

Spectra Energy Partners, LP
Form 10-K/A
May 15, 2009
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

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

For the fiscal year ended December 31, 2008

or

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

For the transition period from _____ to _____

Commission file number 001-33556

SPECTRA ENERGY PARTNERS, LP

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of

incorporation or organization)

5400 Westheimer Court, Houston, Texas

(Address of principal executive offices)

41-2232463

(I.R.S. Employer Identification No.)

77056

(Zip Code)

713-627-5400

(Registrant's telephone number, including area code)

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

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Title of Each Class	Name of Each Exchange on Which Registered
Common Units Representing Limited Partner Interests	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None.	

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act). Yes No

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

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

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Explanatory Comment

Spectra Energy Partners, LP is filing this Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the fiscal year ended December 31, 2008 to correct an inadvertent omission on the signature page of the Form 10-K filed on March 11, 2009 (the Original Form 10-K). In addition, we are refiling Exhibits 10.6, 10.8 and 10.11 to include previously omitted schedules and the Exhibit Index has been modified to refer to the previous Exhibit 10.9 as Exhibit 2.1. Except as described above, there are no other changes to the Original Form 10-K, and this amendment does not speak to, or reflect, events occurring after the filing of the Original Form 10-K.

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SPECTRA ENERGY PARTNERS, LP

FORM 10-K FOR THE YEAR ENDED

DECEMBER 31, 2008

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas industries;

outcomes of litigation and regulatory investigations, proceedings or inquiries;

weather and other natural phenomena, including the economic, operational and other effects of hurricanes and storms;

the timing and extent of changes in interest rates;

general economic conditions, which can affect the long-term demand for natural gas and related services;

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

changes in environmental, safety and other laws and regulations;

results of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general market and economic conditions;

increases in the cost of goods and services required to complete capital projects;

growth in opportunities, including the timing and success of efforts to develop domestic pipeline, storage, and other infrastructure projects and the effects of competition;

the performance of natural gas transmission and storage facilities;

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

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

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

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

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PART I

Item 1. Business.

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

General

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

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

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

Initial Public Offering

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

Gas Transportation and Storage

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

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General

East Tennessee

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

Saltville

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

Customers and Contracts

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

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

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

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

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

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

Source of Supply

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

Competition

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

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

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

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Gulfstream

General

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

Customers, Contracts and Supply

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

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

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

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

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

Competition

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

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

Market Hub

General

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

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

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

Customer, Contracts and Supply

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

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

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

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

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Competition

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

Contract Mix Summary

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

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

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

Supplies and Raw Materials

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

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

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

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

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Regulations

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

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

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

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

Environmental Matters

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

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

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

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

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

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

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

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

Employees

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

Executive Officers

The following table sets forth information regarding our executive officers.

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

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

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

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Glossary

Terms used to describe our business are defined below.

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

Available Cash: For any quarter ending prior to liquidation:

(a) the sum of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Operating expenditures do not include:

(1) expansion capital expenditures;

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

(3) distributions to unitholders; and

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

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

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

(a) the sum of:

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

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

(b) the sum of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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Additional Information

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

Item 1A. Risk Factors.

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

Risks Related to our Business

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

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

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

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

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

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

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

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

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

the level of capital expenditures to complete construction projects;

the cost and form of payment of acquisitions;

debt service requirements and other liabilities;

fluctuations in working capital needs;

the ability to borrow funds and access capital markets;

restrictions on distributions contained in debt agreements; and

the amount of cash reserves established by our general partner.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

All of our businesses are dependent on the continued availability of natural gas production and reserves. Low prices for natural gas or regulatory limitations could adversely affect development of additional reserves and production that is accessible by our pipeline and storage assets. Production from existing wells and natural

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gas supply basins with access to our pipelines will naturally decline over time. Additionally, the amount of natural gas reserves underlying these wells may also be less than anticipated, and the rate at which production from these reserves declines may be greater than anticipated. Accordingly, to maintain or increase throughput on our pipelines and cash flows associated with the transportation of gas, our customers must continually obtain new supplies of natural gas.

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

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

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

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

the level of existing and new competition to deliver natural gas to our markets;

the growth in demand for natural gas in our markets;

whether the market will continue to support long-term contracts;

whether our business strategy continues to be successful; and

the effects of state regulation on customer contracting practices.

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

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

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

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

comparable volumes from other customers at favorable rates.

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

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

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

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

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

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

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

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

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

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

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

customer losses at the acquired business.

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

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

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

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

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

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

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

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

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

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

perform ongoing assessments of pipeline integrity;

identify and characterize applicable threats to pipeline segments that could affect a high consequence area;

improve data collection, integration and analysis;

repair and remediate the pipeline as necessary; and

implement preventive and mitigating actions.

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

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

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

Our operations are subject to operational hazards and unforeseen interruptions.

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

damage to pipelines, facilities and related equipment caused by hurricanes, tornadoes, floods, fires and other natural disasters, explosions and acts of terrorism;

inadvertent damage from third parties, including from construction, farm and utility equipment;

leaks of natural gas and other hydrocarbons or losses of natural gas as a result of the malfunction of equipment or facilities;

collapse of storage caverns;

operator error;

environmental pollution;

explosions and blowouts;

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

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

risks related to operating in a marine environment.

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

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

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

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

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

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

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

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

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

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

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

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

make other restricted distributions or dividends on account of the purchase, redemption, retirement, acquisition, cancellation or termination of partnership interests;

incur additional indebtedness or guarantee other indebtedness;

grant liens or make certain negative pledges;

make certain loans or investments;

engage in transactions with affiliates;

make any material change to the nature of our business from the midstream energy business;

make a disposition of assets; or

enter into a merger, consolidate, liquidate, wind up or dissolve.

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

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

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

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

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

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

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

Risks Inherent in an Investment in Us

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

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

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

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

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

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

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

our general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty. By purchasing common units,

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unitholders will be deemed to have consented to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable law;

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

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

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

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

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

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

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

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

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

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

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

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

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

taxation on the income generated by us, so long as all of the entity's owners are subject to such taxation. If a unitholder is not

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

each unitholder's proportionate ownership interest in us will decrease;

the amount of cash available for distribution on each unit may decrease;

because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;

the ratio of taxable income to distributions may increase;

the relative voting strength of each previously outstanding unit may be diminished; and

the market price of the common units may decline.

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

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

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

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

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

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

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

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

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

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

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

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

Tax Risks to Common Unitholders

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

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

Item 3. Legal Proceedings.

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

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

None.

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

Common Unit Data by Quarter

	Distributions per Common Unit	Distributions per Subordinated Unit	Unit Price Range(a)	
			High	Low
<u>2007</u>				
Second Quarter(b)			\$ 29.29	\$ 26.50
Third Quarter			\$ 30.99	\$ 24.65
Fourth Quarter	\$ 0.30	\$		