Spectra Energy Corp.
Form 10-Q
August 07, 2013
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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 June 30, 2013
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 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 June 30, 2013: 669,337,440

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FORM 10-Q FOR THE QUARTER ENDED
June 30, 2013
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SPECTRA ENERGY CORP
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In millions, except per-share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Operating Revenues				
Transportation, storage and processing of natural gas	$766	$784	$1,566	$1,615
Distribution of natural gas	283	240	908	745
Sales of natural gas liquids	65	56	177	205
Transportation of crude oil	67	—	80	—
Other	39	32	78	91
Total operating revenues	1,220	1,112	2,809	2,656
Operating Expenses				
Natural gas and petroleum products purchased	167	146	632	579
Operating, maintenance and other	410	334	742	655
Depreciation and amortization	196	185	382	369
Property and other taxes	93	81	193	169
Total operating expenses	866	746	1,949	1,772
Gains on Sales of Other Assets and Other, net	—	1	—	2
Operating Income	354	367	860	886
Other Income and Expenses				
Equity in earnings of unconsolidated affiliates	72	91	182	209
Other income and expenses, net	22	18	55	34
Total other income and expenses	94	109	237	243
Interest Expense	160	155	309	312
Earnings From Continuing Operations Before Income Taxes	288	321	788	817
Income Tax Expense From Continuing Operations	62	80	192	217
Income From Continuing Operations	226	241	596	600
Income From Discontinued Operations, net of tax	—	—	—	2
Net Income	226	241	596	602
Net Income—Noncontrolling Interests	27	26	57	54
Net Income—Controlling Interests	$199	$215	$539	$548
Common Stock Data				
Weighted-average shares outstanding				
Basic	669	653	669	652
Diluted	671	655	671	655
Earnings per share from continuing operations				
Basic	$0.30	$0.33	$0.81	$0.84
Diluted	$0.30	$0.33	$0.80	$0.83
Earnings per share				
Basic	$0.30	$0.33	$0.81	$0.84
Diluted	$0.30	$0.33	$0.80	$0.84

Dividends per share	$0.305	$0.28	$0.61	$0.56

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Income	$226	$241	$596	$602
Other comprehensive income (loss)				
Foreign currency translation adjustments	(251)	(133)	(440)	29
Unrealized mark-to-market net gain on hedges	—	3	3	3
Reclassification of cash flow hedges into earnings	2	2	4	4
Pension and benefits impact	10	18	21	23
Other	(1)	—	—	—
Total other comprehensive income (loss)	(240)	(110)	(412)	59
Total Comprehensive Income (Loss), net of tax	(14)	131	184	661
Less: Comprehensive Income—Noncontrolling Interests	25	24	52	54
Comprehensive Income (Loss)—Controlling Interests	$(39)	$107	$132	$607

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	$217	$ 94
Receivables, net	957	970
Inventory	224	309
Other	329	290
Total current assets	1,727	1,663
Investments and Other Assets		
Investments in and loans to unconsolidated affiliates	2,883	2,692
Goodwill	4,806	4,513
Other	685	572
Total investments and other assets	8,374	7,777
Property, Plant and Equipment		
Cost	27,656	26,257
Less accumulated depreciation and amortization	6,359	6,352
Net property, plant and equipment	21,297	19,905
Regulatory Assets and Deferred Debits	1,262	1,242
Total Assets	$32,660	$ 30,587

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)

	June 30, 2013	December 31, 2012
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$577	$ 464
Commercial paper	1,684	1,259
Taxes accrued	86	67
Interest accrued	189	185
Current maturities of long-term debt	1,140	921
Other	835	895
Total current liabilities	4,511	3,791
Long-term Debt	11,656	10,653
Deferred Credits and Other Liabilities		
Deferred income taxes	4,883	4,358
Regulatory and other	1,623	1,684
Total deferred credits and other liabilities	6,506	6,042
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, 669 million and 668 million shares outstanding at June 30, 2013 and December 31, 2012, respectively	1	1
Additional paid-in capital	5,347	5,297
Retained earnings	2,294	2,165
Accumulated other comprehensive income	1,102	1,509
Total controlling interests	8,744	8,972
Noncontrolling interests	985	871
Total equity	9,729	9,843
Total Liabilities and Equity	$32,660	$ 30,587

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$596	$602
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	388	375
Deferred income tax expense	182	147
Equity in earnings of unconsolidated affiliates	(182)	(209)
Distributions received from unconsolidated affiliates	147	197
Other	69	47
Net cash provided by operating activities	1,200	1,159
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(959)	(789)
Investments in and loans to unconsolidated affiliates	(168)	—
Acquisitions, net of cash acquired	(1,254)	(30)
Purchases of held-to-maturity securities	(456)	(1,490)
Proceeds from sales and maturities of held-to-maturity securities	463	1,387
Purchases of available-for-sale securities	(2,899)	—
Proceeds from sales and maturities of available-for-sale securities	2,722	21
Distributions received from unconsolidated affiliates	13	11
Other changes in restricted funds	1	92
Other	2	6
Net cash used in investing activities	(2,535)	(792)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	1,848	—
Payments for the redemption of long-term debt	(546)	(28)
Net increase in commercial paper	440	15
Distributions to noncontrolling interests	(69)	(56)
Dividends paid on common stock	(412)	(372)
Proceeds from the issuance of Spectra Energy Partners, LP common units	190	—
Other	10	27
Net cash provided by (used in) financing activities	1,461	(414)
Effect of exchange rate changes on cash	(3)	—
Net increase (decrease) in cash and cash equivalents	123	(47)
Cash and cash equivalents at beginning of period	94	174
Cash and cash equivalents at end of period	$217	$127
Supplemental Disclosures		
Property, plant and equipment non-cash accruals	$148	$182

See Notes to Condensed Consolidated Financial Statements.

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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, 2012	$1	$5,297	$2,165	$2,044	$(535)	$871	$9,843
Net income	—	—	539	—	—	57	596
Other comprehensive income (loss)	—	—	—	(435)	28	(5)	(412)
Dividends on common stock	—	—	(410)	—	—	—	(410)
Stock-based compensation	—	4	—	—	—	—	4
Distributions to noncontrolling interests	—	—	—	—	—	(69)	(69)
Spectra Energy common stock issued	—	10	—	—	—	—	10
Spectra Energy Partners, LP common units issued	—	38	—	—	—	128	166
Other, net	—	(2)	—	—	—	3	1
June 30, 2013	$1	$5,347	$2,294	$1,609	$(507)	$985	$9,729
December 31, 2011	$1	$4,814	$1,977	$1,832	$(559)	$831	$8,896
Net income	—	—	548	—	—	54	602
Other comprehensive income	—	—	—	29	30	—	59
Dividends on common stock	—	—	(369)	—	—	—	(369)
Stock-based compensation	—	5	—	—	—	—	5
Distributions to noncontrolling interests	—	—	—	—	—	(56)	(56)
Spectra Energy common stock issued	—	11	—	—	—	—	11
June 30, 2012	$1	$4,830	$2,156	$1,861	$(529)	$829	$9,148

See Notes to Condensed Consolidated Financial Statements.

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SPECTRA ENERGY CORP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
1. General

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

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, currently 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. 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). In addition, with the first quarter 2013 acquisition of the Express-Platte pipeline system, we own and operate a crude oil pipeline system that connects Canadian and U.S. producers to refineries in the U.S. Rocky Mountain and Midwest regions.

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, 2012, and reflect all normal recurring adjustments that are, in our opinion, necessary to fairly present our results of operations and financial position. Amounts reported in the Condensed Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, primarily in our gas distribution operations, as well as changing commodity prices on certain of our processing operations and other factors.

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

2. Acquisition of Express-Platte

On March 14, 2013, we acquired 100% of the ownership interests in the Express-Platte pipeline system from Borealis Infrastructure, the Ontario Teachers’ Pension Plan and Kinder Morgan Energy Partners for $1.49 billion, consisting of $1.25 billion in cash and $247 million of acquired debt, before working capital adjustments. The Express-Platte pipeline system, which begins in Hardisty, Alberta, and terminates in Wood River, Illinois, is comprised of both the Express and Platte crude oil pipelines. The Express pipeline carries crude oil to U.S. refining markets in the Rockies area, specifically Billings and Laurel, Montana, and Casper, Wyoming. The Platte pipeline, which interconnects with Express pipeline in Casper, transports crude oil predominantly from the Bakken and western Canada to refineries in the Midwest. These assets are a part of our new reportable business segment, “Liquids,” which also includes our one-third ownership interest in DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills).

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The following table summarizes the preliminary fair values of the assets and liabilities acquired as of March 14, 2013. Subsequent adjustments may be recorded upon the completion of the valuation and the final determination of the purchase price allocation.

	Purchase Price Allocation (in millions)
Cash purchase price	$ 1,250
Working capital and other purchase adjustments	71
Total	1,321
Cash	67
Receivables	21
Other current assets	10
Property, plant and equipment	1,352
Accounts payable	(20)
Other current liabilities	(14)
Deferred credits and other liabilities	(326)
Long-term debt, including current portion	(247)
Total assets acquired/liabilities assumed	843
Goodwill	$ 478

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

Pro forma results of operations that reflect the acquisition of Express-Platte as if the acquisition had occurred as of the beginning of the periods in this report are not presented as they do not materially differ from actual results reported in our Condensed Consolidated Statements of Operations.

As of June 30, 2013, Express-Platte debt, including current maturities, totaled $228 million, consisting of $118 million of 7.39% subordinated notes due 2019 and $110 million of 6.09% senior notes due 2020. The notes are secured by the assignment of the Express-Platte transportation receivables and by the Canadian portion of the Express-Platte pipeline system assets.

On August 2, 2013, subsidiaries of Spectra Energy contributed a 40% interest in the U.S. portion of Express-Platte to Spectra Energy Partners, LP (Spectra Energy Partners) and sold a 100% ownership interest in the Canadian portion to Spectra Energy Partners. See Note 22 for further discussion.

3. Business Segments

We manage our business in five reportable segments: U.S. Transmission, Distribution, Western Canada Transmission & Processing, Field Services and Liquids. The remainder of our business operations is presented as "Other," and consists of unallocated corporate costs, 100%-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 of segments within our reportable 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, a master limited partnership owned 58% by Spectra Energy as of June 30, 2013, is part of the U.S. Transmission segment.

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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 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, compresses, treats, processes, transports, stores and sells natural gas. In addition, this segment also produces, fractionates, transports, stores, sells, markets and trades NGLs and condensate. It conducts operations through DCP Midstream, which is owned 50% by us and 50% by Phillips 66. DCP Midstream gathers raw natural gas through gathering systems located in nine major conventional and non-conventional natural gas producing regions: Mid-Continent, Rocky Mountain, East Texas-North Louisiana, Barnett Shale, Gulf Coast, South Texas, Central Texas, Antrim Shale and Permian Basin. DCP Midstream has a 26% ownership interest in DCP Midstream Partners, LP (DCP Partners), a master limited partnership.

Liquids, a newly formed segment effective with the March 2013 acquisition of Express-Platte, provides transportation of crude oil and NGLs. The Express pipeline carries crude oil from Alberta, Canada to refining markets in the Rockies area. The Platte pipeline, which interconnects with Express pipeline in Casper, Wyoming, transports crude oil predominantly from the Bakken and western Canada to refineries in the Midwest. These operations are primarily subject to the rules and regulations of the FERC and NEB. The Sand Hills and Southern Hills pipelines, which were placed in service in the second quarter of 2013, provide transportation of NGLs from the Permian Basin and Eagle Ford region to the premium NGL markets on the Gulf Coast, and from the Mid-Continent to Mont Belvieu, Texas, respectively. We have direct one-third ownership interests in Sand Hills and Southern Hills. DCP Midstream and Phillips 66 also each own direct one-third ownership interests in the two pipelines. Sand Hills and Southern Hills are subject to the rules and regulations of the FERC.

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), which 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.

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Business Segment Data

Condensed Consolidated Statements of Operations	Unaffiliated Revenues	Intersegment Revenues	Total Operating Revenues (a)	Segment EBIT/ Consolidated Earnings from Continuing Operations before Income Taxes (a)
		(in millions)		
Three Months Ended June 30, 2013				
U.S. Transmission	$454	$2	$ 456	$ 248
Distribution	352	—	352	65
Western Canada Transmission & Processing	339	18	357	74
Field Services	—	—	—	46
Liquids	73	—	73	32
Total reportable segments	1,218	20	1,238	465
Other	2	12	14	(45)
Eliminations	—	(32)	(32)	—
Interest expense	—	—	—	160
Interest income and other (b)	—	—	—	28
Total consolidated	$1,220	$—	$ 1,220	$ 288
Three Months Ended June 30, 2012				
U.S. Transmission	$462	$2	$ 464	$ 237
Distribution	322	—	322	75
Western Canada Transmission & Processing	325	4	329	94
Field Services	—	—	—	66
Liquids	—	—	—	—
Total reportable segments	1,109	6	1,115	472
Other	3	16	19	(25)
Eliminations	—	(22)	(22)	—
Interest expense	—	—	—	155
Interest income and other (b)	—	—	—	29
Total consolidated	$1,112	$—	$ 1,112	$ 321
Six Months Ended June 30, 2013				
U.S. Transmission	$935	$5	$ 940	$ 514
Distribution	1,051	—	1,051	233
Western Canada Transmission & Processing	732	33	765	185
Field Services	—	—	—	134
Liquids	86	—	86	38
Total reportable segments	2,804	38	2,842	1,104
Other	5	24	29	(71)
Eliminations	—	(62)	(62)	—
Interest expense	—	—	—	309
Interest income and other (b)	—	—	—	64
Total consolidated	$2,809	$—	$ 2,809	$ 788
Six Months Ended June 30, 2012				

U.S. Transmission	$955	$4	$ 959	$ 508
Distribution	919	—	919	226
Western Canada Transmission & Processing	778	17	795	232
Field Services	—	—	—	159
Liquids	—	—	—	—
Total reportable segments	2,652	21	2,673	1,125
Other	4	36	40	(54)
Eliminations	—	(57)	(57)	—
Interest expense	—	—	—	312
Interest income and other (b)	—	—	—	58
Total consolidated	$2,656	$—	$ 2,656	$ 817

(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.

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Condensed Consolidated Balance Sheets

	June 30, 2013	December 31, 2012
	(in millions)	
Segment Assets		
U.S. Transmission	$13,248	$12,630
Distribution	5,442	5,842
Western Canada Transmission & Processing	6,303	6,431
Field Services	1,278	1,235
Liquids (a)	2,595	513
Total reportable segments	28,866	26,651
Other (a)	4,288	4,475
Eliminations	(494)	(539)
Total consolidated	$32,660	$30,587

(a) The December 31, 2012 amounts presented for Liquids and Other have been re-cast to reflect the move of our investments in Sand Hills and Southern Hills, totaling $513 million, from Other to Liquids effective with the creation of the Liquids operating segment in the first quarter of 2013.

4. Regulatory Matters

Union Gas. Union Gas' distribution rates, effective January 1, 2013, were approved by the OEB following a cost of service application since 2012 was the final year of a multi-year incentive regulation framework that began January 1, 2008.

In July 2013, Union Gas applied for OEB approval of the parameters of a new multi-year incentive regulation framework. The parameters were determined through a settlement process and negotiated agreement with the key stakeholders who regularly participate in Union Gas' rates applications and who represent the interests of its customers.

The new incentive regulation framework establishes new rates at the beginning of each year through the use of a pricing formula rather than through the examination of revenue and cost forecasts. The framework allows for annual inflationary rate increases, offset by a productivity factor of 60% of inflation, such that the annual net rate escalator in each year is 40% of inflation. The framework also allows for rate increases in the small volume customer classes where average use is declining, a five-year term commencing in 2014, certain adjustments to base rates, the continued pass-through of gas commodity, upstream transportation and demand side management costs, the additional pass-through of costs associated with major capital investments and certain fuel variances, an allowance for unexpected cost changes that are outside of management's control, earnings sharing between Union Gas and its customers beyond specified earnings levels, and equal sharing of tax changes between Union Gas and its customers. A hearing on the proposed framework and the related settlement agreement is expected later this year.

In December 2012, Union Gas appealed the OEB's decision on the disposition of the 2011 non-commodity deferral account balances to the Ontario Divisional Court. The basis of the appeal is impermissible retroactive ratemaking. A hearing has been set for October 2013.

In May 2013, Union Gas filed an application with the OEB for the annual disposition of the 2012 non-commodity deferral account balances. The application included a proposal that revenues derived from the optimization of upstream transportation contracts in 2012 be treated as optimization revenues and included in utility earnings rather than as a reduction to gas costs. Optimization revenues had been classified as utility earnings for 2008, 2009 and 2010, and were reclassified as a reduction to gas costs by the OEB in the 2011 non-commodity deferral account balances proceeding. The net impact on customers for the 2012 non-commodity deferral account balances, including the impact of earnings sharing, would be a receivable of less than $1 million. If the OEB finds that the 2012 revenues earned from the optimization of Union Gas' upstream transportation contracts should be treated as a reduction to gas costs, 90% of which are to be credited to customers, the combined impact on customers would be a net refund payable of $17 million, comprised of $39 million in Other Current Liabilities and $22 million in Other Current Assets, which is reflected on the Condensed Consolidated Balance Sheets at June 30, 2013 and December 31, 2012. A hearing on this matter is expected later this year.

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Express-Platte. Express Pipeline Limited Partnership’s proposal for increases in uncommitted rates filed with the NEB became effective on April 1, 2013. Express Pipeline Limited Partnership, Express Pipeline LLC, and Platte Pipe Line Company, LLC’s proposal for increases in joint committed rates filed with the NEB and FERC also became effective on April 1, 2013. Express Pipeline LLC’s and Platte Pipe Line Company, LLC’s proposals for increases in uncommitted rates filed with the FERC became effective on July 1, 2013.

5. Income Taxes

Income tax expense from continuing operations for the three months ended June 30, 2013 was $62 million, compared to $80 million for the same period in 2012. Income tax expense from continuing operations for the six months ended June 30, 2013 was $192 million, compared to $217 million for the same period in 2012. The lower income tax expense for the 2013 periods resulted mainly from favorable enacted Canadian federal income tax legislation and lower earnings.

The effective tax rates for income from continuing operations for the three months ended June 30, 2013 and 2012 were 22% and 25%, respectively, and 24% and 27% for the six-month periods, respectively. The lower effective tax rates in the 2013 periods resulted primarily from favorable enacted Canadian federal income tax legislation.

We recorded a $14 million decrease in unrecognized tax benefits during the six-month period ended June 30, 2013 due to enacted Canadian federal income tax legislation. Although uncertain, we believe it is reasonably possible that the total amount of unrecognized tax benefits could increase by approximately $7 million prior to June 30, 2014 as a result of the expiration of statutes of limitation and expected audit settlements.

6. Discontinued Operations

Discontinued operations in 2012 was mostly comprised of the net effects of a settlement arrangement related to prior liquefied natural gas (LNG) contracts. Purchases and sales of propane under these agreements ended in 2012. See Note 10 for further discussion.

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	Income From Discontinued Operations, Net of Tax
	(in millions)			
Three Months Ended June 30, 2012				
Other	$42	$—	$—	$—
Total consolidated	$42	$—	$—	$—
Six Months Ended June 30, 2012				
Other	$99	$3	$1	$2
Total consolidated	$99	$3	$1	$2

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.

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The following table presents our basic and diluted EPS calculations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions, except per-share amounts)			
Income from continuing operations, net of tax—controlling interests	$199	$215	$539	$546
Income from discontinued operations, net of tax—controlling interests	—	—	—	2
Net income—controlling interests	$199	$215	$539	$548
Weighted-average common shares outstanding				
Basic	669	653	669	652
Diluted	671	655	671	655
Basic earnings per common share (a)				
Continuing operations	$0.30	$0.33	$0.81	$0.84
Total basic earnings per common share	$0.30	$0.33	$0.81	$0.84
Diluted earnings per common share (a)				
Continuing operations	$0.30	$0.33	$0.80	$0.83
Discontinued operations, net of tax	—	—	—	0.01
Total diluted earnings per common share	$0.30	$0.33	$0.80	$0.84

(a) Quarterly earnings-per-share amounts are stand-alone calculations and may not be additive to full-year amounts due to rounding.

8. 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)				
March 31, 2013	$1,858	$ (496)	$(18)	$(4)	$ 1,340
Reclassified to Net Income	—	—	1	1	2
Other AOCI activity	(249)	10	—	(1)	(240)
June 30, 2013	$1,609	$ (486)	$(17)	$(4)	$ 1,102
December 31, 2012	$2,044	$ (507)	$(23)	$(5)	$ 1,509
Reclassified to Net Income	—	—	3	1	4
Other AOCI activity	(435)	21	3	—	(411)
June 30, 2013	$1,609	$ (486)	$(17)	$(4)	$ 1,102

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

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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 the lower of cost or market, primarily using average cost. The components of inventory are as follows:

	June 30, 2013	December 31, 2012
	(in millions)	
Natural gas	$106	$ 200
NGLs	40	31
Materials and supplies	78	78
Total inventory	$224	$ 309

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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions)			
Operating revenues	$2,861	$2,219	$5,473	$5,121
Operating expenses	2,671	1,998	5,121	4,692
Operating income	190	221	352	429
Net income	142	185	262	340
Net income attributable to members’ interests	78	132	169	276

DCP Midstream recorded gains on sales of common units of DCP Partners in each of the first and second quarters of 2013 and 2012 directly to DCP Midstream’s equity. Our proportionate 50% share, totaling $7 million and $1 million in the second quarters of 2013 and 2012, respectively, and $50 million and $22 million during the six-month periods ended June 30, 2013 and 2012, respectively, was recorded in Equity in Earnings of Unconsolidated Affiliates in the Condensed Consolidated Statements of Operations.

Related Party Transactions. In 2008, we entered into a settlement agreement related to certain LNG transportation contracts under which one of our subsidiaries’ claims were satisfied pursuant to commercial transactions involving the purchase of propane from certain parties. We subsequently entered into associated agreements with affiliates of DCP Midstream for the sale of these propane volumes. Net purchases and sales of propane under these arrangements are reflected as discontinued operations. Purchases of propane under the settlement agreement, and subsequent sales to affiliates of DCP Midstream, ended during the second quarter of 2012. Sales of propane to affiliates of DCP Midstream were $42 million and $99 million for the three and six months ended June 30, 2012, respectively.

11. Goodwill

We perform our goodwill impairment test annually and evaluate goodwill when events or changes in circumstances indicate that its carrying value may not be recoverable. We completed our annual goodwill impairment test as of April 1, 2013 and no impairments were identified.

We perform our annual review for goodwill impairment at the reporting unit level, which is identified by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available, whether segment management regularly reviews the operating results of those components and whether the economic and

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regulatory characteristics are similar. We determined that our reporting units are equivalent to our reportable segments, except for the reporting units of our Western Canada Transmission & Processing reportable segment, which are one level below.

As permitted under accounting guidance on testing goodwill for impairment, we perform either a qualitative assessment or a quantitative assessment of each of our reporting units based on management's judgment. With respect to our qualitative assessments, we consider events and circumstances specific to us, such as macroeconomic conditions, industry and market considerations, cost factors and overall financial performance, when evaluating whether it is more likely than not that the fair values of our reporting units are less than their respective carrying amounts.

In connection with our quantitative assessments, we primarily use a discounted cash flow analysis to determine fair values of those reporting units. Key assumptions in the determination of fair value include the use of an appropriate discount rate and estimated future cash flows. In estimating cash flows, we incorporate expected long-term growth rates in key markets served by our operations, regulatory stability, the ability to renew contracts, commodity prices (where appropriate), and foreign currency exchange rates, as well as other factors that affect our reporting units' revenue, expense and capital expenditure projections.

Our Empress NGL business, a reporting unit within Western Canada Transmission & Processing, is significantly affected by fluctuations in commodity prices. We updated our Empress NGL reporting unit's impairment test using recent operational information, financial data and June 30, 2013 commodity prices, and concluded there was no impairment of goodwill related to Empress.

The following presents changes in goodwill during 2013:

	Goodwill (in millions)
December 31, 2012	$4,513
Acquisition of Express-Platte	478
Foreign currency translation	(185)
June 30, 2013	$4,806

See Note 2 for discussion of the acquisition of Express-Platte.

12. Marketable Securities and Restricted Funds

We routinely invest excess cash and various restricted balances in securities such as commercial paper, bankers acceptances, corporate debt securities, treasury bills and money market funds in the United States and Canada. We do not purchase marketable securities for speculative purposes, therefore we do not have any securities classified as trading securities. While we do not routinely sell marketable securities prior to their scheduled maturity dates, some of our investments are held and restricted for the purposes of funding Spectra Energy Partners' future capital expenditures and acquisitions, and for insurance, 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

	June 30, 2013	December 31, 2012
	(in millions)	
Corporate debt securities	$341	$164
Money market funds	1	1
Total available-for-sale securities	$342	$165

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Most of our AFS securities are restricted funds and are as follows:

	Estimated Fair Value	
	June 30, 2013	December 31, 2012
	(in millions)	
Restricted funds		
Investments and other assets—other	$321	$142
Non-restricted funds		
Current assets—other	19	16
Investments and other assets—other	2	7
Total available-for-sale securities	$342	$165

During the second quarter of 2013, we invested the proceeds from Spectra Energy Partners' issuance of common units in AFS marketable securities. These securities are restricted for the purpose of funding future Spectra Energy Partners' capital expenditures and acquisitions.

At June 30, 2013, the weighted-average contractual maturity of outstanding AFS securities was less than one year.

There were no material gross unrealized holding gains or losses associated with investments in AFS securities at June 30, 2013 or December 31, 2012.

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

		Estimated Fair Value	
Description	Condensed Consolidated Balance Sheet Caption	June 30, 2013	December 31, 2012
		(in millions)	
Bankers acceptances	Current assets—other	$35	$37
Canadian government securities	Current assets—other	35	39
Money market funds	Current assets—other	17	—
Canadian government securities	Investments and other assets—other	159	171
Bankers acceptances	Investments and other assets—other	—	15
Total held-to-maturity securities		$246	$262

All of our HTM securities are restricted funds pursuant to certain Maritimes & Northeast Pipeline Limited Partnership (M&N LP) and Express-Platte debt agreements. The funds restricted for M&N LP, plus future cash from operations that would have otherwise been available for distribution to the partners of M&N LP, were required to be placed in escrow until the balance in escrow was sufficient to fund all future debt service on the M&N LP notes. There were sufficient funds held in escrow to fund all future debt service on the M&N LP notes as of June 30, 2013.

At June 30, 2013, 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 June 30, 2013 or December 31, 2012.

Other Restricted Funds. In addition to the portions of the AFS and HTM securities that were restricted funds as described above, we had other restricted funds totaling $13 million at June 30, 2013 and $21 million at December 31, 2012 classified as Current Assets—Other. These restricted funds are related to additional amounts for insurance.

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

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13. Debt and Credit Facilities
Available Credit Facilities and Restrictive Debt Covenants

	Expiration Date	Total Credit Facilities Capacity (in millions)	Outstanding at June 30, 2013			Available Credit Facilities Capacity
			Commercial Paper	Letters of Credit	Total	
Spectra Energy Capital, LLC						
Multi-year syndicated (a)	2016	$1,500	$1,128	$7	$1,135	$365
Westcoast Energy Inc.						
Multi-year syndicated (b)	2016	285	232	—	232	53
Union Gas						
Multi-year syndicated (c)	2016	380	—	—	—	380
Spectra Energy Partners						
Multi-year syndicated (d)	2016	700	324	—	324	376
Total		$2,865	$1,684	$7	$1,691	$1,174

(a) 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%. This ratio was 62% at June 30, 2013.

(b) U.S. dollar equivalent at June 30, 2013. The credit facility is 300 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 48% at June 30, 2013.

(c) U.S. dollar equivalent at June 30, 2013. The credit facility is 400 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 June 30, 2013.

(d) Credit facility contains a covenant that requires Spectra Energy Partners to maintain a ratio of total Debt-to-Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), as defined in the credit agreement, of 5.0 or less. As of June 30, 2013, this ratio was 3.1. Adjusted EBITDA is a non-GAAP measure. Because Adjusted EBITDA excludes some, but not all, items that affect net income and is defined differently by companies in our industry, Spectra Energy Partners' definition of Adjusted EBITDA may not be comparable to similarly titled measures of other companies. Adjusted EBITDA should not be considered an alternative to net income, operating income, cash from operations or any other measure of financial performance or liquidity presented in accordance with GAAP.

The issuances of commercial paper, letters of credit and revolving borrowings reduce the amounts available under the credit facilities. As of June 30, 2013, there were no revolving borrowings outstanding.

Our credit agreements contain various covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of June 30, 2013, 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.

As noted above, the terms of the Spectra Energy Capital, LLC (Spectra Capital) credit agreement requires our consolidated debt-to-total capitalization ratio, as defined in the agreement, to be 65% or lower. Per the terms of the agreement, collateralized debt and Spectra Energy Partners' debt and capitalization are excluded in the calculation of the ratio. This ratio was 62% at June 30, 2013.

Delayed-draw Term Loan Agreement. In December 2012, Spectra Capital entered into a three-year $1.2 billion unsecured delayed-draw term loan agreement which allowed for up to four borrowings prior to March 1, 2013. The full $1.2 billion available under the agreement was borrowed in the first quarter of 2013. These borrowings are due in 2015 and are classified as Long-term Debt on the Condensed Consolidated Balance Sheets. Proceeds from borrowings under the term loan were used for general corporate purposes, including acquisitions and to refinance existing indebtedness.

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14. 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	June 30, 2013 Total	Level 1	Level 2	Level 3
		(in millions)			
Corporate debt securities	Cash and cash equivalents	$63	$—	$63	$—
Corporate debt securities	Current assets—other	19	—	19	—
Derivative assets—interest rate swaps	Current assets—other	5	—	5	—
Corporate debt securities	Investments and other assets—other	322	—	322	—
Derivative assets—interest rate swaps	Investments and other assets—other	25	—	25	—
Money market funds	Investments and other assets—other	1	1	—	—
Total Assets		$435	$1	$434	$—
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	9	—	9	—
Total Liabilities		$15	$—	$9	$6

Description	Condensed Consolidated Balance Sheet Caption	December 31, 2012 Total	Level 1	Level 2	Level 3
		(in millions)			
Corporate debt securities	Cash and cash equivalents	$52	$—	$52	$—
Corporate debt securities	Current assets—other	16	—	16	—
Derivative assets—interest rate swaps	Current assets—other	13	—	13	—
Corporate debt securities	Investments and other assets—other	148	—	148	—
Derivative assets—interest rate swaps	Investments and other assets—other	48	—	48	—
Money market funds	Investments and other assets—other	1	1	—	—
Total Assets		$278	$1	$277	$—
Derivative liabilities—natural gas purchase contracts	Deferred credits and other liabilities—regulatory and other	$9	$—	$—	$9
Derivative liabilities—interest rate swaps	Deferred credits and other liabilities—regulatory and other	12	—	12	—
Total Liabilities		$21	$—	$12	$9

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

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(in millions)			
Long-term derivative liabilities				
Fair value, beginning of period	$6	$15	$9	$14

Total realized/unrealized losses (gains):				
Included in earnings	—	1	1	—
Included in other comprehensive income	—	(5)	(4)	(3)
Settlements	—	(1)	—	(1)
Fair value, end of period	$6	$10	$6	$10
Total losses (gains) 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	$—	$(1)	$1	$—

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Level 1

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

Level 2 Valuation Techniques

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

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

Level 3 Valuation Techniques

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

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.

	June 30, 2013		December 31, 2012	
	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)	12,773	13,950	11,518	13,539

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

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

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 2013 and 2012 periods, there were no material adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

15. Risk Management and Hedging Activities

We are exposed to the impact of market fluctuations in the prices of NGLs and natural gas purchased as a result of our investment in DCP Midstream, and the ownership of the NGL marketing operations in western Canada and the processing plants 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, primarily around interest rate exposures.

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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.

At June 30, 2013, we had "pay floating—receive fixed" interest rate swaps outstanding with a total notional principal amount of $1,589 million to hedge against changes in the fair value of our fixed-rate debt that arise as a result of changes in market interest rates. These swaps also allow us to transform a portion of the underlying interest payments related to our long-term fixed-rate debt securities into variable-rate interest payments in order to achieve our desired mix of fixed and variable-rate debt.

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

Description	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
	June 30, 2013			December 31, 2012		
	(in millions)					
Assets	$30	$ 4	$26	$61	$ 7	$54
Liabilities	9	4	5	12	7	5

As of June 30, 2013, we had an interest rate swap with a counterparty which was in a net liability position of $5 million which could be terminated at any time. In addition, we had an interest rate swap with another counterparty which was in a net liability position of $4 million which could be terminated by the counterparty if any of our credit ratings falls below investment grade.

Other than interest rate swaps described above, we did not have any significant derivatives outstanding during the six months ended June 30, 2013.

16. Commitments and Contingencies

Environmental

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

Like others in the energy industry, we and our affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of our ongoing operations, sites formerly owned or used by us, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state/provincial and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, we or our affiliates could potentially be held responsible for contamination caused by other parties. In some instances, we may share liability associated with contamination with other potentially responsible parties, and may also benefit from 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 undiscounted liabilities related to extended environmental-related activities totaling $12 million as of June 30, 2013 and $13 million as of December 31, 2012. These liabilities 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 involve substantial monetary amounts. We have insurance coverage for certain of these losses should they be incurred. We believe that the final disposition of these proceedings will not have a material effect on our consolidated results of operations, financial position or cash flows.

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Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves recorded as of June 30, 2013 or December 31, 2012 related to litigation.

Other Commitments and Contingencies

See Note 17 for a discussion of guarantees and indemnifications.

17. Guarantees and Indemnifications

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

We have issued performance guarantees to customers and other third parties that guarantee the payment and performance of other parties, including certain non-100%-owned entities. In connection with our spin-off from Duke Energy Corporation (Duke Energy) in 2007, certain guarantees that were previously issued by us were assigned to, or replaced by, Duke Energy as guarantor in 2006. For any remaining guarantees of other Duke Energy obligations, Duke Energy has indemnified us against 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 June 30, 2013 was approximately $406 million, which has been indemnified by Duke Energy as discussed above. One of these outstanding performance guarantees, which has a maximum potential amount of future payment of $201 million, expires in 2028. The remaining guarantees have no contractual expirations.

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

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

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

As of June 30, 2013, the amounts recorded for the guarantees and indemnifications described above are not material, both individually and in the aggregate.

18. Sale of Spectra Energy Partners Units

In April 2013, Spectra Energy Partners issued 5.2 million common units to the public, representing limited partner interests, and 0.1 million general partner units to Spectra Energy. Total net proceeds to Spectra Energy Partners were $193 million (net proceeds to Spectra Energy were $190 million) and are restricted for the purposes of funding Spectra Energy Partners’ capital expenditures and acquisitions. The sale of the units decreased Spectra Energy's ownership in Spectra Energy Partners from 61% to 58%. In connection with the sale of the units, a $61 million gain ($38 million net of tax) to Additional Paid-in Capital and a $128 million increase in Equity-Noncontrolling Interests were recorded in the second quarter of 2013.

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The following table presents the effects of changes in our ownership interests in non-100%-owned consolidated subsidiaries:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions)			
Net Income - Controlling Interests	$199	$215	$539	$548
Increase in Additional Paid-in Capital resulting from sale of units of Spectra Energy Partners	38	—	38	—
Total Net Income - Controlling Interests and changes in Equity - Controlling Interests	$237	$215	$577	$548

19. Employee Benefit Plans

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

Our policy is to fund our retirement plans, where applicable, on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants or as required by legislation or plan terms. We made contributions of $11 million to our U.S. retirement plans in both the six-month periods ended June 30, 2013 and 2012. We made total contributions to the Canadian DC and qualified DB plans of $46 million during the six months ended June 30, 2013 and $35 million for the same period in 2012. We anticipate that we will make total contributions of approximately $20 million to the U.S. plans and approximately $90 million to the Canadian plans in 2013.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions)			
U.S.				
Service cost benefit earned	$4	$4	$9	$7
Interest cost on projected benefit obligation	6	6	11	12
Expected return on plan assets	(8)	(7)	(16)	(15)
Amortization of loss	5	3	10	7
Net periodic pension cost	$7	$6	$14	$11
Canada				
Service cost benefit earned	$8	$6	$16	$13
Interest cost on projected benefit obligation	12	12	25	25
Expected return on plan assets	(16)	(14)	(33)	(29)
Amortization of loss	9	9	18	18
Amortization of prior service costs	1	1	1	1
Net periodic pension cost	$14	$14	$27	$28

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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in millions)			
U.S.				
Interest cost on accumulated post-retirement benefit obligation	$2	$1	$4	$4
Expected return on plan assets	(1)	(1)	(2)	(2)
Amortization of loss	1	1	1	1
Net periodic other post-retirement benefit cost	$2	$1	$3	$3
Canada				
Service cost benefit earned	$1	$2	$2	$4
Interest cost on accumulated post-retirement benefit obligation	1	1	3	3
Amortization of loss	—	1	—	1
Net periodic other post-retirement benefit cost	$2	$4	$5	$8

Retirement/Savings Plan

We have employee savings plans available to both U.S. and Canadian employees. Employees may participate in a matching contribution where we match a certain percentage of before-tax employee contributions of up to 6% of eligible pay per pay period for U.S. employees and up to 5% of eligible pay per pay period for Canadian employees. We expensed pre-tax employer matching contributions of $4 million and $3 million in the three-month periods ended June 30, 2013 and 2012, respectively, and $7 million in both the six-month periods ended June 30, 2013 and 2012 for U.S. employees. We expensed pre-tax employer matching contributions of $3 million in both the three-month periods ended June 30, 2013 and 2012 and $6 million in both the six-month periods ended June 30, 2013 and 2012 for Canadian employees.

20. Consolidating Financial Information

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

Certain amounts in the condensed consolidating statement of cash flows for the 2012 period, primarily cash flows related to intercompany receivables, payables and advances, have been reclassified to conform to the current period presentation.

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

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Three Months Ended June 30, 2013					
Total operating revenues	$—	$—	$ 1,220	$ —	$ 1,220
Total operating expenses	1	—	865	—	866
Operating income (loss)	(1)	—	355	—	354
Equity in earnings of unconsolidated affiliates	—	—	72	—	72
Equity in earnings of subsidiaries	194	317			