Spectra Energy Corp.
Form 10-Q
May 07, 2015
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

For the transition period from to

Commission file number 1-33007

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

Delaware	20-5413139
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

5400 Westheimer Court
Houston, Texas 77056
(Address of principal executive offices, including zip code)
713-627-5400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý 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 ý 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 the Exchange Act.

Large accelerated filer ý 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 ý

Number of shares of Common Stock, $0.001 par value, outstanding as of March 31, 2015: 671,327,206

Table of Contents

SPECTRA ENERGY CORP
FORM 10-Q FOR THE QUARTER ENDED
March 31, 2015
INDEX

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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)

	Three Months Ended March 31,	
	2015	2014
Operating Revenues		
Transportation, storage and processing of natural gas	$842	$887
Distribution of natural gas	607	626
Sales of natural gas liquids	66	187
Transportation of crude oil	84	71
Other	24	72
Total operating revenues	1,623	1,843
Operating Expenses		
Natural gas and petroleum products purchased	432	528
Operating, maintenance and other	354	363
Depreciation and amortization	193	200
Property and other taxes	103	113
Total operating expenses	1,082	1,204
Operating Income	541	639
Other Income and Expenses		
Equity in earnings of unconsolidated affiliates	24	161
Other income and expenses, net	20	9
Total other income and expenses	44	170
Interest Expense	159	178
Earnings Before Income Taxes	426	631
Income Tax Expense	101	164
Net Income	325	467
Net Income—Noncontrolling Interests	58	48
Net Income—Controlling Interests	$267	$419
Common Stock Data		
Weighted-average shares outstanding		
Basic	671	670
Diluted	673	672
Earnings per share		
Basic	$0.40	$0.63
Diluted	$0.40	$0.62
Dividends per share	$0.37	$0.335

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net Income	$325	$467
Other comprehensive income (loss):		
Foreign currency translation adjustments	(492)	(248)
Non-cash mark-to-market net gain on hedges	—	2
Reclassification of cash flow hedges into earnings	—	2
Pension and benefits impact (net of taxes of $3 and $3, respectively)	6	7
Other	1	—
Total other comprehensive income (loss)	(485)	(237)
Total Comprehensive Income (Loss), net of tax	(160)	230
Less: Comprehensive Income—Noncontrolling Interests	50	44
Comprehensive Income (Loss)—Controlling Interests	$(210)	$186

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	March 31, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$409	$ 215
Receivables, net	1,152	1,336
Inventory	174	313
Fuel tracker	58	102
Other	270	366
Total current assets	2,063	2,332
Investments and Other Assets		
Investments in and loans to unconsolidated affiliates	2,943	2,966
Goodwill	4,595	4,714
Other	319	327
Total investments and other assets	7,857	8,007
Property, Plant and Equipment		
Cost	28,434	29,211
Less accumulated depreciation and amortization	6,790	6,904
Net property, plant and equipment	21,644	22,307
Regulatory Assets and Deferred Debits	1,356	1,394
Total Assets	$32,920	$ 34,040

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	March 31, 2015	December 31, 2014
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$420	$ 458
Commercial paper	615	1,583
Taxes accrued	125	91
Interest accrued	143	181
Current maturities of long-term debt	500	327
Other	914	1,169
Total current liabilities	2,717	3,809
Long-term Debt	13,178	12,769
Deferred Credits and Other Liabilities		
Deferred income taxes	5,427	5,405
Regulatory and other	1,309	1,401
Total deferred credits and other liabilities	6,736	6,806
Commitments and Contingencies		
Preferred Stock of Subsidiaries	258	258
Equity		
Preferred stock, $0.001 par, 22 million shares authorized, no shares outstanding	—	—
Common stock, $0.001 par, 1 billion shares authorized, 671 million shares outstanding at March 31, 2015 and December 31, 2014	1	1
Additional paid-in capital	4,963	4,956
Retained earnings	2,558	2,541
Accumulated other comprehensive income	185	662
Total controlling interests	7,707	8,160
Noncontrolling interests	2,324	2,238
Total equity	10,031	10,398
Total Liabilities and Equity	$32,920	$ 34,040

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$325	$467
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	196	203
Deferred income tax expense	61	153
Equity in earnings of unconsolidated affiliates	(24)	(161)
Distributions received from unconsolidated affiliates	38	89
Other	170	(65)
Net cash provided by operating activities	766	686
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(388)	(374)
Investments in and loans to unconsolidated affiliates	(15)	(18)
Purchases of held-to-maturity securities	(145)	(198)
Proceeds from sales and maturities of held-to-maturity securities	123	167
Purchases of available-for-sale securities	—	(13)
Proceeds from sales and maturities of available-for-sale securities	1	5
Distributions received from unconsolidated affiliates	18	22
Other changes in restricted funds	2	7
Net cash used in investing activities	(404)	(402)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	994	300
Payments for the redemption of long-term debt	—	(284)
Net decrease in commercial paper	(952)	(102)
Distributions to noncontrolling interests	(44)	(39)
Contributions from noncontrolling interests	58	6
Proceeds from the issuances of Spectra Energy Partners, LP common units	39	52
Dividends paid on common stock	(250)	(228)
Other	(9)	5
Net cash used in financing activities	(164)	(290)
Effect of exchange rate changes on cash	(4)	(2)
Net increase (decrease) in cash and cash equivalents	194	(8)
Cash and cash equivalents at beginning of period	215	201
Cash and cash equivalents at end of period	$409	$193
Supplemental Disclosures		
Property, plant and equipment non-cash accruals	$115	$107

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
December 31, 2014	$1	$4,956	$2,541	$1,016	$(354)	$ 2,238	$10,398
Net income	—	—	267	—	—	58	325
Other comprehensive income (loss)	—	—	—	(484)	7	(8)	(485)
Dividends on common stock	—	—	(250)	—	—	—	(250)
Distributions to noncontrolling interests	—	—	—	—	—	(44)	(44)
Contributions from noncontrolling interests	—	—	—	—	—	58	58
Spectra Energy common stock issued	—	1	—	—	—	—	1
Spectra Energy Partners, LP common units issued	—	6	—	—	—	29	35
Other, net	—	—	—	—	—	(7)	(7)
March 31, 2015	$1	$4,963	$2,558	$532	$(347)	$ 2,324	$10,031
December 31, 2013	$1	$4,869	$2,383	$1,557	$(316)	$ 1,829	$10,323
Net income	—	—	419	—	—	48	467
Other comprehensive income (loss)	—	—	—	(244)	11	(4)	(237)
Dividends on common stock	—	—	(225)	—	—	—	(225)
Stock-based compensation	—	(2)	—	—	—	—	(2)
Distributions to noncontrolling interests	—	—	—	—	—	(39)	(39)
Contributions from noncontrolling interests	—	—	—	—	—	6	6
Spectra Energy common stock issued	—	3	—	—	—	—	3
Spectra Energy Partners, LP common units issued	—	10	—	—	—	36	46
Transfer of interests in subsidiaries to Spectra Energy Partners, LP	—	—	—	—	—	5	5
Other, net	—	—	—	—	—	(2)	(2)
March 31, 2014	$1	$4,880	$2,577	$1,313	$(305)	$ 1,879	$10,345

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. The term “Spectra Energy Partners” refers to our Spectra Energy Partners operating segment. The term “SEP” refers to Spectra Energy Partners, LP, our master limited partnership.

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

Basis of Presentation. The accompanying Condensed Consolidated Financial Statements include our accounts and the accounts of our majority-owned subsidiaries, after eliminating intercompany transactions and balances. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form
10-K for the year ended December 31, 2014, and reflect all normal recurring adjustments that are, in our opinion, necessary to fairly present our results of operations and financial position. Amounts reported in the Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, primarily in our gas distribution operations, as well as changing commodity prices on certain of our processing operations and other factors.

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

2. Business Segments

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

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

The presentation of our Spectra Energy Partners segment is reflective of the parent-level focus by our CODM, considering the resource allocation and governance provisions associated with SEP's master limited partnership structure. SEP maintains a capital and cash management structure that is separate from Spectra Energy's, is self-funding and maintains its own lines of bank credit and cash management accounts. It is in this context that our CODM evaluates the Spectra Energy Partners segment as a whole, without regard to any of SEP's individual businesses. These factors, coupled with a different cost of capital of our other businesses, serve to differentiate how our Spectra Energy Partners segment is managed as compared to how SEP is managed.

Table of Contents

Spectra Energy Partners provides transmission, storage and gathering of natural gas, as well as the transportation of crude oil and NGLs through interstate pipeline systems for customers in various regions of the midwestern, northeastern and southeastern United States and Canada. The natural gas transmission and storage operations are primarily subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC). The crude oil transportation operations are primarily subject to regulation by the FERC in the United States and the National Energy Board (NEB) in Canada. Our Spectra Energy Partners segment is composed of the operations of SEP, less governance costs, which are included in “Other.”

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

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

Field Services gathers, compresses, treats, processes, transports, stores and sells natural gas, produces, fractionates, transports, stores and sells NGLs, recovers and sells condensate, and trades and markets natural gas and NGLs. It conducts operations through DCP Midstream, which is owned 50% by us and 50% by Phillips 66. DCP Midstream gathers raw natural gas through gathering systems connecting to several interstate and intrastate natural gas and NGL pipeline systems, one natural gas storage facility and one NGL storage facility. DCP Midstream operates in a diverse number of regions, including the Permian Basin, Eagle Ford, Niobrara/DJ Basin and the Midcontinent. DCP Midstream Partners, LP (DCP Partners) is a publicly traded master limited partnership, of which DCP Midstream acts as general partner. As of March 31, 2015, DCP Midstream had an approximate 21% ownership interest in DCP Partners, including DCP Midstream’s limited partner and general partner interests.

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

Table of Contents

Business Segment Data
Condensed Consolidated Statements of Operations

	Unaffiliated Revenues	Intersegment Revenues	Total Operating Revenues	Depreciation and Amortization	Segment EBITDA/ Consolidated Earnings before Income Taxes
	(in millions)				
Three Months Ended March 31, 2015					
Spectra Energy Partners	$606	$—	$606	$ 74	$ 455
Distribution	662	—	662	45	192
Western Canada Transmission & Processing	353	17	370	62	161
Field Services	—	—	—	—	(17)
Total reportable segments	1,621	17	1,638	181	791
Other	2	16	18	12	(15)
Eliminations	—	(33)	(33)	—	—
Depreciation and amortization	—	—	—	—	193
Interest expense	—	—	—	—	159
Interest income and other	—	—	—	—	2
Total consolidated	$1,623	$—	$1,623	$ 193	$ 426
Three Months Ended March 31, 2014					
Spectra Energy Partners	$581	$—	$581	$ 73	$ 429
Distribution	718	—	718	49	226
Western Canada Transmission & Processing	541	34	575	67	237
Field Services	—	—	—	—	130
Total reportable segments	1,840	34	1,874	189	1,022
Other	3	15	18	11	(17)
Eliminations	—	(49)	(49)	—	—
Depreciation and amortization	—	—	—	—	200
Interest expense	—	—	—	—	178
Interest income and other	—	—	—	—	4
Total consolidated	$1,843	$—	$1,843	$ 200	$ 631

3. Regulatory Matters

Union Gas. In December 2014, Union Gas filed an application with the OEB for the disposition of the 2013 energy conservation deferral and variance account balances. As a result of this application, Union Gas has a receivable from customers of approximately $8 million and $9 million at March 31, 2015 and December 31, 2014, respectively, which is reflected as Current Assets-Other on the Condensed Consolidated Balance Sheet. A written hearing concluded in April 2015, and an OEB decision is expected later this year.

In April 2015, the OEB issued its decision on Union Gas' application for an order approving an interruptible liquefied natural gas (LNG) service. The OEB determined that it would not regulate this service, as it was satisfied that there is LNG competition sufficient to protect the public interest and approved the proposed cross charges between the regulated and unregulated services until an application for new rates in 2019 is filed. At this time, Union Gas does not expect any material financial impact as a result of this decision.

4. Income Taxes

Income tax expense was $101 million for the three-month period ended March 31, 2015, compared to $164 million for the same period in 2014. The lower tax expense was primarily due to lower earnings and the effect of a weaker Canadian dollar. The effective income tax rate was 24% and 26% for the three-month periods ended March 31, 2015 and 2014, respectively.

There was no material net change in unrecognized tax benefits recorded during the three-month period ended March 31, 2015. Although uncertain, we believe it is reasonably possible that the total amount of unrecognized tax benefits could decrease by approximately $15 million to $20 million prior to March 31, 2016.

Table of Contents

5. Earnings per Common Share

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

The following table presents our basic and diluted EPS calculations:

	Three Months Ended March 31, 2015	2014
	(in millions, except per-share amounts)	
Net income—controlling interests	$267	$419
Weighted-average common shares outstanding		
Basic	671	670
Diluted	673	672
Basic earnings per common share	$0.40	$0.63
Diluted earnings per common share	$0.40	$0.62

6. Accumulated Other Comprehensive Income

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

	Foreign Currency Translation Adjustments	Pension and Post-retirement Benefit Plan Obligations	Gas Purchase Contract Hedges	Other	Total Accumulated Other Comprehensive Income
			(in millions)		
December 31, 2014	$ 1,016	$ (351)	$(3)	$—	$ 662
Other AOCI activity	(484)	6	3	(2)	(477)
March 31, 2015	$ 532	$ (345)	$—	$(2)	$ 185
December 31, 2013	$ 1,557	$ (304)	$(11)	$(1)	$ 1,241
Reclassified to net income	—	—	2	—	2
Other AOCI activity	(244)	7	2	—	(235)
March 31, 2014	$ 1,313	$ (297)	$(7)	$(1)	$ 1,008

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

Table of Contents

7. Inventory

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

	March 31, 2015	December 31, 2014
	(in millions)	
Natural gas	$81	$211
NGLs	22	28
Materials and supplies	71	74
Total inventory	$174	$313

8. 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,	
	2015	2014
	(in millions)	
Operating revenues	$2,043	$3,915
Operating expenses	1,991	3,645
Operating income	52	270
Net income (loss)	(6)	203
Net income (loss) attributable to members’ interests	(37)	165

DCP Partners issues, from time to time, limited partner units to the public, which are recorded by DCP Midstream directly to its equity. Our proportionate share of gains from those issuances, totaling $2 million and $48 million in the first quarters of 2015 and 2014, respectively, are reflected in Equity in Earnings of Unconsolidated Affiliates in the Condensed Consolidated Statements of Operations.

9. Marketable Securities and Restricted Funds

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

AFS Securities. AFS securities are as follows:

	Estimated Fair Value	
	March 31, 2015	December 31, 2014
	(in millions)	
Corporate debt securities	$23	$23
Money market funds	—	1
Total available-for-sale securities	$23	$24

Table of Contents

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

	Estimated Fair Value	
	March 31, 2015	December 31, 2014
	(in millions)	
Restricted funds		
Investments and other assets—other	$—	$1
Non-restricted funds		
Current assets—other	3	3
Investments and other assets—other	20	20
Total available-for-sale securities	$23	$24

At March 31, 2015, the weighted-average contractual maturity of outstanding AFS securities was less than two years.

There were no material gross unrealized holding gains or losses associated with investments in AFS securities at March 31, 2015 or December 31, 2014.

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

		Estimated Fair Value	
Description	Condensed Consolidated Balance Sheet Caption	March 31, 2015	December 31, 2014
		(in millions)	
Banker's acceptances	Current assets—other	$49	$38
Canadian government securities	Current assets—other	27	30
Money market funds	Current assets—other	10	3
Canadian government securities	Investments and other assets—other	93	101
Total held-to-maturity securities		$179	$172

All of our HTM securities are restricted funds pursuant to certain M&N Canada and Express-Platte debt agreements. The funds restricted for M&N Canada, plus future cash from operations that would otherwise be available for distribution to the partners of M&N Canada, are required to be placed in escrow until the balance in escrow is sufficient to fund all future debt service on the M&N Canada 6.90% senior secured notes. There are sufficient funds held in escrow to fund all future debt service on these M&N Canada notes as of March 31, 2015.

At March 31, 2015, the weighted-average contractual maturity of outstanding HTM securities was less than one year.

There were no material gross unrecognized holding gains or losses associated with investments in HTM securities at March 31, 2015 or December 31, 2014.

Other Restricted Funds. In addition to the portions of the AFS and HTM securities that were restricted funds as described above, we had other restricted funds totaling $12 million at March 31, 2015 and $13 million at December 31, 2014 classified as Current Assets—Other. These restricted funds are related to additional amounts for insurance. We also had other restricted funds totaling $9 million at March 31, 2015 and $6 million at December 31, 2014 classified as Investments and Other Assets—Other. These restricted funds are related to funds held and collected from customers for Canadian pipeline abandonment in accordance with the NEB’s regulatory requirements.

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

Table of Contents

10. Debt and Credit Facilities

Available Credit Facilities and Restrictive Debt Covenants

	Expiration Date	Total Credit Facilities Capacity	Commercial Paper Outstanding at March 31, 2015	Available Credit Facilities Capacity
		(in millions)		
Spectra Energy Capital, LLC (a)	2019	$1,000	$494	$506
SEP (b)	2019	2,000	121	1,879
Westcoast Energy Inc. (c)	2019	315	—	315
Union Gas (d)	2019	394	—	394
Total		$3,709	$615	$3,094

(a) Revolving credit facility contains a covenant requiring the Spectra Energy Corp consolidated debt-to-total capitalization ratio, as defined in the agreement, to not exceed 65%. Per the terms of the agreement, collateralized debt is excluded from the calculation of the ratio. This ratio was 58% at March 31, 2015.

(b) Revolving credit facility contains a covenant that requires SEP to maintain a ratio of total Consolidated Indebtedness-to-Consolidated EBITDA, as defined in the credit agreement, of 5.0 to 1 or less. As of March 31, 2015, this ratio was 3.8 to 1.

(c) U.S. dollar equivalent at March 31, 2015. The revolving credit facility is 400 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 33% at March 31, 2015.

(d) U.S. dollar equivalent at March 31, 2015. The revolving credit facility is 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 64% at March 31, 2015.

The issuances of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facilities. As of March 31, 2015, there were no letters of credit issued or revolving borrowings outstanding under the credit facilities.

Our credit agreements contain various covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of March 31, 2015, we were in compliance with those covenants. In addition, our credit agreements allow for acceleration of payments or termination of the agreements due to nonpayment, or in some cases, due to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. Our debt and credit agreements do not contain provisions that trigger an acceleration of indebtedness based solely on the occurrence of a material adverse change in our financial condition or results of operations.

Debt Issuances. On March 12, 2015, SEP issued $500 million of 3.50% unsecured notes due 2025 and $500 million of 4.50% unsecured notes due 2045. Net proceeds from the offering were used to repay a portion of outstanding commercial paper, to fund capital expenditures and for general corporate purposes.

Table of Contents

11. Fair Value Measurements

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

Description	Condensed Consolidated Balance Sheet Caption	March 31, 2015 Total	Level 1	Level 2	Level 3
		(in millions)			
Corporate debt securities	Cash and cash equivalents	$191	$—	$191	$—
Corporate debt securities	Current assets—other	3		3	
Commodity derivatives	Current assets—other	43	—	—	43
Interest rate swaps	Current assets—other	2	—	2	—
Commodity derivatives	Investments and other assets—other	6	—	—	6
Corporate debt securities	Investments and other assets—other	20	—	20	—
Interest rate swaps	Investments and other assets—other	35	—	35	—
Total Assets		$300	$—	$251	$49

Description	Condensed Consolidated Balance Sheet Caption	December 31, 2014 Total	Level 1	Level 2	Level 3
		(in millions)			
Corporate debt securities	Cash and cash equivalents	$85	$—	$85	$—
Corporate debt securities	Current assets—other	3	—	3	—
Commodity derivatives	Current assets—other	57	—	—	57
Interest rate swaps	Current assets—other	2	—	2	—
Commodity derivatives	Investments and other assets—other	21	—	—	21
Corporate debt securities	Investments and other assets—other	20	—	20	—
Interest rate swaps	Investments and other assets—other	22	—	22	—
Money market funds	Investments and other assets—other	1	1	—	—
Total Assets		$211	$1	$132	$78

The following 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, 2015	2014
	(in millions)	
Derivative assets (liabilities)		
Fair value, beginning of period	$78	$(3)
Total gains (losses):		
Included in earnings	6	(4)
Included in other comprehensive income	(6)	3
Purchases	1	—
Settlements	(30)	(1)
Fair value, end of period	$49	$(5)
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 and liabilities held at the end of the period	$(16)	$(3)

17

Table of Contents

Level 1

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

Level 2 Valuation Techniques

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

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

Level 3 Valuation Techniques

Level 3 valuation techniques 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.

The derivative financial instruments reported in Level 3 at March 31, 2015 consist of NGL revenue swap contracts related to the Empress assets in Western Canada Transmission & Processing. As of March 31, 2015, we reported certain of our NGL basis swaps at fair value using Level 3 inputs due to such derivatives not having observable market prices for substantially the full term of the derivative asset or liability. For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is categorized in
Level 3. This includes derivatives valued using indicative price quotations whose contract length extends into unobservable periods.

The fair value of these NGL basis swaps is determined using a discounted cash flow valuation technique based on a forward commodity basis curve. For these derivatives, the primary input to the valuation model is the forward commodity basis curve, which is based on observable or public data sources and extrapolated when observable prices are not available.

The significant unobservable inputs used in the fair value measurements of our Level 3 derivatives are the forward NGL basis curves, for which a significant portion of the derivative's term is beyond available forward pricing. At March 31, 2015, a 10¢ per gallon movement in underlying forward NGL prices, primarily propane prices, would affect the estimated fair value of our NGL derivatives by $15 million. This calculated amount does not take into account any other changes to the fair value measurement calculation.

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, 2015		December 31, 2014	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
	(in millions)			
Note receivable, noncurrent (a)	$71	$71	$71	$71
Long-term debt, including current maturities (b)	13,641	15,308	13,060	14,446

(a) Included within Investments in and Loans to Unconsolidated Affiliates.
(b) Excludes capital leases, unamortized items and fair value hedge carrying value adjustments.

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

Table of Contents

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

During the three month periods ended March 31, 2015 and 2014, there were no material adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

12. Risk Management and Hedging Activities

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

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

Other than interest rate swaps and commodity derivatives as described below, we did not have significant derivatives outstanding during the three months ended March 31, 2015.

Interest Rate Swaps

At March 31, 2015, we had “pay floating—receive fixed” interest rate swaps outstanding with a total notional amount of $1,199 million to hedge against changes in the fair value of our fixed-rate debt that arise as a result of changes in market interest rates. These swaps also allow us to transform a portion of the underlying interest payments related to our long-term fixed-rate debt securities into variable-rate interest payments in order to achieve our desired mix of fixed and variable-rate debt.

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

	March 31, 2015			December 31, 2014		
	Gross Amounts Presented in the Condensed Consolidated Balance Sheets	Amounts Not Offset in the Condensed Consolidated Balance Sheets	Net Amount	Gross Amounts Presented in the Condensed Consolidated Balance Sheets	Amounts Not Offset in the Condensed Consolidated Balance Sheets	Net Amount
Description	(in millions)					
Assets	$37	$ —	$37	$24	$ —	$24

Commodity Derivatives

At March 31, 2015, we had commodity mark-to-market derivatives outstanding with a total notional amount of 151 million gallons. The longest dated commodity derivative contract we currently have expires in 2017.

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

	March 31, 2015	December 31, 2014
	Gross	Gross

Description	Gross Amounts	Amounts Offset	Net Amount Presented in the Condensed Consolidated Balance Sheets	Gross Amounts	Amounts Offset	Net Amount Presented in the Condensed Consolidated Balance Sheets
	(in millions)					
Assets	$134	$85	$49	$169	$91	$78
Liabilities	85	85	—	91	91	—

Substantially all of our commodity derivative agreements outstanding at March 31, 2015 and December 31, 2014 have provisions that require collateral to be posted in the amount of the net liability position if one of our credit ratings falls below investment grade.

Table of Contents

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

Derivatives	Condensed Consolidated Statement of Operations Caption	Three Months Ended March 31, 2015	2014
		(in millions)	
Commodity derivatives	Sales of natural gas liquids	$7	$(3)