \$23,909           | \$ 37,268                     | \$ (41,147 ) | \$ 33,533    |
| Accounts payable—other                                | \$4                       | \$—                | \$ 436                        | \$—          | \$ 440       |
| Accounts payable—consolidated subsidiaries            | 89                        | —                  | 481                           | (570 )       | —            |
| Commercial paper                                      | —                         | 344                | 688                           | —            | 1,032        |
| Short-term borrowings—consolidated subsidiaries       | —                         | 415                | —                             | (415 )       | —            |
| Taxes accrued   | 4                         | —                  | 68                            | —            | 72           |
| Current maturities of long-term debt                  | —                         | 557                | 640                           | —            | 1,197        |
| Other current liabilities                             | 81                        | 75                 | 1,142                         | —            | 1,298        |
| Total current liabilities                             | 178                       | 1,391              | 3,455                         | (985 )       | 4,039        |
| Long-term debt  | —                         | 2,605              | 9,883                         | —            | 12,488       |
| Advances payable—consolidated subsidiaries            | 4,715                     | —                  | —                             | (4,715 )     | —            |
| Notes payable—consolidated subsidiaries               | —                         | 2,800              | —                             | (2,800 )     | —            |
| Deferred credits and other liabilities                | 116                       | 3,869              | 2,440                         | —            | 6,425        |
| Preferred stock of subsidiaries                       | —                         | —                  | 258                           | —            | 258          |
| Equity  |                           |                    |                               |              |              |
| Controlling interests                                 | 8,494                     | 13,244             | 19,403                        | (32,647 )    | 8,494        |
| Noncontrolling interests                              | —                         | —                  | 1,829                         | —            | 1,829        |
| Total equity  | 8,494                     | 13,244             | 21,232                        | (32,647 )    | 10,323       |
| Total Liabilities and Equity                          | \$13,503                  | \$23,909           | \$ 37,268                     | \$ (41,147 ) | \$ 33,533    |

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Spectra Energy Corp  
 Condensed Consolidating Statement of Cash Flows  
 Three Months Ended March 31, 2014  
 (Unaudited)  
 (In millions)

|   | Spectra<br>Energy<br>Corp | Spectra<br>Capital | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|---------------------------|--------------------|-------------------------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                           |                    |                               |              |              |
| Net income  | \$ 419                    | \$ 415             | \$ 683                        | \$ (1,050 )  | \$ 467       |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |                    |                               |              |              |
| Depreciation and amortization   | —                         | —                  | 203                           | —            | 203          |
| Equity in earnings of unconsolidated affiliates   | —                         | —                  | (161 )                        | —            | (161 )       |
| Equity in earnings of consolidated subsidiaries   | (415 )                    | (635 )             | —                             | 1,050        | —            |
| Distributions received from unconsolidated affiliates                                       | —                         | —                  | 89                            | —            | 89           |
| Other   | (35 )                     | 146                | (23 )                         | —            | 88           |
| Net cash provided by (used in) operating activities   | (31 )                     | (74 )              | 791                           | —            | 686          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                           |                    |                               |              |              |
| Capital expenditures  | —                         | —                  | (374 )                        | —            | (374 )       |
| Investments in and loans to unconsolidated affiliates                                       | —                         | —                  | (18 )                         | —            | (18 )        |
| Purchases of held-to-maturity securities  | —                         | —                  | (198 )                        | —            | (198 )       |
| Proceeds from sales and maturities of held-to-maturity securities                           | —                         | —                  | 167                           | —            | 167          |
| Purchases of available-for-sale securities  | —                         | —                  | (13 )                         | —            | (13 )        |
| Proceeds from sales and maturities of available-for-sale securities                         | —                         | —                  | 5                             | —            | 5            |
| Distributions received from unconsolidated affiliates                                       | —                         | —                  | 22                            | —            | 22           |
| Advances from (to) affiliates   | 108                       | (30 )              | —                             | (78 )        | —            |
| Other changes in restricted funds   | —                         | —                  | 7                             | —            | 7            |
| Net cash provided by (used in) investing activities   | 108                       | (30 )              | (402 )                        | (78 )        | (402 )       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                           |                    |                               |              |              |
| Proceeds from the issuance of long-term debt  | —                         | 300                | —                             | —            | 300          |
| Payments for the redemption of long-term debt   | —                         | (148 )             | (136 )                        | —            | (284 )       |
| Net decrease in commercial paper  | —                         | (55 )              | (47 )                         | —            | (102 )       |
| Distributions to noncontrolling interests   | —                         | —                  | (39 )                         | —            | (39 )        |
| Contributions from noncontrolling interests   | —                         | —                  | 6                             | —            | 6            |
| Proceeds from the issuance of SEP common units  | —                         | —                  | 52                            | —            | 52           |
| Dividends paid on common stock  | (228 )                    | —                  | —                             | —            | (228 )       |
| Distributions and advances from (to) affiliates   | 146                       | (1 )               | (223 )                        | 78           | —            |
| Other   | 5                         | —                  | —                             | —            | 5            |
| Net cash provided by (used in) financing activities   | (77 )                     | 96                 | (387 )                        | 78           | (290 )       |
| Effect of exchange rate changes on cash   | —                         | —                  | (2 )                          | —            | (2 )         |
| Net decrease in cash and cash equivalents   | —                         | (8 )               | —                             | —            | (8 )         |
| Cash and cash equivalents at beginning of period  | —                         | 12                 | 189                           | —            | 201          |



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|  |     |     |        |     |        |
|--|-----|-----|--------|-----|--------|
| Cash and cash equivalents at end of period | \$— | \$4 | \$ 189 | \$— | \$ 193 |
|--|-----|-----|--------|-----|--------|

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Spectra Energy Corp  
Condensed Consolidating Statement of Cash Flows  
Three Months Ended March 31, 2013  
(Unaudited)  
(In millions)

|   | Spectra<br>Energy<br>Corp | Spectra<br>Capital | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|---------------------------|--------------------|-------------------------------|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                           |                    |                               |              |              |
| Net income  | \$ 340                    | \$ 337             | \$ 539                        | \$ (846 )    | \$ 370       |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                           |                    |                               |              |              |
| Depreciation and amortization   | —                         | —                  | 189                           | —            | 189          |
| Equity in earnings of unconsolidated affiliates   | —                         | —                  | (110 )                        | —            | (110 )       |
| Equity in earnings of consolidated subsidiaries   | (337 )                    | (509 )             | —                             | 846          | —            |
| Distributions received from unconsolidated affiliates                                       | —                         | —                  | 79                            | —            | 79           |
| Other   | (79 )                     | 138                | (5 )                          | —            | 54           |
| Net cash provided by (used in) operating activities   | (76 )                     | (34 )              | 692                           | —            | 582          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                           |                    |                               |              |              |
| Capital expenditures  | —                         | —                  | (426 )                        | —            | (426 )       |
| Investments in and loans to unconsolidated affiliates                                       | —                         | —                  | (87 )                         | —            | (87 )        |
| Acquisitions, net of cash acquired  | —                         | —                  | (1,254 )                      | —            | (1,254 )     |
| Purchases of held-to-maturity securities  | —                         | —                  | (293 )                        | —            | (293 )       |
| Proceeds from sales and maturities of held-to-maturity securities                           | —                         | —                  | 266                           | —            | 266          |
| Purchases of available-for-securities   | —                         | —                  | (612 )                        | —            | (612 )       |
| Proceeds from sales and maturities of available-for-sale securities                         | —                         | —                  | 619                           | —            | 619          |
| Distributions received from unconsolidated affiliates                                       | —                         | —                  | 6                             | —            | 6            |
| Advances to affiliates  | —                         | (289 )             | —                             | 289          | —            |
| Other changes in restricted funds   | —                         | —                  | 7                             | —            | 7            |
| Net cash used in investing activities   | —                         | (289 )             | (1,774 )                      | 289          | (1,774 )     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                           |                    |                               |              |              |
| Proceeds from the issuance of long-term debt  | —                         | 1,848              | —                             | —            | 1,848        |
| Payments for the redemption of long-term debt   | —                         | (495 )             | —                             | —            | (495 )       |
| Net increase (decrease) in commercial paper   | —                         | 279                | (113 )                        | —            | 166          |
| Net decrease in short-term borrowings—consolidated subsidiaries                             | —                         | (7 )               | —                             | 7            | —            |
| Distributions to noncontrolling interests   | —                         | —                  | (32 )                         | —            | (32 )        |
| Dividends paid on common stock  | (205 )                    | —                  | (3 )                          | —            | (208 )       |
| Distributions and advances from (to) affiliates   | 270                       | (1,300 )           | 1,326                         | (296 )       | —            |
| Other   | 11                        | (3 )               | —                             | —            | 8            |
| Net cash provided by financing activities   | 76                        | 322                | 1,178                         | (289 )       | 1,287        |
| Effect of exchange rate changes on cash   | —                         | —                  | (1 )                          | —            | (1 )         |
| Net increase (decrease) in cash and cash equivalents  | —                         | (1 )               | 95                            | —            | 94           |
| Cash and cash equivalents at beginning of period  | —                         | 3                  | 91                            | —            | 94           |
| Cash and cash equivalents at end of period  | \$ —                      | \$ 2               | \$ 186                        | \$ —         | \$ 188       |



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20. New Accounting Pronouncements

In 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists," which was issued to eliminate diversity in practice. This standard requires entities to net unrecognized tax benefits against all same-jurisdiction net operating losses or tax credit carryforwards that would be used to settle the position with a tax authority. We adopted this standard on January 1, 2014. The adoption of this standard did not have a material impact on our consolidated results of operations, financial position or cash flows.

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

INTRODUCTION

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

In November 2013, Spectra Energy completed the U.S. Assets Dropdown to SEP. As a result of this transaction, we realigned our reportable segments structure. Amounts presented herein for 2013 segment information have been recast to conform to our current segment reporting presentation. There were no changes to consolidated data as a result of the recast of our segment information.

Executive Overview

For the three months ended March 31, 2014 and 2013, we reported net income from controlling interests of \$419 million and \$340 million, respectively.

The highlights for the three months ended March 31, 2014 include the following:

Spectra Energy Partners' earnings benefited mainly from the earnings of Express-Platte that was acquired in March 2013, expansion projects at Texas Eastern Transmission, LP (Texas Eastern), and higher natural gas transportation revenues as a result of colder weather.

Distribution's earnings increased mainly due to higher customer usage as a result of colder weather and a favorable decision by the OEB in 2014 primarily regarding certain 2012 revenues realized from the optimization of upstream transportation contracts being treated as utility earnings, partially offset by a weaker Canadian dollar, higher operating fuel costs and 2014 earnings sharing under the new incentive regulation framework.

Western Canada Transmission & Processing's earnings reflected mainly higher earnings from the Empress NGL business due primarily to higher propane prices, partially offset by a weaker Canadian dollar.

Field Services' earnings were mostly driven by higher commodity prices, favorable results from gas and NGL trading and marketing, and higher gathering and processing margins due to higher volumes as a result of asset growth, partially offset by higher interest expense, depreciation expense and operating costs due to asset growth.

In the first quarter of 2014, we had \$392 million of capital and investment expenditures, excluding reimbursements from noncontrolling interests of \$6 million. We currently project \$2.1 billion of capital and investment expenditures for the full year, including expansion and investment capital expenditures of \$1.3 billion.

We are committed to an investment-grade balance sheet and continued prudent financial management of our capital structure. Therefore, financing these growth activities will continue to be based on our strong and growing fee-based earnings and cash flows as well as the issuances of debt and/or equity securities. As of March 31, 2014, our revolving credit facilities included Spectra Capital's \$1.0 billion facility, SEP's \$2.0 billion facility, Westcoast's 300 million Canadian dollar facility and Union Gas' 400 million Canadian dollar facility. These facilities are used principally as back-stops for commercial paper programs.

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## RESULTS OF OPERATIONS

|                                     | Three Months<br>Ended March 31, |         |
|-------------------------------------|---------------------------------|---------|
|                                     | 2014                            | 2013    |
|                                     | (in millions)                   |         |
| Operating revenues                  | \$1,843                         | \$1,589 |
| Operating expenses                  | 1,204                           | 1,083   |
| Operating income                    | 639                             | 506     |
| Other income and expenses           | 170                             | 143     |
| Interest expense                    | 178                             | 149     |
| Earnings before income taxes        | 631                             | 500     |
| Income tax expense                  | 164                             | 130     |
| Net income                          | 467                             | 370     |
| Net income—noncontrolling interests | 48                              | 30      |
| Net income—controlling interests    | \$419                           | \$340   |

Operating Revenues. The \$254 million, or 16%, increase was driven by: higher propane prices and volumes, and higher sales volumes of residual natural gas at the Empress operations and an increase in gathering and processing revenues from new facilities in unconventional development areas at Western Canada Transmission & Processing, revenues from Express-Platte, which was acquired in March 2013, and expansion projects primarily from Texas Eastern at Spectra Energy Partners, and higher customer usage of natural gas as a result of colder weather, a favorable decision by the OEB in March 2014 related to certain 2012 transportation revenues and growth in the number of customers, net of lower natural gas prices passed through to customers at Distribution, partially offset by the effects of a weaker Canadian dollar on revenues at Western Canada Transmission & Processing and Distribution.

Operating Expenses. The \$121 million, or 11%, increase was driven by: increased volumes of natural gas purchases for extraction and make-up at the Empress operations at Western Canada Transmission & Processing, operating costs from Express-Platte and expansion projects primarily from Texas Eastern at Spectra Energy Partners, and increased volumes of natural gas sold due to colder weather, growth in the number of customers and higher operating fuel costs, net of lower natural gas prices passed through to customers at Distribution, partially offset by the effects of a weaker Canadian dollar at Distribution and Western Canada Transmission & Processing.

Operating Income. The \$133 million, or 26%, increase was driven by the acquisition of Express-Platte and expansion projects from Texas Eastern at Spectra Energy Partners, higher earnings at the Empress NGL business due primarily to higher propane prices at Western Canada Transmission & Processing, and colder weather and a favorable decision by the OEB related to 2012 transportation revenues at Distribution, partially offset by the effects of a weaker Canadian dollar.

Other Income and Expenses. The \$27 million, or 19%, increase was attributable to higher equity earnings from Field Services mainly due to higher commodity prices, favorable NGL and gas trading and marketing and increased gathering and processing margins due mainly to higher volumes as a result of asset growth, net of higher interest expense, depreciation expense and operating costs due to asset growth. The increase was partially offset by lower allowance for funds used during construction (AFUDC) at Western Canada Transmission & Processing and Spectra Energy Partners due to decreased capital spending on expansion projects.

Interest Expense. The \$29 million, or 19%, increase was mainly due to higher average debt balances primarily related to the acquisition of Express-Platte and lower capitalized interest resulting from lower capital spending on expansion projects, partially offset by a weaker Canadian dollar.

Income Tax Expense. The \$34 million increase was primarily attributable to higher earnings. The effective tax rate for income was 26% in both of the three-month periods ended March 31, 2014 and 2013.

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Net Income—Noncontrolling Interests. The \$18 million increase was driven by higher earnings from Spectra Energy Partners, partially offset by the effects of a decrease in the average ownership percentage of SEP held by the public during the first quarter of 2014 compared with the first quarter of 2013. The average ownership percentage decreased primarily as a result of the issuance of SEP partnership units to Spectra Energy in November 2013 in association with the U.S. Assets Dropdown.

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

**Segment Results**

Management evaluates segment performance based on EBITDA. Cash, cash equivalents and short-term investments are managed at the parent-company levels, so the gains and losses from foreign currency transactions and interest and dividend income are excluded from the segments' EBITDA. We consider segment EBITDA to be a good indicator of each segment's operating performance from its continuing operations, as it represents the results of our operations without regard to financing methods or capital structures. Our segment EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate EBITDA in the same manner. Segment EBITDA is summarized in the following table. Detailed discussions follow.

**EBITDA by Business Segment**

|   | Three Months<br>Ended March 31, |       |
|---|---------------------------------|-------|
|   | 2014                            | 2013  |
|   | (in millions)                   |       |
| Spectra Energy Partners                   | \$429                           | \$347 |
| Distribution                              | 226                             | 220   |
| Western Canada Transmission & Processing  | 237                             | 190   |
| Field Services                            | 130                             | 88    |
| Total reportable segment EBITDA           | 1,022                           | 845   |
| Other                                     | (17                             | ) (14 |
| Total reportable segment and other EBITDA | 1,005                           | 831   |
| Depreciation and amortization             | 200                             | 186   |
| Interest expense                          | 178                             | 149   |
| Interest income and other                 | 4                               | 4     |
| Earnings before income taxes              | \$631                           | \$500 |

The amounts discussed below include intercompany transactions that are eliminated in the Condensed Consolidated Financial Statements.

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## Spectra Energy Partners

|   | Three Months<br>Ended March 31,   |       | Increase<br>(Decrease) |
|---|-----------------------------------|-------|------------------------|
|   | 2014                              | 2013  |                        |
|   | (in millions, except where noted) |       |                        |
| Operating revenues                      | \$581                             | \$459 | \$122                  |
| Operating expenses                      |                                   |       |                        |
| Operating, maintenance and other        | 185                               | 150   | 35                     |
| Other income and expenses               | 33                                | 38    | (5)                    |
| EBITDA                                  | \$429                             | \$347 | \$82                   |
| Express pipeline receipts, MBbl/d (a,b) | 193                               | 207   | (14)                   |
| Platte PADD II deliveries, MBbl/d (b)   | 166                               | 167   | (1)                    |

(a) Thousand barrels per day.

(b) 2013 data includes only activity since March 14, 2013, the date of the acquisition of Express-Platte.

Operating Revenues. The \$122 million increase was driven by:

a \$110 million increase due to the acquisition of Express-Platte in March 2013 and expansion projects, primarily at Texas Eastern, and

a \$13 million increase in natural gas transportation revenues from higher demand, primarily as a result of colder weather.

Operating, Maintenance and Other. The \$35 million increase was driven by the acquisition of Express-Platte and expansion projects, primarily at Texas Eastern.

Other Income and Expenses. The \$5 million decrease was mainly due to lower AFUDC resulting from decreased capital spending on expansion projects, partially offset by earnings from DCP Sand Hills Pipeline, LLC and DCP Southern Hills Pipeline, LLC, both placed in service in the second quarter of 2013.

EBITDA. The \$82 million increase was driven by the acquisition of Express-Platte, expansions primarily at Texas Eastern and higher natural gas transportation revenues.

## Distribution

|  | Three Months<br>Ended March 31,   |       | Increase<br>(Decrease) |
|--|-----------------------------------|-------|------------------------|
|  | 2014                              | 2013  |                        |
|  | (in millions, except where noted) |       |                        |
| Operating revenues                     | \$718                             | \$699 | \$19                   |
| Operating expenses                     |                                   |       |                        |
| Natural gas purchased                  | 388                               | 369   | 19                     |
| Operating, maintenance and other       | 103                               | 111   | (8)                    |
| Other income and expenses              | (1)                               | 1     | (2)                    |
| EBITDA                                 | \$226                             | \$220 | \$6                    |
| Number of customers, thousands         | 1,401                             | 1,382 | 19                     |
| Heating degree days, Fahrenheit        | 4,251                             | 3,525 | 726                    |
| Pipeline throughput, TBtu (a)          | 294                               | 314   | (20)                   |
| Canadian dollar exchange rate, average | 1.10                              | 1.01  | 0.09                   |

(a) Trillion British thermal units.





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Operating Revenues. The \$19 million increase was driven by:

- a \$95 million increase in customer usage of natural gas primarily due to weather that was more than 20% colder than in 2013,
- a \$15 million increase from growth in the number of customers,
- a \$10 million increase, net of earnings sharing, as a result of a decision by the OEB in March 2014 primarily regarding certain 2012 revenues realized from the optimization of upstream transportation contracts being treated as utility earnings, and
- a \$6 million increase in industrial market usage, partially offset by
- a \$68 million decrease resulting from a weaker Canadian dollar,
- a \$28 million decrease from lower natural gas prices passed through to customers. Prices charged to customers are adjusted quarterly based on the 12 month New York Mercantile Exchange (NYMEX) forecast,
- a \$7 million decrease primarily due to lower proposed 2014 distribution rates subject to approval by the OEB, and
- a \$5 million decrease due to 2014 earnings to be shared with customers in accordance with the new incentive regulation framework.

Natural Gas Purchased. The \$19 million increase was driven by:

- a \$65 million increase due to higher volumes of natural gas sold primarily due to colder weather,
- a \$13 million increase from growth in the number of customers,
- a \$7 million increase in operating fuel costs primarily due to gas measurement variances, and
- a \$4 million increase in industrial market usage, partially offset by
- a \$37 million decrease resulting from a weaker Canadian dollar, and
- a \$28 million decrease from lower natural gas prices passed through to customers.

Operating, Maintenance and Other. The \$8 million decrease was primarily due to a weaker Canadian dollar.

EBITDA. The \$6 million increase was largely the result of higher customer usage due to colder weather and the impact of a decision by the OEB in March 2014 primarily regarding certain 2012 revenues realized from the optimization of upstream transportation contracts being treated as utility earnings, mostly offset by a weaker Canadian dollar, higher operating fuel costs, lower proposed 2014 distribution rates subject to approval from the OEB and 2014 earnings to be shared with customers under the new incentive regulation framework.

Western Canada Transmission & Processing

|  | Three Months<br>Ended March 31,   |       | Increase<br>(Decrease) |
|--|-----------------------------------|-------|------------------------|
|  | 2014                              | 2013  |                        |
|  | (in millions, except where noted) |       |                        |
| Operating revenues                           | \$575                             | \$443 | \$132                  |
| Operating expenses                           |                                   |       |                        |
| Natural gas and petroleum products purchased | 174                               | 111   | 63                     |
| Operating, maintenance and other             | 165                               | 151   | 14                     |
| Other income and expenses                    | 1                                 | 9     | (8)                    |
| EBITDA                                       | \$237                             | \$190 | \$47                   |
| Pipeline throughput, TBtu                    | 242                               | 203   | 39                     |
| Volumes processed, TBtu                      | 177                               | 175   | 2                      |
| Empress inlet volumes, TBtu                  | 129                               | 121   | 8                      |
| Canadian dollar exchange rate, average       | 1.10                              | 1.01  | 0.09                   |

Operating Revenues. The \$132 million increase was driven by:

- a \$72 million increase due to higher propane prices associated with the Empress NGL business,
- a \$48 million increase due primarily to higher sales volumes of residual natural gas at the Empress operations,
- a \$25 million increase in NGL sales volumes at Empress,



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a \$15 million increase in gathering and processing revenues from new facilities at Horn River and Montney unconventional development areas,

a \$14 million increase in transmission revenues due primarily to higher tolls at BC Pipeline,

- a \$10 million increase primarily in interruptible transmission revenues due to a new supply source connected to the M&N Canada system, and

a \$3 million increase in carbon and other non-income tax expense recovered from customers, partially offset by

a \$54 million decrease as a result of a weaker Canadian dollar.

Natural Gas and Petroleum Products Purchased. The \$63 million increase was driven by:

a \$73 million increase due primarily to higher volumes of natural gas purchases for extraction and make-up at Empress, and

a \$4 million increase primarily as a result of higher costs of NGL purchases at the Empress facility, partially offset by

a \$16 million decrease as a result of a weaker Canadian dollar.

Operating, Maintenance and Other. The \$14 million increase was driven by:

- a \$11 million increase primarily in costs passed through to customers at M&N Canada,
- a \$5 million increase in Empress plant fuel and electricity costs due primarily to higher prices,
- a \$4 million increase in maintenance costs,
- a \$3 million increase in operating costs for new facilities, and
- a \$3 million increase in carbon and other non-income tax expense, partially offset by
- a \$15 million decrease as a result of a weaker Canadian dollar.

Other Income and Expenses. The \$8 million decrease was driven primarily by lower AFUDC resulting from decreased capital spending on expansion projects.

EBITDA. The \$47 million increase was driven by higher earnings at the Empress NGL business due primarily to higher propane prices, partially offset by the effect of a weaker Canadian dollar.

Field Services

|  | Three Months<br>Ended March 31,   |         | Increase<br>(Decrease) |
|--|-----------------------------------|---------|------------------------|
|  | 2014                              | 2013    |                        |
|  | (in millions, except where noted) |         |                        |
| Equity in earnings of unconsolidated affiliates              | \$130                             | \$88    | \$42                   |
| EBITDA   | \$130                             | \$88    | \$42                   |
| Natural gas gathered and processed/transported, TBtu/d (a,b) | 7.2                               | 6.9     | 0.3                    |
| NGL production, MBbl/d (a)                                   | 445                               | 396     | 49                     |
| Average natural gas price per MMBtu (c,d)                    | \$4.94                            | \$3.34  | \$1.60                 |
| Average NGL price per gallon (e)                             | \$1.06                            | \$0.89  | \$0.17                 |
| Average crude oil price per barrel (f)                       | \$98.68                           | \$94.66 | \$4.02                 |

(a) Reflects 100% of volumes.

(b) Trillion British thermal units per day.

(c) Average price based on NYMEX Henry Hub.

(d) Million British thermal units.

(e) Does not reflect results of commodity hedges. The 2013 NGL price per gallon has been revised to reflect the impact of ethane rejection.

(f) Average price based on NYMEX calendar month.

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EBITDA. Higher equity earnings of \$42 million were mainly the result of the following variances, each representing our 50% ownership portion of the earnings drivers at DCP Midstream:

- a \$39 million increase from commodity-sensitive processing arrangements due to higher NGL, natural gas and crude oil prices,
- a \$22 million increase attributable to favorable results from NGL and gas trading and marketing,
- a \$12 million increase in gathering and processing margins mainly due to higher volumes as a result of asset growth, and
- a \$5 million increase in gains associated with the issuance of partnership units by DCP Partners in 2014 compared to 2013, partially offset by
- a \$15 million decrease mainly attributable to higher interest expense due to higher interest rates from newly issued debt and lower capitalized interest due to certain projects which were placed in service in 2013,
- an \$8 million decrease primarily attributable to higher depreciation expense as a result of growth,
- a \$7 million decrease primarily attributable to higher operating costs as a result of growth, and
- a \$5 million decrease primarily attributable to incremental dropdowns to DCP Partners, which increased net income attributable to noncontrolling interests.

Other

|                                  | Three Months<br>Ended March 31, |        | Increase<br>(Decrease) |
|----------------------------------|---------------------------------|--------|------------------------|
|                                  | 2014                            | 2013   |                        |
|                                  | (in millions)                   |        |                        |
| Operating revenues               | \$18                            | \$18   | \$—                    |
| Operating expenses               |                                 |        |                        |
| Operating, maintenance and other | 38                              | 36     | 2                      |
| Other income and expenses        | 3                               | 4      | (1)                    |
| EBITDA                           | \$(17)                          | \$(14) | \$(3)                  |

EBITDA. The \$3 million decrease reflects higher corporate costs.

#### LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2014, we had negative working capital of \$1,515 million. This balance includes commercial paper liabilities totaling \$917 million and current maturities of long-term debt of \$905 million. We will rely upon cash flows from operations and various financing transactions, which may include debt and/or equity issuances, to fund our liquidity and capital requirements for the next 12 months. SEP is expected to be self-funding through its cash flows from operations, use of its revolving credit facility and its access to capital markets. We receive cash distributions from SEP in accordance with the partnership agreement, which considers our level of ownership and incentive distribution rights.

As of March 31, 2014, our revolving credit facilities included Spectra Capital's \$1.0 billion facility, SEP's \$2.0 billion facility, Westcoast's 300 million Canadian dollar facility and Union Gas' 400 million Canadian dollar facility. We had available capacity of \$1,716 million under SEP's credit facility and \$1,000 million under our other subsidiaries' credit facilities. These facilities are used principally as back-stops for commercial paper programs. At Spectra Capital, SEP and Westcoast, we primarily use commercial paper for temporary funding of capital expenditures. At Union Gas, we primarily use commercial paper to support short-term working capital fluctuations. We also utilize commercial paper, other variable-rate debt and interest rate swaps to achieve our desired mix of fixed and variable-rate debt. See Note 12 of Notes to Condensed Consolidated Financial Statements for a discussion of available credit facilities and Financing Cash Flows and Liquidity for a discussion of effective shelf registrations.

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## Cash Flow Analysis

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

|  | Three Months<br>Ended March 31, |         |
|--|---------------------------------|---------|
|  | 2014                            | 2013    |
|  | (in millions)                   |         |
| Net cash provided by (used in):                      |                                 |         |
| Operating activities                                 | \$686                           | \$582   |
| Investing activities                                 | (402)                           | (1,774) |
| Financing activities                                 | (290)                           | 1,287   |
| Effect of exchange rate changes on cash              | (2)                             | (1)     |
| Net increase (decrease) in cash and cash equivalents | (8)                             | 94      |
| Cash and cash equivalents at beginning of the period | 201                             | 94      |
| Cash and cash equivalents at end of the period       | \$193                           | \$188   |

## Operating Cash Flows

Net cash provided by operating activities increased \$104 million to \$686 million for the three months ended March 31, 2014 compared to the same period in 2013, driven mostly by higher earnings.

## Investing Cash Flows

Net cash used in investing activities decreased \$1,372 million to \$402 million in the three months ended March 31, 2014 compared to the same period in 2013. This change was driven mainly by the acquisition of Express-Platte in 2013, partially offset by lower capital and investment expenditures in 2014.

|  | Three Months<br>Ended March 31, |       |
|--|---------------------------------|-------|
|  | 2014                            | 2013  |
|  | (in millions)                   |       |
| Capital and Investment Expenditures      |                                 |       |
| Spectra Energy Partners (a,b)            | \$199                           | \$301 |
| Distribution                             | 44                              | 37    |
| Western Canada Transmission & Processing | 140                             | 165   |
| Total reportable segments                | 383                             | 503   |
| Other                                    | 9                               | 10    |
| Total consolidated                       | \$392                           | \$513 |

(a) Excludes a \$1,254 million net cash outlay for the acquisition of Express-Platte in 2013.

(b) Excludes reimbursements from noncontrolling interests of \$6 million in 2014.

Capital and investment expenditures for the three months ended March 31, 2014 consisted of \$308 million for expansion projects and \$84 million for maintenance and other projects.

We project 2014 capital and investment expenditures of approximately \$2.1 billion, consisting of approximately \$1.2 billion for Spectra Energy Partners, \$0.5 billion for Distribution and \$0.4 billion for Western Canada Transmission & Processing. Total projected 2014 capital and investment expenditures include approximately \$1.3 billion of expansion capital expenditures and \$0.8 billion for maintenance and upgrades of existing plants, pipelines and infrastructure to serve growth. We continue to assess short and long-term market requirements and adjust our capital plans as required.



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Financing Cash Flows and Liquidity

Net cash used in financing activities totaled \$290 million in the three months ended March 31, 2014 compared to \$1,287 million provided by financing activities in the same period of 2013. This change was driven by:

- a \$1,337 million net decrease in long-term debt issuances in 2014, primarily due to issuances in 2013 used to fund the acquisition of Express-Platte, and
- a \$102 million net decrease in commercial paper in 2014 compared to a \$166 million net increase in 2013, partially offset by
- \$52 million of proceeds from the issuance of SEP common units to the public in 2014.

In January 2014, Spectra Capital borrowed \$300 million available under its unsecured delayed-draw term loan agreement. The borrowings are due in 2018. Proceeds from borrowing were used for general corporate purposes.

In the three months ended March 31, 2014, SEP issued 1.1 million common units to the public, representing limited partner interests, and 24,000 general partner units in connection with its continuous offering program. Total net proceeds to SEP were \$53 million (net proceeds to Spectra Energy were \$52 million). The net proceeds were used for SEP's general partnership purposes, which may have included debt repayments, future acquisitions, capital expenditures and/or additions to working capital.

Available Credit Facilities and Restrictive Debt Covenants. See Note 12 of Notes to Condensed Consolidated Financial Statements for a discussion of available credit facilities and related financial and other covenants.

The terms of our Spectra Capital credit agreement require our consolidated debt-to-total-capitalization ratio, as defined in the agreement, to be 65% or lower. Per the terms of the agreement, collateralized debt is excluded from the calculation of the ratio. As of March 31, 2014, this ratio was 57%. Our equity and, as a result, this ratio, is sensitive to significant movements of the Canadian dollar relative to the U.S. dollar due to the significance of our Canadian operations. Based on the strength of our total capitalization as of March 31, 2014, however, it is not likely that a material adverse effect would occur as a result of a weakened Canadian dollar.

Dividends. Our near-term objective is to increase our cash dividend by \$0.12 per year through 2016. We expect to continue our policy of paying regular cash dividends. The declaration and payment of dividends are subject to the sole discretion of our Board of Directors and will depend upon many factors, including the financial condition, earnings and capital requirements of our operating subsidiaries, covenants associated with certain debt obligations, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors. We declared a quarterly cash dividend of \$0.335 per common share on April 15, 2014 payable on June 10, 2014 to shareholders of record at the close of business on May 9, 2014.

Other Financing Matters. Spectra Energy Corp and Spectra Capital have an effective shelf registration statement on file with the SEC to register the issuance of unspecified amounts of various equity and debt securities. SEP has an effective shelf registration statement on file with the SEC to register the issuance of unspecified amounts of limited partner common units and various debt securities. SEP also has \$423 million available as of March 31, 2014 for the issuance of limited partner common units and various debt securities under another effective shelf registration statement on file with the SEC related to its continuous offering program. Westcoast and Union Gas have an aggregate 1.1 billion Canadian dollars (approximately \$1.0 billion) available as of March 31, 2014 for the issuance of debt securities in the Canadian market under debt shelf prospectuses.

OTHER ISSUES

New Accounting Pronouncements. See Note 20 for discussion.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.



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

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Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2014, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended March 31, 2014 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We have no material pending legal proceedings that are required to be disclosed hereunder. For information regarding other legal proceedings, including regulatory and environmental matters, see Notes 4 and 15 of Notes to Condensed Consolidated Financial Statements, which information is incorporated by reference into this Part II.

Item 1A. Risk Factors.

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

Item 6. Exhibits.

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

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

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

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(a) Exhibits

Exhibit  
Number

|          |   |
|----------|---|
| *+10.1   | Form of Phantom Stock Award Agreement (2014) pursuant to the Spectra Energy Corp 2007 Long-Term Incentive Plan.         |
| *+10.2   | Form of Performance Award Agreement (2014) pursuant to the Spectra Energy Corp 2007 Lon-Term Incentive Plan.            |
| *31.1    | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| *31.2    | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| *32.1    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *32.2    | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101.INS | XBRL Instance Document.   |
| *101.SCH | XBRL Taxonomy Extension Schema.   |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase.   |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase.  |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase.   |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase.  |

\* Filed herewith.

+ Denotes management contract or compensatory plan or arrangement.

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

**SIGNATURES**

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

SPECTRA ENERGY CORP

Date: May 8, 2014

/s/ Gregory L. Ebel  
Gregory L. Ebel  
President and Chief Executive Officer

Date: May 8, 2014

/s/ J. Patrick Reddy  
J. Patrick Reddy  
Chief Financial Officer

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