

Spectra Energy Corp.  
Form 10-Q  
May 10, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from            to

Commission file number 1-33007

**SPECTRA ENERGY CORP**

(Exact Name of Registrant as Specified in its Charter)

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

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

**5400 Westheimer Court**

**Houston, Texas 77056**

(Address of principal executive offices, including zip code)

**713-627-5400**

(Registrant's telephone number, including area code)

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

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

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

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

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

Number of shares of Common Stock, \$0.001 par value, outstanding as of March 31, 2011: 649,889,656

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**FORM 10-Q FOR THE QUARTER ENDED**

**March 31, 2011**

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

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

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

outcomes of litigation and regulatory investigations, proceedings or inquiries;

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

the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates;

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

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

changes in environmental, safety and other laws and regulations;

the development of alternative energy resources;

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

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

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

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

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

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

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

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

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

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>		
Transportation, storage and processing of natural gas	\$ 791	\$ 710
Distribution of natural gas	607	584
Sales of natural gas liquids	177	146
Other	37	40
Total operating revenues	1,612	1,480
<b>Operating Expenses</b>		
Natural gas and petroleum products purchased	485	452
Operating, maintenance and other	314	302
Depreciation and amortization	175	161
Property and other taxes	85	73
Total operating expenses	1,059	988
<b>Gains on Sales of Other Assets and Other, net</b>	<b>4</b>	
<b>Operating Income</b>	<b>557</b>	<b>492</b>
<b>Other Income and Expenses</b>		
Equity in earnings of unconsolidated affiliates	106	122
Other income and expenses, net	6	4
Total other income and expenses	112	126
<b>Interest Expense</b>	<b>155</b>	<b>159</b>
<b>Earnings From Continuing Operations Before Income Taxes</b>	<b>514</b>	<b>459</b>
<b>Income Tax Expense From Continuing Operations</b>	<b>139</b>	<b>97</b>
<b>Income From Continuing Operations</b>	<b>375</b>	<b>362</b>
<b>Income From Discontinued Operations, net of tax</b>	<b>7</b>	<b>16</b>
<b>Net Income</b>	<b>382</b>	<b>378</b>
<b>Net Income Noncontrolling Interests</b>	<b>25</b>	<b>20</b>

<b>Net Income Controlling Interests</b>	\$ 357	\$ 358
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**Common Stock Data**

Weighted-average shares outstanding		
Basic	649	648
Diluted	651	649
Earnings per share from continuing operations		
Basic and Diluted	\$ 0.54	\$ 0.53
Earnings per share		
Basic and Diluted	\$ 0.55	\$ 0.55
Dividends per share	\$ 0.26	\$ 0.25

See Notes to Condensed Consolidated Financial Statements.

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**SPECTRA ENERGY CORP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In millions)

	March 31, 2011	December 31, 2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 140	\$ 130
Receivables, net	1,016	1,018
Inventory	143	287
Other	218	203
<b>Total current assets</b>	<b>1,517</b>	<b>1,638</b>
<b>Investments and Other Assets</b>		
Investments in and loans to unconsolidated affiliates	2,061	2,033
Goodwill	4,396	4,305
Other	636	665
<b>Total investments and other assets</b>	<b>7,093</b>	<b>7,003</b>
<b>Property, Plant and Equipment</b>		
Cost	22,841	22,162
Less accumulated depreciation and amortization	5,411	5,182
<b>Net property, plant and equipment</b>	<b>17,430</b>	<b>16,980</b>
<b>Regulatory Assets and Deferred Debits</b>	<b>1,111</b>	<b>1,065</b>
<b>Total Assets</b>	<b>\$ 27,151</b>	<b>\$ 26,686</b>

See Notes to Condensed Consolidated Financial Statements.



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**SPECTRA ENERGY CORP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In millions, except per-share amounts)

	March 31, 2011	December 31, 2010
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 460	\$ 369
Short-term borrowings and commercial paper	655	836
Taxes accrued	80	59
Interest accrued	159	167
Current maturities of long-term debt	323	315
Other	640	777
<b>Total current liabilities</b>	<b>2,317</b>	<b>2,523</b>
<b>Long-term Debt</b>	<b>10,257</b>	<b>10,169</b>
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	3,717	3,555
Regulatory and other	1,701	1,694
<b>Total deferred credits and other liabilities</b>	<b>5,418</b>	<b>5,249</b>
<b>Commitments and Contingencies</b>		
<b>Preferred Stock of Subsidiaries</b>	<b>258</b>	<b>258</b>
<b>Equity</b>		
Preferred stock, \$0.001 par, 22 million shares authorized, no shares outstanding		
Common stock, \$0.001 par, 1 billion shares authorized, 650 million and 649 million shares outstanding at March 31, 2011 and December 31, 2010, respectively	1	1
Additional paid-in capital	4,740	4,726
Retained earnings	1,674	1,487
Accumulated other comprehensive income	1,803	1,595
<b>Total controlling interests</b>	<b>8,218</b>	<b>7,809</b>
Noncontrolling interests	683	678
<b>Total equity</b>	<b>8,901</b>	<b>8,487</b>
<b>Total Liabilities and Equity</b>	<b>\$ 27,151</b>	<b>\$ 26,686</b>

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents****SPECTRA ENERGY CORP****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In millions)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 382	\$ 378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	178	165
Deferred income tax expense	109	22
Equity in earnings of unconsolidated affiliates	(106)	(122)
Distributions received from unconsolidated affiliates	104	108
Other	55	(81)
<b>Net cash provided by operating activities</b>	<b>722</b>	<b>470</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(329)	(176)
Investments in and loans to unconsolidated affiliates	(4)	(3)
Purchases of held-to-maturity securities	(214)	(148)
Proceeds from sales and maturities of held-to-maturity securities	186	126
Purchases of available-for-sale securities	(548)	(12)
Proceeds from sales and maturities of available-for-sale securities	576	
Other	1	(8)
<b>Net cash used in investing activities</b>	<b>(332)</b>	<b>(221)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from the issuance of long-term debt	919	720
Payments for the redemption of long-term debt	(942)	(864)
Net increase (decrease) in short-term borrowings and commercial paper	(182)	21
Distributions to noncontrolling interests	(23)	(21)
Dividends paid on common stock	(170)	(161)
Other	16	3
<b>Net cash used in financing activities</b>	<b>(382)</b>	<b>(302)</b>
Effect of exchange rate changes on cash	2	
Net increase (decrease) in cash and cash equivalents	10	(53)
<b>Cash and cash equivalents at beginning of period</b>	<b>130</b>	<b>166</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 140</b>	<b>\$ 113</b>
<b>Supplemental Disclosures</b>		
Property, plant and equipment accruals	\$ 112	\$ 35

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See Notes to Condensed Consolidated Financial Statements.

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income Foreign Currency Translation Adjustments	Other	Noncontrolling Interests	Total
<b>December 31, 2010</b>	\$ 1	\$ 4,726	\$ 1,487	\$ 2,010	\$ (415)	\$ 678	\$ 8,487
Net income			357			25	382
Foreign currency translation adjustments				188		3	191
Unrealized mark-to-market net gain on hedges					1		1
Reclassification of cash flow hedges into earnings					3		3
Pension and benefits impact					8		8
Dividends on common stock			(170)				(170)
Stock-based compensation		14					14
Distributions to noncontrolling interests						(23)	(23)
Other, net					8		8
<b>March 31, 2011</b>	\$ 1	\$ 4,740	\$ 1,674	\$ 2,198	\$ (395)	\$ 683	\$ 8,901
<b>December 31, 2009</b>	\$ 1	\$ 4,645	\$ 1,088	\$ 1,682	\$ (375)	\$ 540	\$ 7,581
Net income			358			20	378
Foreign currency translation adjustments				199		14	213
Unrealized mark-to-market net loss on hedges					(14)		(14)
Pension and benefits impact					6		6
Dividends on common stock			(161)				(161)
Stock-based compensation		6					6
Distributions to noncontrolling interests						(21)	(21)
Contributions from noncontrolling interests						2	2
Other, net		(22)				2	(20)
<b>March 31, 2010</b>	\$ 1	\$ 4,629	\$ 1,285	\$ 1,881	\$ (383)	\$ 557	\$ 7,970

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****SPECTRA ENERGY CORP****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. General**

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

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

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

We have corrected the presentation of certain restricted cash balances in the accompanying Condensed Consolidated Statements of Cash Flows. Cash and Cash Equivalents as of March 31, 2010 was reduced by \$45 million and Cash Used in Investing Activities for the three-month period was reduced by \$15 million from amounts previously reported. We have also corrected certain balances in the accompanying Condensed Consolidated Statements of Equity due to errors identified during 2010 related primarily to the impacts of Canadian federal and provincial tax rate changes on deferred income tax balances associated with our Canadian operations. We have concluded that these corrections are immaterial to our previously issued financial statements.

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

Condensed Consolidated Statement of Equity	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income Foreign Currency Translation Adjustments (in millions)	Accumulated Other Comprehensive Income Other	Total Equity
<b>March 31, 2010</b>					
As previously reported	\$ 4,684	\$ 1,293	\$ 1,885	\$ (366)	\$ 8,054
Decrease	(55)	(8)	(4)	(17)	(84)
As corrected	\$ 4,629	\$ 1,285	\$ 1,881	\$ (383)	\$ 7,970

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



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### **2. Business Segments**

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

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

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

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

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

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

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

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



**Table of Contents****Business Segment Data**

	Unaffiliated Revenues	Intersegment Revenues	Total Operating Revenues (a)	Segment EBIT/ Consolidated Earnings from Continuing Operations before Income Taxes (a)
	(in millions)			
<b>Three Months Ended March 31, 2011</b>				
U.S. Transmission	\$ 481	\$ 2	\$ 483	\$ 279
Distribution	696		696	167
Western Canada Transmission & Processing	433	6	439	141
Field Services				81
Total reportable segments	1,610	8	1,618	668
Other	2	15	17	(24)
Eliminations		(23)	(23)	
Interest expense				155
Interest income and other (b)				25
Total consolidated	\$ 1,612	\$	\$ 1,612	\$ 514
<b>Three Months Ended March 31, 2010</b>				
U.S. Transmission	\$ 456	\$ 1	\$ 457	\$ 247
Distribution	668		668	146
Western Canada Transmission & Processing	355		355	119
Field Services				99
Total reportable segments	1,479	1	1,480	611
Other	1	12	13	(14)
Eliminations		(13)	(13)	
Interest expense				159
Interest income and other (b)				21
Total consolidated	\$ 1,480	\$	\$ 1,480	\$ 459

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

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

**3. Regulatory Matters**

**Maritimes & Northeast Pipeline Limited Partnership (M&N LP).** M&N LP filed an application with the NEB in July 2010 seeking compensation for funds held in escrow. The NEB has determined that the issue of compensation for funds held in escrow will be addressed in two parts. The first part consisted of a hearing, which occurred in March 2011, to determine if M&N LP should be compensated for funds held in escrow and if so, how the amount of compensation should be determined. If the NEB decides M&N LP should be compensated for escrow funds, the NEB will allow a period for parties to negotiate with respect to the appropriate level of compensation. If the parties do not reach agreement within this period, the NEB will establish a further process to determine the appropriate level of compensation for these funds. A decision from the NEB is expected in June 2011.

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**Ozark Gas Transmission, L.L.C. (Ozark Gas Transmission).** In 2010, FERC initiated a rate proceeding that required Ozark to file a Cost and Revenue Study by February 1, 2011. On March 22, 2011, the parties involved in this rate proceeding reached a settlement in principle. The settlement agreement was filed with the FERC on April 30, 2011. A final FERC order on the settlement agreement is expected by mid-2011. Management believes that the effects of this matter will not have a material adverse effect on our consolidated results of operations, financial position or cash flows.

**Table of Contents****4. Income Taxes**

Income tax expense from continuing operations for the three months ended March 31, 2011 was \$139 million, compared to \$97 million for the same period in 2010. The higher income tax expense resulted from higher earnings from continuing operations in the first quarter of 2011 and favorable tax audit settlements totaling \$24 million in the first quarter of 2010.

The effective tax rate for income from continuing operations for the three months ended March 31, 2011 was 27%, compared to 21% for the same period in 2010. The lower effective tax rate in the first quarter of 2010 was primarily due to the favorable tax audit settlements. The favorable tax audit settlements in 2010 were related mainly to an administrative change by the Canadian federal government that resulted in tax refunds from historical tax years and a reduction to the deferred tax liability.

No material net change in uncertain tax benefits was recognized during the three months ended March 31, 2011. Although uncertain, no material increases or decreases in uncertain tax benefits are expected to occur prior to March 31, 2012.

**5. Discontinued Operations**

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

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

	Revenues	Pre-tax Earnings	Income Tax Expense (Benefit)	Income From Discontinued Operations, Net of Tax
	(in millions)			
<b>Three Months Ended March 31, 2011</b>				
Other	\$ 84	\$ 10	\$ 3	\$ 7
Total consolidated	\$ 84	\$ 10	\$ 3	\$ 7
<b>Three Months Ended March 31, 2010</b>				
Other	\$ 91	\$ 5	\$ (11)	\$ 16
Total consolidated	\$ 91	\$ 5	\$ (11)	\$ 16

**6. Comprehensive Income**

Components of comprehensive income are as follows:

	Three Months Ended March 31,	
	2011	2010
	(in millions)	
Net income	\$ 382	\$ 378
Other comprehensive income		
Foreign currency translation adjustments	191	213
Unrealized mark-to-market net gain (loss) on hedges	1	(14)
Reclassification of cash flow hedges into earnings	3	
Pension and benefits impact	8	6

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Other	8	
Total comprehensive income, net of tax	593	583
Less: comprehensive income noncontrolling interests	28	34
Comprehensive income controlling interests	\$ 565	\$ 549

**Table of Contents****7. Earnings per Common Share**

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

The following table presents our basic and diluted EPS calculations:

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in millions, except per-share amounts)</b>	
Income from continuing operations, net of tax controlling interests	\$ 350	\$ 342
Income from discontinued operations, net of tax controlling interests	7	16
<b>Net income controlling interests</b>	<b>\$ 357</b>	<b>\$ 358</b>
<b>Weighted-average common shares, outstanding</b>		
Basic	649	648
Diluted	651	649
<b>Basic and diluted earnings per common share</b>		
Continuing operations	\$ 0.54	\$ 0.53
Discontinued operations, net of tax	0.01	0.02
<b>Total basic and diluted earnings per common share</b>	<b>\$ 0.55</b>	<b>\$ 0.55</b>

Weighted-average shares used to calculate diluted EPS includes the effect of certain options and restricted stock awards. Certain other options and stock awards related to approximately five million and 10 million shares for the three months ended March 31, 2011 and 2010, respectively, were not included in the calculation of diluted EPS because either the option exercise prices were greater than the average market price of the common shares during these periods or performance measures related to the awards had not yet been met.

**8. Marketable Securities and Restricted Funds**

*Available-for-Sale Marketable Securities (AFS Securities).* During 2010, we invested a portion of the proceeds from Spectra Energy Partners issuance of common units to the public in AFS securities, which include investments in money market funds and commercial paper. These investments, which totaled \$171 million as of March 31, 2011 and \$209 million as of December 31, 2010, are pledged as collateral against Spectra Energy Partners term loan and are classified as Investments and Other Assets Other on the Condensed Consolidated Balance Sheets. In addition, we had \$17 million as of March 31, 2011 and \$15 million as of December 31, 2010 of other AFS securities, classified as Investments and Other Assets Other.

Purchases and sales of AFS securities are presented on a gross basis within Cash Flows from Investing Activities on the Condensed Consolidated Statements of Cash Flows.

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

	Estimated Fair Value	
	March 31, 2011	December 31, 2010
	(in millions)	
Corporate debt securities	\$ 183	\$ 222
Money market funds	5	2
<b>Total available-for-sale investments</b>	<b>\$ 188</b>	<b>\$ 224</b>

*Held-to-Maturity Marketable Securities (HTM Securities).* HTM securities, totaling \$215 million as of March 31, 2011 and \$182 million as of December 31, 2010, are classified as Investments and Other Assets - Other. These securities, consisting of Canadian government securities and bankers acceptance notes, are restricted funds pursuant to certain M&N LP debt agreements. These funds, plus future cash from operations that would otherwise be available for distribution to the partners of M&N LP, are placed in escrow until the balance in escrow is sufficient to fund all future debt service on the notes. The notes payable, totaling \$241 million as of March 31, 2011 and \$234 million as of December 31, 2010, have semi-annual interest and principal payments and are due in 2019.

At March 31, 2011, the contractual maturities of outstanding HTM securities are less than one year. Purchases and sales of HTM securities are presented on a gross basis within Cash Flows from Investing Activities.

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

	Estimated Fair Value	
	March 31, 2011	December 31, 2010
	(in millions)	
Canadian government securities	\$ 121	\$ 182
Bankers acceptance notes	94	
<b>Total held-to-maturity investments</b>	<b>\$ 215</b>	<b>\$ 182</b>

*Other Restricted Funds.* In addition to the HTM securities held in escrow described above, we had funds totaling \$61 million at March 31, 2011 and \$44 million at December 31, 2010 classified as Current Assets - Other and \$5 million at December 31, 2010 classified as Investments and Other Assets - Other that were also considered restricted funds. These restricted funds are mostly related to insurance and additional amounts for the M&N LP debt service requirements.

**Table of Contents****9. Inventory**

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

	March 31, 2011	December 31, 2010
	(in millions)	
Natural gas	\$ 47	\$ 175
NGLs	22	41
Materials and supplies	74	71
Total inventory	\$ 143	\$ 287

**10. Investments in and Loans to Unconsolidated Affiliates**

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

	Three Months Ended March 31,	
	2011	2010
	(in millions)	
Operating revenues	\$ 2,929	\$ 3,115
Operating expenses	2,755	2,842
Operating income	174	273
Net income	125	196
Net income attributable to members' interests	133	181

DCP Midstream recorded gains on sales of common units of DCP Partners to equity in the first quarters of 2011 and 2010. Our proportionate 50% share, totaling \$14 million and \$9 million, respectively, was recorded in Equity in Earnings of Unconsolidated Affiliates in the Condensed Consolidated Statements of Operations.

**11. Debt and Credit Facilities****Available Credit Facilities and Restrictive Debt Covenants**

	Expiration Date	Total Credit Facilities Capacity	Outstanding at March 31, 2011			Available Credit Facilities Capacity
			Commercial Paper	Revolving Credit (in millions)	Letters of Credit	
				Total		
<b>Spectra Energy Capital, LLC (a)</b>						
Multi-year syndicated	2012	\$ 1,500	\$ 628	\$	\$ 14	\$ 858
<b>Westcoast Energy Inc. (b,c)</b>						
Multi-year syndicated	2011	206				206
<b>Union Gas (d)</b>						
Multi-year syndicated	2012	515	27		27	488

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<b>Spectra Energy Partners</b>							
Multi-year syndicated	2012	500		312		312	188
<b>Total</b>		<b>\$ 2,721</b>	<b>\$ 655</b>	<b>\$ 312</b>	<b>\$ 14</b>	<b>\$ 981</b>	<b>\$ 1,740</b>



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- (a) Credit facility contains a covenant requiring the debt-to-total capitalization ratio to not exceed 65%.
- (b) U.S. dollar equivalent at March 31, 2011. The credit facility totals 200 million Canadian dollars and contains a covenant that requires the Westcoast Energy Inc. non-consolidated debt-to-total capitalization ratio to not exceed 75%. The ratio was 40% at March 31, 2011.
- (c) In May 2011, Westcoast Energy, Inc. entered into a new 300 million Canadian dollar credit facility that expires in May 2015, which replaced its 200 million Canadian dollar credit facility that was scheduled to expire in June 2011.
- (d) U.S. dollar equivalent at March 31, 2011. The credit facility totals 500 million Canadian dollars and contains a covenant that requires the Union Gas debt-to-total capitalization ratio to not exceed 75% and a provision which requires Union Gas to repay all borrowings under the facility for a period of two days during the second quarter of each year. The ratio was 61% at March 31, 2011.

The issuances of commercial paper, letters of credit and other borrowings reduce the amounts available under the credit facilities.

Our credit agreements contain various financial and other covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of March 31, 2011, we were in compliance with those covenants. In addition, our credit agreements allow for acceleration of payments or termination of the agreements due to nonpayment, or in some cases, due to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. Our debt and credit agreements do not contain provisions that trigger an acceleration of indebtedness based solely on the occurrence of a material adverse change in our financial condition or results of operations.

**12. Fair Value Measurements**

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

Description	Condensed Consolidated Balance Sheet Caption	Total	March 31, 2011		
			Level 1	Level 2	Level 3
(in millions)					
Corporate debt securities	Cash and cash equivalents	\$ 72	\$	\$ 72	\$
Corporate debt securities	Investments and other assets other	183		183	
Derivative assets interest rate swaps	Investments and other assets other	33		33	
Money market funds	Investments and other assets other	25	25		
<b>Total Assets</b>		<b>\$ 313</b>	<b>\$ 25</b>	<b>\$ 288</b>	<b>\$</b>
Derivative liabilities natural gas purchase contracts	Deferred credits and other liabilities regulatory and other	\$ 6	\$	\$	\$ 6
Derivative liabilities interest rate swaps	Deferred credits and other liabilities regulatory and other	17		17	
<b>Total Liabilities</b>		<b>\$ 23</b>	<b>\$</b>	<b>\$ 17</b>	<b>\$ 6</b>

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Description	Condensed Consolidated Balance Sheet Caption	Total	December 31, 2010		
			Level 1	Level 2	Level 3
(in millions)					
Corporate debt securities	Cash and cash equivalents	\$ 74	\$	\$ 74	\$
Corporate debt securities	Investments and other assets other	222		222	
Derivative assets interest rate swaps	Investments and other assets other	48		48	
Money market funds	Investments and other assets other	25	25		
<b>Total Assets</b>		<b>\$ 369</b>	<b>\$ 25</b>	<b>\$ 344</b>	<b>\$</b>
Derivative liabilities natural gas purchase contracts	Deferred credits and other liabilities regulatory and other	\$ 6	\$	\$	\$ 6
Derivative liabilities interest rate swaps	Deferred credits and other liabilities regulatory and other	20		20	
<b>Total Liabilities</b>		<b>\$ 26</b>	<b>\$</b>	<b>\$ 20</b>	<b>\$ 6</b>

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

	Three Months Ended March 31,	
	2011	2010
(in millions)		
<b>Long-term derivative assets (liabilities)</b>		
Fair value, beginning of period	\$ (6)	\$ 15
<b>Total realized/unrealized gains (losses):</b>		
Included in earnings	(1)	
Included in other comprehensive income	1	(15)
Fair value, end of period	\$ (6)	\$
<b>Total gains (losses) for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets/liabilities held at the end of the period</b>	<b>\$ 3</b>	<b>\$</b>

**Level 1**

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

**Level 2 Valuation Techniques**

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

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

**Table of Contents****Level 3 Valuation Techniques**

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

**Financial Instruments**

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

	March 31, 2011		December 31, 2010	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
	(in millions)			
Notes receivable, current (a)	\$ 52	\$ 53	\$ 50	\$ 51
Notes receivable, noncurrent (b)	71	71	71	71
Long-term debt, including current maturities	10,580	11,808	10,484	11,874

(a) Included within Receivables, Net on the Condensed Consolidated Balance Sheets.

(b) Included within Investments and Other Assets Other on the Condensed Consolidated Balance Sheets.

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

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

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

**13. Risk Management and Hedging Activities**

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

At March 31, 2011, we had pay floating receive fixed interest rate swaps outstanding with a total notional principal amount of \$1,500 million to hedge against changes in the fair value of our fixed-rate debt that arise as a result of changes in market interest rates. These swaps also allow us to transform a portion of the underlying cash flows related to our long-term fixed-rate debt securities into variable-rate debt in order to achieve our desired mix of fixed and variable-rate debt. Our target is to maintain 20-25% of variable-rate debt in our capital structure. At Spectra Energy Partners, we had third-party pay fixed receive floating interest rate swaps outstanding with a total notional principal amount of \$40 million to mitigate our exposure to variable interest rates on loans outstanding under its revolving credit facility.

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

Other than interest rate swaps described above, we did not have any significant derivatives outstanding during the three months ended March 31, 2011.

### **14. Commitments and Contingencies**

#### **Environmental**

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

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

Included in Deferred Credits and Other Liabilities Regulatory and Other on the Condensed Consolidated Balance Sheets are accruals related to extended environmental-related activities totaling \$13 million at March 31, 2011 and \$14 million as of December 31, 2010. These accruals represent provisions for costs associated with remediation activities at some of our current and former sites, as well as other environmental contingent liabilities.

#### **Litigation**

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

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

#### **Other Commitments and Contingencies**

See Note 15 for a discussion of guarantees and indemnifications.

### **15. Guarantees and Indemnifications**

We have various financial guarantees and indemnifications which are issued in the normal course of business. As discussed below, these contracts include financial guarantees, stand-by letters of credit, debt guarantees, surety bonds and indemnifications. We enter into these arrangements to facilitate a commercial transaction with a third party by enhancing the value of the transaction to the third party. To varying degrees,

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these guarantees involve elements of performance and credit risk, which are not included on the Condensed Consolidated Balance Sheets. The possibility of having to perform under these guarantees and indemnifications is largely dependent upon future operations of various subsidiaries, investees and other third parties, or the occurrence of certain future events.

We have issued performance guarantees to customers and other third parties that guarantee the payment and performance of other parties, including certain non-wholly owned entities. In connection with our spin-off from Duke Energy Corporation (Duke Energy) in 2007, certain guarantees that were previously issued by us were assigned to, or replaced by, Duke Energy as guarantor in 2006. For any remaining guarantees of other Duke Energy obligations, Duke Energy has indemnified us against any losses incurred under these guarantee arrangements. The maximum potential amount of future payments we could have been required to make under these performance guarantees as of March 31, 2011 was approximately \$406 million, which has been indemnified by Duke Energy as discussed above. One of these performance guarantees, which has a maximum potential amount of future payment of \$201 million, expires in 2028. The remaining guarantees have no contractual expirations.

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

Westcoast Energy Inc. (Westcoast), a wholly owned subsidiary, has issued performance guarantees to third parties guaranteeing the performance of unconsolidated entities, such as equity method investments, and of entities previously sold by Westcoast to third parties. Those guarantees require Westcoast to make payment to the guaranteed third party upon the failure of such unconsolidated or sold entity to make payment under some of its contractual obligations, such as debt, purchase contracts and leases. Certain guarantees that were previously issued by Westcoast for obligations of entities that remained a part of Duke Energy are considered guarantees of third party performance; however, Duke Energy has indemnified us against any losses incurred under these guarantee arrangements. The maximum potential amount of future payments Westcoast could have been required to make under those performance guarantees of unconsolidated entities and third-party entities as of March 31, 2011 was \$22 million. Of these guarantees, \$5 million expire in 2015 and the remaining have no contractual expirations.

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

As of March 31, 2011, the amounts recorded for the guarantees and indemnifications, described above, including the indemnifications by Duke Energy to us, are not material, both individually and in the aggregate.

**16. Employee Benefit Plans**

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

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Our policy is to fund our retirement plans on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants or as required by legislation or plan terms. We made contributions of \$5 million to our U.S. retirement plans in the three-month periods ended March 31, 2011 and made no contributions for the same period in 2010. We made total contributions to the Canadian DC and qualified DB plans of \$17 million during each of the three-month periods ended March 31, 2011 and 2010. We anticipate that we will make total contributions of approximately \$20 million to the U.S. plans and approximately \$75 million to the Canadian plans in 2011.

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

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in millions)</b>	
<b>U.S.</b>		
Service cost benefit earned	\$ 3	\$ 3
Interest cost on projected benefit obligation	6	6
Expected return on plan assets	(8)	(8)
Amortization of loss	3	2
Net periodic pension cost	\$ 4	\$ 3
<b>Canada</b>		
Service cost benefit earned	\$ 5	\$ 4
Interest cost on projected benefit obligation	12	11
Expected return on plan assets	(12)	(11)
Amortization of loss	6	4
Amortization of prior service costs		1
Net periodic pension cost	\$ 11	\$ 9

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

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in millions)</b>	
<b>Canada</b>		
Interest cost on projected benefit obligation	\$ 2	\$ 2
Net periodic pension cost	\$ 2	\$ 2

The U.S. non-qualified benefit plan had no net periodic pension cost recorded during the three-month periods ended March 31, 2011 or 2010.

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

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

	<b>Three Months Ended March 31, 2011      2010 (in millions)</b>	
<b>U.S.</b>		
Interest cost on accumulated post-retirement benefit obligation	\$ 3	\$ 3
Expected return on plan assets	(1)	(1)
Amortization of net transition liability		1
<b>Net periodic other post-retirement benefit cost</b>	<b>\$ 2</b>	<b>\$ 3</b>
<b>Canada</b>		
Service cost benefit earned	\$ 1	\$ 1
Interest cost on accumulated post-retirement benefit obligation	2	1
<b>Net periodic other post-retirement benefit cost</b>	<b>\$ 3</b>	<b>\$ 2</b>

**17. Consolidating Financial Information**

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

**Table of Contents****Spectra Energy Corp****Condensed Consolidating Statement of Operations****Three Months Ended March 31, 2011****(Unaudited)****(In millions)**

	<b>Spectra Energy Corp</b>	<b>Spectra Capital</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Total operating revenues	\$	\$	\$ 1,612	\$	\$ 1,612
Total operating expenses	3		1,056		1,059
Gains on sales of other assets and other, net			4		4
Operating income (loss)	(3)		560		557
Equity in earnings of unconsolidated affiliates			106		106
Equity in earnings of subsidiaries	359	510		(869)	
Other income and expenses, net			6		6
Interest expense		48	107		155
Earnings from continuing operations before income taxes	356	462	565	(869)	514
Income tax expense (benefit) from continuing operations	(1)	103	37		139
Income from continuing operations	357	359	528	(869)	375
Income from discontinued operations, net of tax			7		7
Net income	357	359	535	(869)	382
Net income noncontrolling interests			25		25
Net income controlling interests	\$ 357	\$ 359	\$ 510	\$ (869)	\$ 357



**Table of Contents****Spectra Energy Corp****Condensed Consolidating Statement of Operations****Three Months Ended March 31, 2010****(Unaudited)****(In millions)**

	<b>Spectra Energy Corp</b>	<b>Spectra Capital</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Total operating revenues	\$	\$	\$ 1,480	\$	\$ 1,480
Total operating expenses	3		985		988
Operating income (loss)	(3)		495		492
Equity in earnings of unconsolidated affiliates			122		122
Equity in earnings of subsidiaries	360	501		(861)	
Other income and expenses, net		2	2		4
Interest expense		50	109		159
Earnings from continuing operations before income taxes	357	453	510	(861)	459
Income tax expense (benefit) from continuing operations	(1)	93	5		97
Income from continuing operations	358	360	505	(861)	362
Income from discontinued operations, net of tax			16		16
Net income	358	360	521	(861)	378
Net income noncontrolling interests			20		20
Net income controlling interests	\$ 358	\$ 360	\$ 501	\$ (861)	\$ 358

**Table of Contents****Spectra Energy Corp****Condensed Consolidating Balance Sheet****March 31, 2011****(Unaudited)****(In millions)**

	<b>Spectra Energy Corp</b>	<b>Spectra Capital</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Cash and cash equivalents	\$	\$ 6	\$ 134	\$	\$ 140
Receivables (payables) consolidated subsidiaries	(83)	208	(125)		
Receivables (payables) other	(8)	2	1,022		1,016
Other current assets	61	34	266		361
<b>Total current assets</b>	<b>(30)</b>	<b>250</b>	<b>1,297</b>		<b>1,517</b>
Investments in and loans to unconsolidated affiliates		74	1,987		2,061
Investments in consolidated subsidiaries	11,371	14,548		(25,919)	
Advances receivable (payable) consolidated subsidiaries	(2,981)	3,543	6	(568)	
Goodwill			4,396		4,396
Other assets	38	40	558		636
Property, plant and equipment, net			17,430		17,430
Regulatory assets and deferred debits	1	13	1,097		1,111
<b>Total Assets</b>	<b>\$ 8,399</b>	<b>\$ 18,468</b>	<b>\$ 26,771</b>	<b>\$ (26,487)</b>	<b>\$ 27,151</b>
Accounts payable other	\$ 1	\$ 96	\$ 363	\$	\$ 460
Short-term borrowings and commercial paper		1,196	27	(568)	655
Accrued taxes payable (receivable)	(22)	18	84		80
Current maturities of long-term debt		8	315		323
Other current liabilities	41	58	700		799
<b>Total current liabilities</b>	<b>20</b>	<b>1,376</b>	<b>1,489</b>	<b>(568)</b>	<b>2,317</b>
Long-term debt		3,292	6,965		10,257
Deferred credits and other liabilities	161	2,429	2,828		5,418
Preferred stock of subsidiaries			258		258
<b>Equity</b>					
Controlling interests	8,218	11,371	14,548	(25,919)	8,218
Noncontrolling interests			683		683
<b>Total equity</b>	<b>8,218</b>	<b>11,371</b>	<b>15,231</b>	<b>(25,919)</b>	<b>8,901</b>
<b>Total Liabilities and Equity</b>	<b>\$ 8,399</b>	<b>\$ 18,468</b>	<b>\$ 26,771</b>	<b>\$ (26,487)</b>	<b>\$ 27,151</b>

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

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

**Table of Contents****Spectra Energy Corp****Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2011****(Unaudited)****(In millions)**

	<b>Spectra Energy Corp</b>	<b>Spectra Capital</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net income	\$ 357	\$ 359	\$ 535	\$ (869)	\$ 382
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization			178		178
Equity in earnings of unconsolidated affiliates			(106)		(106)
Equity in earnings of subsidiaries	(359)	(510)		869	
Distributions received from unconsolidated affiliates			104		104
Other	(13)	129	48		164
Net cash provided by (used in) operating activities	(15)	(22)	759		722
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures			(329)		(329)
Investments in and loans to unconsolidated affiliates			(4)		(4)
Purchases of held-to-maturity securities			(214)		(214)
Proceeds from sales and maturities of held-to-maturity securities			186		186
Purchases of available-for-sale securities			(548)		(548)
Proceeds from sales and maturities of available-for-sale securities			576		576
Other			1		1
Net cash used in investing activities			(332)		(332)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from the issuance of long-term debt			919		919
Payments for the redemption of long-term debt			(942)		(942)
Net decrease in short-term borrowings and commercial paper		(51)	(131)		(182)
Distributions to noncontrolling interests			(23)		(23)
Dividends paid on common stock	(170)				(170)
Distributions and advances from (to) affiliates	168	79	(247)		
Other	17		(1)		16
Net cash provided by (used in) financing activities	15	28	(425)		(382)
Effect of exchange rate changes on cash			2		2
Net increase in cash and cash equivalents		6	4		10

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Cash and cash equivalents at beginning of period			130		130
Cash and cash equivalents at end of period	\$	\$ 6	\$ 134	\$	\$ 140

**Table of Contents****Spectra Energy Corp****Condensed Consolidating Statements of Cash Flows****Three Months Ended March 31, 2010****(Unaudited)****(In millions)**

	<b>Spectra Energy Corp</b>	<b>Spectra Capital</b>	<b>Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net income	\$ 358	\$ 360	\$ 521	\$ (861)	\$ 378
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization			165		165
Equity in earnings of unconsolidated affiliates			(122)		(122)
Equity in earnings of subsidiaries	(360)	(501)		861	
Distributions received from unconsolidated affiliates			108		108
Other	(49)	85	(95)		(59)
Net cash provided by (used in) operating activities	(51)	(56)	577		470
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Capital expenditures			(176)		(176)
Investments in and loans to unconsolidated affiliates			(3)		(3)
Purchases of held-to-maturity securities			(148)		(148)
Proceeds from sales and maturities of held-to-maturity securities			126		126
Purchases of available-for-sale securities			(12)		(12)
Other			(8)		(8)
Net cash used in investing activities			(221)		(221)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from the issuance of long-term debt			720		720
Payments for the redemption of long-term debt			(864)		(864)
Net increase in short-term borrowings and commercial paper		17	4		21
Distributions to noncontrolling interests			(21)		(21)
Dividends paid on common stock	(161)	(3)		3	(161)
Distributions and advances from (to) affiliates	212	43	(252)	(3)	
Other			3		3
Net cash provided by (used in) financing activities	51	57	(410)		(302)
<b>Effect of exchange rate changes on cash</b>					
Net increase (decrease) in cash and cash equivalents		1	(54)		(53)
Cash and cash equivalents at beginning of period			166		166

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Cash and cash equivalents at end of period	\$	\$	1	\$	112	\$	\$	113
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### **18. New Accounting Pronouncements**

There were no significant accounting pronouncements adopted during the three months ended March 31, 2011 that had a material impact on our consolidated results of operations, financial position or cash flows.

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

#### **INTRODUCTION**

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

#### **Executive Overview**

During the first quarter of 2011, our fee-based businesses at U.S. Transmission, Distribution and Western Canada Transmission & Processing generated increased earnings and cash flows by meeting the needs of our customers and from successful expansion projects previously placed in service.

A dividend of \$0.26 per common share, representing a 4% increase from the previous dividend level, was declared on January 3, 2011 and was paid on March 14, 2011. We anticipate our dividend payout ratio over time to be consistent with our targeted payout ratio, which is up to 65% of estimated annual net income from controlling interests per share of common stock.

For the three months ended March 31, 2011 and 2010, we reported net income from controlling interests of \$357 million and \$358 million, respectively. Earnings from expansion projects at U.S. Transmission and Western Canada Transmission & Processing, a stronger Canadian dollar and colder weather at Distribution were offset by lower earnings at Field Services and higher income tax expense.

The highlights for the three months ended March 31, 2011 include:

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

Distribution's earnings increased mainly as a result of higher customer usage of natural gas due to colder weather and a stronger Canadian dollar,

Western Canada Transmission & Processing earnings increased mainly as a result of higher gathering and processing earnings from expansions and a stronger Canadian dollar, and

Field Services earnings decreased as a result of higher planned operating expenses and the negative effects of severe weather on higher-margin production areas, partially offset by higher commodity prices and lower interest expense.

In the first quarter of 2011, we had \$333 million of capital and investment expenditures. We continue to project approximately \$2.1 billion of capital and investment expenditures for the full year, including expansion capital of approximately \$1.4 billion. 2011 expansion projects are on track and we expect that our capital spending will be significantly higher throughout the remainder of the year.

As of March 31, 2011, we have access to approximately \$1.7 billion available under our credit facilities and expect to continue to utilize commercial paper and revolving lines of credit, as needed, to complement our ongoing cash flows to fund liquidity needs through the remainder of 2011. Financing activities for the remainder of 2011 will include the refinancing of debt maturities of approximately \$250 million and the issuance of commercial paper under our revolving credit facilities. We also anticipate accessing the markets for other long-term financing to fund our ongoing capital expansion program.





**Table of Contents****RESULTS OF OPERATIONS**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in millions)</b>	
Operating revenues	\$ 1,612	\$ 1,480
Operating expenses	1,059	988
Gains on sales of other assets and other, net	4	
Operating income	557	492
Other income and expenses	112	126
Interest expense	155	159
Earnings from continuing operations before income taxes	514	459
Income tax expense from continuing operations	139	97
Income from continuing operations	375	362
Income from discontinued operations, net of tax	7	16
Net income	382	378
Net income noncontrolling interests	25	20
Net income controlling interests	\$ 357	\$ 358

*Operating Revenues.* The \$132 million, or 9%, increase was driven mainly by:

an increase in customer usage of natural gas due to weather that was more than 13% colder than the first quarter of 2010 at Distribution,

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

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

higher NGL sales volumes from the Empress operations at Western Canada Transmission & Processing, partially offset by

lower natural gas prices passed through to customers at Distribution.

*Operating Expenses.* The \$71 million, or 7%, increase was driven mainly by:

higher volumes of natural gas sold as a result of weather that was more than 13% colder than the first quarter 2010 and growth in the number of customers at Distribution,

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

higher volumes of natural gas purchases attributable to higher demand for NGL products and higher prices of natural gas purchased caused primarily by higher extraction premiums at the Empress operations at Western Canada Transmission & Processing, partially offset by

lower natural gas prices passed through to customers at Distribution.

*Operating Income.* The \$65 million increase was mainly driven by higher earnings from expansion projects at U.S. Transmission and Western Canada Transmission & Processing, an increase in customer usage of natural gas due to colder weather at Distribution and the effects of a stronger Canadian dollar.

*Other Income and Expenses.* The \$14 million decrease was attributable to lower equity earnings from Field Services mainly due to higher planned operating expenses, unfavorable marketing results and the negative effects of severe weather, partially offset by higher commodity prices and lower interest expense and income tax expense.

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*Income Tax Expense from Continuing Operations.* The \$42 million increase was a result of higher earnings from continuing operations in the first quarter of 2011 and favorable tax audit settlements totaling \$24 million in the first quarter of 2010. The effective tax rate for income from continuing operations was 27% in the first quarter of 2011 compared to 21% in the first quarter of 2010.

*Income from Discontinued Operations, Net of Tax.* The \$9 million decrease was due to a favorable income tax adjustment related to previously discontinued operations in 2010, partially offset by higher income from propane deliveries in 2011.

*Net Income Noncontrolling Interests.* The \$5 million increase was primarily driven by higher earnings from Spectra Energy Partners, primarily as a result of their acquisition of an additional 24.5% in Gulfstream Natural Gas System, LLC (Gulfstream) in the fourth quarter of 2010.

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

**Segment Results**

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

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

**EBIT by Business Segment**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in millions)</b>	
U.S. Transmission	\$ 279	\$ 247
Distribution	167	146
Western Canada Transmission & Processing	141	119
Field Services	81	99
<b>Total reportable segment EBIT</b>	<b>668</b>	<b>611</b>
Other	(24)	(14)
<b>Total reportable segment and other EBIT</b>	<b>644</b>	<b>597</b>
Interest expense	155	159
Interest income and other (a)	25	21
Earnings from continuing operations before income taxes	\$ 514	\$ 459

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

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

**U.S. Transmission**

	Three Months Ended March 31,		Increase (Decrease)
	2011	2010	
	(in millions, except where noted)		
Operating revenues	\$ 483	\$ 457	\$ 26
Operating expenses			
Operating, maintenance and other	146	152	(6)
Depreciation and amortization	67	64	3
Gains on sales of other assets and other, net	4		4
Operating income	274	241	33
Other income and expenses	31	26	5
Noncontrolling interests	26	20	6
<b>EBIT</b>	<b>\$ 279</b>	<b>\$ 247</b>	<b>\$ 32</b>
Proportional throughput, TBtu (a)	804	818	(14)

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

*Operating Revenues.* The \$26 million increase was driven by:

a \$34 million increase from expansion projects and the acquisition of Bobcat in August 2010, partially offset by

a \$7 million decrease in recoveries of electric power and other costs passed through to customers, and

a \$4 million decrease in processing revenues associated with pipeline operations caused by lower volumes.

*Operating, Maintenance and Other.* The \$6 million decrease was driven by:

an \$8 million decrease in electric power and other costs passed through to customers, and

a \$7 million decrease in operating expenses due to timing and miscellaneous adjustments, partially offset by

a \$6 million increase from the acquisition of Bobcat and expansion projects.

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*Other Income and Expenses.* The \$5 million increase was primarily a result of higher allowance for funds used during construction-equity (AFUDC-equity) in 2011 as a result of higher capital spending.

*Noncontrolling Interests.* The \$6 million increase was primarily driven by higher earnings from Spectra Energy Partners, primarily as a result of their acquisition of an additional 24.5% in Gulfstream in the fourth quarter 2010.

*EBIT.* The \$32 million increase was mainly due to higher earnings from expansion projects.

**Table of Contents****Distribution**

	Three Months Ended March 31,		Increase (Decrease)
	2011	2010	
	(in millions, except where noted)		
Operating revenues	\$ 696	\$ 668	\$ 28
Operating expenses			
Natural gas purchased	369	371	(2)
Operating, maintenance and other	107	103	4
Depreciation and amortization	53	48	5
 EBIT	 \$ 167	 \$ 146	 \$ 21
 Number of customers, thousands	 1,345	 1,328	 17
Heating degree days, Fahrenheit	3,772	3,321	451
Pipeline throughput, TBtu	331	304	27
Canadian dollar exchange rate, average	0.99	1.04	(0.05)

*Operating Revenues.* The \$28 million increase was driven mainly by:

a \$77 million increase in customer usage of natural gas due to weather that was more than 13% colder than the first quarter 2010,

a \$37 million increase resulting from a stronger Canadian dollar, and

a \$12 million increase from growth in the number of customers, partially offset by

a \$97 million decrease primarily due to lower natural gas prices passed through to customers. Prices charged to customers are based on the 12 month New York Mercantile Exchange (NYMEX) forecast.

*Natural Gas Purchased.* The \$2 million decrease was driven mainly by:

a \$98 million decrease primarily from lower natural gas prices passed through to customers, mostly offset by

a \$64 million increase due to higher volumes of natural gas sold as a result of weather that was more than 13% colder than the first quarter of 2010,

a \$19 million increase resulting from a stronger Canadian dollar, and

a \$10 million increase due to growth in the number of customers.

*Operating, Maintenance and Other.* The \$4 million increase was driven primarily by a stronger Canadian dollar.

*Depreciation and Amortization.* The \$5 million increase was driven primarily by a stronger Canadian dollar.

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*EBIT.* The \$21 million increase was mainly a result of higher usage due to colder weather, a stronger Canadian dollar and growth in the number of customers.



**Table of Contents****Western Canada Transmission & Processing**

	Three Months Ended March 31,		Increase (Decrease)
	2011	2010	
	(in millions, except where noted)		
Operating revenues	\$ 439	\$ 355	\$ 84
Operating expenses			
Natural gas and petroleum products purchased	122	81	41
Operating, maintenance and other	133	115	18
Depreciation and amortization	46	42	4
Operating income	138	117	21
Other income and expenses	3	2	1
EBIT	\$ 141	\$ 119	\$ 22
Pipeline throughput, TBtu	183	150	33
Volumes processed, TBtu	176	163	13
Empress inlet volumes, TBtu	181	187	(6)
Canadian dollar exchange rate, average	0.99	1.04	(0.05)

*Operating Revenues.* The \$84 million increase was driven by:

a \$28 million increase due to higher NGL sales volumes associated with the Empress operations resulting from higher demand for NGL products caused in part by colder weather,

a \$23 million increase as a result of a stronger Canadian dollar,

an \$18 million increase in gathering and processing revenues due to contracted volumes from expansions associated with non-conventional supply discoveries in the Fort Nelson area, and

a \$7 million increase from recovery of carbon and other non-income tax expense from customers.

*Natural Gas and Petroleum Products Purchased.* The \$41 million increase was driven by:

an \$18 million increase due primarily to higher volumes at the Empress operations resulting from higher demand for NGL products caused in part by colder weather,

a \$16 million increase as a result of higher prices of natural gas purchased for the Empress facility caused primarily by higher extraction premiums, and

a \$7 million increase due to a stronger Canadian dollar.

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*Operating, Maintenance and Other.* The \$18 million increase was driven by:

a \$7 million increase due to a stronger Canadian dollar, and

a \$7 million increase in carbon and other non-income tax expense.

*Depreciation and Amortization.* The \$4 million increase was driven mainly by a stronger Canadian dollar, expansion projects placed in service and maintenance capital incurred.

*EBIT.* The \$22 million increase was driven mainly by higher gathering and processing earnings from expansions and a stronger Canadian dollar.

**Table of Contents****Field Services**

	Three Months Ended March 31,		
	2011	2010	Increase (Decrease)
	(in millions, except where noted)		
Equity in earnings of unconsolidated affiliates	\$ 81	\$ 99	\$ (18)
EBIT	\$ 81	\$ 99	\$ (18)
Natural gas gathered and processed/transported, TBtu/d (a,b)	6.7	6.7	
NGL production, MBbl/d (a,c)	358	353	5
Average natural gas price per MMBtu (d)	\$ 4.11	\$ 5.30	\$ (1.19)
Average NGL price per gallon (e)	\$ 1.13	\$ 1.09	\$ 0.04
Average crude oil price per barrel (f)	\$ 94.10	\$ 78.72	\$ 15.38

(a) Reflects 100% of volumes.

(b) Trillion British thermal units per day.

(c) Thousand barrels per day.

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

(e) Does not reflect results of commodity hedges.

(f) Average price based on NYMEX calendar month.

*EBIT.* Lower equity earnings of \$18 million were mainly the result of the following variances, each representing our 50% ownership portion of the earnings drivers at DCP Midstream:

a \$20 million decrease due to higher planned operating expenses largely resulting from DCP Partners' growth from acquisitions, increased repairs and timing of maintenance costs between periods and increased benefits costs,

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

a \$15 million decrease due to lower results from NGL trading and gas marketing attributable to a favorable derivative adjustment in 2010, and

a \$5 million decrease in earnings from DCP Partners primarily as a result of higher mark-to-market losses on derivative instruments used to protect distributable cash flows, partially offset by

an \$11 million decrease in income tax expense related to the de-recognition of certain deferred tax assets in the 2010 period,

a \$9 million increase from commodity-sensitive processing arrangements due to increased NGL and crude oil prices, net of decreased natural gas prices,

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a \$6 million decrease in interest expense, and

a \$5 million increase in gains associated with the issuance of partnership units by DCP Partners in 2011 compared to the same period in 2010.

**Table of Contents****Other**

	2011	2010 (in millions)	Three Months Ended March 31, Increase (Decrease)
Operating revenues	\$ 17	\$ 13	\$ 4
Operating expenses	39	24	15
Operating loss	(22)	(11)	(11)
Other income and expenses	(2)	(3)	1
<b>EBIT</b>	<b>\$ (24)</b>	<b>\$ (14)</b>	<b>\$ (10)</b>

*EBIT.* The \$10 million decrease in EBIT reflects higher corporate costs, including employee and retiree benefit costs.

**LIQUIDITY AND CAPITAL RESOURCES**

Net working capital was negative \$800 million as of March 31, 2011, which included short-term borrowings and commercial paper totaling \$655 million and current maturities of long-term debt of \$323 million. We will rely primarily upon cash flows from operations and various financing transactions, which may include issuances of short-term and long-term debt, to fund our liquidity and capital requirements for the next 12 months. We also have access to four revolving credit facilities, with available combined capacities of approximately \$1.7 billion at March 31, 2011. With the exception of the Spectra Energy Partners facility which is used for bank borrowings, these facilities are used principally as back-stops for commercial paper programs or for the issuance of letters of credit. At Union Gas, we primarily use commercial paper to support our short-term working capital fluctuations. At Spectra Capital and Westcoast, we primarily use commercial paper for temporary funding of our capital expenditures. We also utilize commercial paper, other variable-rate debt and interest rate swaps to achieve our desired mix of fixed and variable-rate debt. See Note 11 of Notes to Condensed Consolidated Financial Statements for a discussion of available credit facilities and Financing Cash Flows and Liquidity for a discussion of effective shelf registrations.

**Operating Cash Flows**

Net cash provided by operating activities increased \$252 million to \$722 million for the three months ended March 31, 2011 compared to the same period in 2010, driven mainly by:

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

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

**Table of Contents****Investing Cash Flows**

Cash flows used in investing activities increased \$111 million to \$332 million in the first three months of 2011 compared to the same period in 2010. This change was driven primarily by higher capital and investment expenditures in 2011 from capital expansion projects in western Canada and the northeastern United States.

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in millions)</b>	
<b>Capital and Investment Expenditures</b>		
U.S. Transmission	\$ 132	\$ 73
Distribution	52	32
Western Canada Transmission & Processing	140	68
Other	9	6
 Total	 \$ 333	 \$ 179

Capital and investment expenditures for the three months ended March 31, 2011 consisted of \$197 million for expansion projects and \$136 million for maintenance and other projects.

We project 2011 capital and investment expenditures of approximately \$2.1 billion, consisting of approximately \$1.0 billion for U.S. Transmission, \$0.3 billion for Distribution and \$0.8 billion for Western Canada Transmission & Processing. Total projected 2011 capital and investment expenditures include approximately \$1.4 billion of expansion capital expenditures and \$0.7 billion for maintenance and upgrades of existing plants, pipelines and infrastructure to serve growth. We continue to assess short and long-term market requirements and will adjust our capital plans as required.

**Financing Cash Flows and Liquidity**

Net cash used in financing activities totaled \$382 million in the first three months of 2011 compared to \$302 million used in financing activities in the first three months of 2010. This change was driven mainly by:

a \$182 million decrease in short-term borrowings and commercial paper outstanding in 2011 compared to a \$21 million increase in the 2010 period, partially offset by

\$121 million of higher net payments for the redemption of long-term debt in 2010.

*Available Credit Facilities and Restrictive Debt Covenants.* See Note 11 of Notes to Condensed Consolidated Financial Statements for a discussion of available credit facilities and related financial and other covenants. In May 2011, Westcoast entered into a new 300 million Canadian dollar credit facility that expires in May 2015, which replaced its 200 million Canadian dollar credit facility that was scheduled to expire in June 2011.

The terms of our Spectra Capital credit agreement require our consolidated debt-to-total-capitalization ratio to be 65% or lower. As of March 31, 2011, this ratio was 55%. Our equity and, as a result, this ratio, are sensitive to significant movements of the Canadian dollar relative to the U.S. dollar due to the significance of our Canadian operations. Based on the strength of our total capitalization as of March 31, 2011, it is unlikely that a material adverse effect would occur as a result of a weakened Canadian dollar.

**Table of Contents***Credit Ratings*

	Standard and Poor's	Moody's Investor Service	Fitch Ratings	DBRS
<b>As of March 31, 2011</b>				
Spectra Capital (a)	BBB	Baa2	BBB	n/a
Texas Eastern Transmission, LP (a)	BBB+	Baa1	BBB+	n/a
Westcoast (a)	BBB+	n/a	n/a	A (low)
Union Gas (a)	BBB+	n/a	n/a	A
Maritimes & Northeast Pipeline, L.L.C. (a)	BBB	Baa3	n/a	n/a
M&N LP (b)	A	A2/A3	n/a	A

(a) Represents senior unsecured credit rating.

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

n/a Indicates not applicable.

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

*Dividends.* We currently anticipate an average dividend payout ratio over time of approximately 65% of estimated annual net income from controlling interests per share of common stock. The actual payout ratio, however, may vary from year to year depending on earnings levels. We expect to continue our policy of paying regular cash dividends. The declaration and payment of dividends are subject to the sole discretion of our Board of Directors and will depend upon many factors, including the financial condition, earnings and capital requirements of our operating subsidiaries, covenants associated with certain debt obligations, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors. A dividend of \$0.26 per common share was declared on April 18, 2011 and will be paid on June 13, 2011.

*Other Financing Matters.* Spectra Energy Corp and Spectra Capital have an effective shelf registration statement on file with the SEC to register the issuance of unspecified amounts of various equity and debt securities, respectively. Spectra Energy Partners has an effective shelf registration statement on file with the SEC to register the issuance of limited partner common units and various debt securities up to \$1.1 billion in aggregate. In addition, as of March 31, 2011, certain of our subsidiaries in Canada have 1.8 billion Canadian dollars (approximately \$1.8 billion) available for issuance in the Canadian market under debt shelf prospectuses that expire in October 2012.

**OTHER ISSUES**

*Pipeline Safety Laws and Regulations.* Laws, regulations and policies regarding pipeline safety may be enacted or changed in the future as a result of various pipeline incidents in 2010 on systems unrelated to ours. Consistent with our advisor of choice business strategy, we are engaged with policy makers to ensure that the importance of pipeline operations and the delivery of natural gas in interstate commerce is taken into consideration in any such policy development. See Item 1A. Risk Factors for further discussion.

*New Accounting Pronouncements.* See Note 18 of Notes to Condensed Consolidated Financial Statements for discussion.

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

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

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**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

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

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2011, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended March 31, 2011 and found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

For information regarding material legal proceedings, including regulatory and environmental matters, see Notes 3 and 14 of Notes to Condensed Consolidated Financial Statements, which information is incorporated by reference into this Part II.



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**Item 1A. Risk Factors.**

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

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

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

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

**Item 6. Exhibits.**

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

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

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

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

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

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

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(a) Exhibits

**Exhibit**

**Number**

+10.1	Spectra Energy Corp 2007 Long-Term Incentive Plan, as amended and restated (filed as Exhibit No. 10.1 to Form 8-K of Spectra Energy Corp on April 22, 2011).
+10.2	Spectra Energy Corp Executive Short-Term Incentive Plan, as amended and restated (filed as Exhibit No. 10.2 to Form 8-K of Spectra Energy Corp on April 22, 2011).
+*10.3	Form of Phantom Stock Award Agreement (2011) pursuant to the Spectra Energy Corp 2007 Long-Term Incentive Plan.
+*10.4	Form of Performance Award Agreement (cash) (2011) pursuant to the Spectra Energy Corp 2007 Long-Term Incentive Plan.
+*10.5	Form of Performance Award Agreement (stock) (2011) pursuant to the Spectra Energy Corp 2007 Long-Term Incentive Plan.
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
*101.DEF	XBRL Taxonomy Extension Definition Linkbase.
*101.LAB	XBRL Taxonomy Extension Label Linkbase.
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

+ Management contract or compensatory plan or arrangement.

\* Filed herewith.

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

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**SIGNATURES**

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

Date: May 9, 2011

SPECTRA ENERGY CORP

/s/ GREGORY L. EBEL  
**Gregory L. Ebel**

**President and Chief Executive Officer**

Date: May 9, 2011

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