Spectra Energy Partners, LP
Form 10-Q
August 03, 2018

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, 2018
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 1-33556

SPECTRA ENERGY PARTNERS, LP
(Exact Name of Registrant as Specified in its Charter)

Delaware	41-2232463
(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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨
Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
At July 31, 2018, there were 484,890,253 common units outstanding.

SPECTRA ENERGY PARTNERS, LP
FORM 10-Q FOR THE QUARTER ENDED
June 30, 2018
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

- state, provincial, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an effect on rate structure, and affect the speed at and degree to which competition enters the natural gas and oil industries;
- outcomes of litigation and regulatory investigations, proceedings or inquiries;
- weather and other natural phenomena, including the economic, operational and other effects of hurricanes and storms;
- the timing and extent of changes in 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;
- interruption of our operations due to social, civil or political events or unrest;
- 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;
- growth in opportunities, including the timing and success of efforts to develop U.S. and Canadian pipeline, storage, gathering and other related infrastructure projects and the effects of competition;
- the performance of natural gas transmission, storage and gathering facilities, and crude oil transportation and storage;
- the extent of success in connecting natural gas and oil supplies to transmission and gathering 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;
- 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;
- the negotiation and execution, and the terms and conditions, of a definitive agreement relating to the proposed transaction and the timing and ability of Enbridge Inc. or Spectra Energy Partners, LP to enter into or consummate such agreement; and
- the focus of management time and attention on the proposed transaction and other disruptions arising from the proposed transaction.

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 Partners, LP has described. Spectra Energy Partners, LP undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements (Unaudited).
SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited; in millions, except per-unit amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Operating revenues				
Transportation of natural gas	$575	$538	$1,189	$1,076
Transportation of crude oil	97	100	195	201
Storage of natural gas and other	54	57	121	118
Total operating revenues	726	695	1,505	1,395
Operating expenses				
Operating, maintenance and other	191	209	379	436
Depreciation and amortization	90	87	179	172
Property and other taxes	59	56	119	112
Total operating expenses	340	352	677	720
Operating income	386	343	828	675
Other income and expenses				
Earnings from equity investments	71	40	129	78
Other income and expenses, net	26	49	34	94
Total other income and expenses	97	89	163	172
Interest expense	85	60	170	116
Earnings before income taxes	398	372	821	731
Income tax expense	7	5	12	10
Net income	391	367	809	721
Net income attributable to noncontrolling interests	10	39	21	76
Net income attributable to controlling interests	$381	$328	$788	$645
Net income attributable to controlling interests	$381	$328	$788	$645
Net income attributable to general partner	—	94	—	183
Net income attributable to limited partners	$381	$234	$788	$462
Weighted average limited partner units outstanding—basic and diluted	485	310	465	310
Net income per limited partner unit—basic and diluted	$0.78	$0.75	$1.69	$1.49
Distributions paid per limited partner unit	$0.75125	$0.70125	$1.49000	$1.39000

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$391	$367	$809	$721
Other comprehensive income:				
Foreign currency translation adjustments	(7)	6	(14)	7
General partner units restructuring	—	—	(3)	—
Change in unrealized gain on cash flow hedges	9	—	35	—
Other comprehensive income	2	6	18	7
Comprehensive income	393	373	827	728
Comprehensive income attributable to noncontrolling interests	10	39	21	76
Comprehensive income attributable to controlling interests	$383	$334	$806	$652

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; in millions)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$96	$107
Receivables (net of allowance for doubtful accounts of $13 million and $10 million at June 30, 2018 and December 31, 2017, respectively)	326	372
Inventory	62	40
Fuel Tracker	101	19
Other assets, net	36	23
Total current assets	621	561
Investments in and loans to unconsolidated affiliates	2,789	3,302
Goodwill	2,953	2,957
Property, plant and equipment, net	15,128	14,899
Regulatory and other assets	352	337
Total assets	$21,843	$22,056
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$286	$259
Taxes payable	112	84
Interest payable	85	68
Current portion of long-term debt	500	500
Other	144	194
Total current liabilities	1,127	1,105
Long-term debt	7,651	7,963
Deferred income taxes	46	46
Regulatory and other liabilities	1,018	1,041
Total liabilities	9,842	10,155
Commitments and contingencies		
Partners' capital		
Common units (484.9 and 312.4 units issued and outstanding at June 30, 2018 and December 31, 2017, respectively)	11,655	11,183
General partner units (no units and 6.4 units issued and outstanding at June 30, 2018 and December 31, 2017, respectively)	—	386
Accumulated other comprehensive loss	(15)	(33)
Total partners' capital	11,640	11,536
Noncontrolling interests	361	365
Total equity	12,001	11,901
Total liabilities and equity	$21,843	$22,056

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in millions)

	Six Months Ended June 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$809	$721
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	184	175
Deferred income tax expense	—	2
Earnings from equity investments	(129)	(78)
Distributions from equity investments	99	57
Regulatory liability - deferred income taxes	(25)	—
Change in operating assets and liabilities	(55)	(69)
Net cash provided by operating activities	883	808
INVESTING ACTIVITIES		
Capital expenditures	(385)	(1,361)
Investments in and loans to unconsolidated affiliates	(232)	(158)
Distributions from equity investments	36	21
Distribution from Sabal Trail debt proceeds	744	—
Other	—	2
Net cash provided by (used in) investing activities	163	(1,496)
FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	794	400
Payments for the redemption of long-term debt	—	(416)
Net change in credit facility draws and commercial paper borrowings	(1,093)	750
Distributions to noncontrolling interests	(28)	(25)
Contributions from noncontrolling interests	1	416
Proceeds from the issuances of units	—	87
Distributions to partners	(722)	(597)
Other	(11)	(1)
Net cash provided by (used in) financing activities	(1,059)	614
Net decrease in Cash, cash equivalents and restricted cash	(13)	(74)
Cash, cash equivalents and restricted cash at beginning of period	114	233
Cash, cash equivalents and restricted cash at end of period	$101	$159

The accompanying notes are an integral part of these condensed consolidated financial statements.

SPECTRA ENERGY PARTNERS, LP
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited; in millions)

	Partners' Capital				
	Common	General Partner	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
December 31, 2017	$11,183	$ 386	$ (33)	$ 365	$11,901
Net income	788	—	—	21	809
General partner units restructuring	389	(386)	(3)	—	—
Other comprehensive income	—	—	21	—	21
Attributed deferred tax benefit	21	—	—	2	23
Incentive distribution rights restructuring legal fees	(4)	—	—	—	(4)
Distributions to partners	(722)	—	—	—	(722)
Contributions from noncontrolling interests	—	—	—	1	1
Distributions to noncontrolling interests	—	—	—	(28)	(28)
June 30, 2018	$11,655	$ —	$ (15)	$ 361	$12,001
December 31, 2016	$11,650	$ 452	$ (45)	$ 1,347	$13,404
Net income	462	183	—	76	721
Other comprehensive income	—	—	7	—	7
Attributed deferred tax benefit	—	42	—	23	65
Issuances of units	85	2	—	—	87
Distributions to partners	(430)	(167)	—	—	(597)
Contributions from noncontrolling interests	—	—	—	416	416
Distributions to noncontrolling interests	—	—	—	(25)	(25)
June 30, 2017	$11,767	$ 512	$ (38)	$ 1,837	$14,078

The accompanying notes are an integral part of these condensed consolidated financial statements.

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SPECTRA ENERGY PARTNERS, LP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. General

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

Nature of Operations. Spectra Energy Partners, through its subsidiaries and equity investments, is engaged in the transmission, storage and gathering of natural gas and the transportation and storage of crude oil through interstate pipeline systems. We are a Delaware master limited partnership (MLP). As of June 30, 2018, Enbridge Inc. (Enbridge) and its subsidiaries collectively owned 83% of us and the remaining 17% was publicly owned. Enbridge owns and controls our general partner, Spectra Energy Partners (DE) GP, LP (SEP GP), which owns a non-economic general partner interest in us. See Note 13 for additional information on our general partner interest.

We manage our business in two reportable segments: U.S. Transmission and Liquids. The U.S. Transmission segment provides interstate transmission, storage and gathering of natural gas. The Liquids segment provides transportation of crude oil and storage of natural gas.

Basis of Presentation. The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) for interim consolidated financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all of the information and notes required by U.S. GAAP for annual consolidated financial statements and should therefore be read in conjunction with our annual consolidated financial statements and notes presented in our Annual Report on Form 10-K for the year ended December 31, 2017. In the opinion of management, the Condensed Consolidated Financial Statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly our financial position, results of operations and cash flows for the interim periods reported. These Condensed Consolidated Financial Statements follow the same significant accounting policies as those included in our annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of new standards. See Note 2 for additional information on the adoption of new standards.

2. New Accounting Pronouncements

Adoption of New Standards

Clarifying Guidance on Derecognition and Partial Sales of Nonfinancial Assets

Effective January 1, 2018, we adopted Accounting Standards Update (ASU) 2017-05 on a modified retrospective basis. The new standard clarifies the scope provisions of nonfinancial assets and how to allocate consideration to each distinct asset, and amends the guidance for derecognition of a distinct nonfinancial asset in partial sale transactions. The adoption of this accounting update did not have a material impact on our Condensed Consolidated Financial Statements.

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Clarifying the Presentation of Restricted Cash in the Statement of Cash Flows

Effective January 1, 2018, we adopted ASU 2016-18 on a retrospective basis. The new standard clarifies guidance on the classification and presentation of changes in restricted cash and restricted cash equivalents within the Condensed Consolidated Statements of Cash Flows. The amendments require that changes in restricted cash and restricted cash equivalents be included within Cash and cash equivalents when reconciling the opening and closing period amounts shown on the Condensed Consolidated Statements of Cash Flows. For current and comparative periods, we amended the presentation in the Condensed Consolidated Statements of Cash Flows to include restricted cash and restricted cash equivalents with Cash and cash equivalents. The following table shows the changes in beginning and ending Cash, cash equivalents and restricted cash as a result of adopting ASU 2016-18:

	June 30, 2018	December 31, 2017	June 30, 2017	December 31, 2016
	(in millions)			
Cash and cash equivalents	$96	$ 107	$153	$ 216
Restricted cash in Other assets, net	3	3	3	3
Restricted cash in Regulatory and other assets	2	4	3	14
Cash, cash equivalents and restricted cash	$101	$ 114	$159	$ 233

Simplifying Cash Flow Classification

Effective January 1, 2018, we adopted ASU 2016-15 on a retrospective basis. The new standard reduces diversity in practice of how certain cash receipts and cash payments are classified in the Condensed Consolidated Statement of Cash Flows. The new guidance addresses eight specific presentation issues. We assessed each of the eight specific presentation issues and determined that the adoption of this ASU did not have a material impact on our Condensed Consolidated Financial Statements.

Recognition and Measurement of Financial Assets and Liabilities

Effective January 1, 2018, we adopted ASU 2016-01 on a prospective basis. The new standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial assets and liabilities. Investments in equity securities, excluding equity method and consolidated investments, are no longer classified as trading or available-for-sale (AFS) securities. All investments in equity securities with readily determinable fair values are classified as investments at fair value through net income. Investments in equity securities without readily determinable fair values are measured using the fair value measurement alternative and are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Investments in equity securities measured using the fair value measurement alternative are reviewed for indicators of impairment each reporting period. Fair value of financial assets and liabilities is measured using the exit price notion. The adoption of this accounting update did not have a material impact on our Condensed Consolidated Financial Statements.

Revenue from Contracts with Customers

Effective January 1, 2018, we adopted ASU 2014-09 on a modified retrospective basis to contracts that were not yet completed at the date of initial application. The new standard was issued with the intent of significantly enhancing consistency and comparability of revenue recognition practices across entities and industries. The new standard establishes a single, principles-based, five-step model to be applied to all contracts with customers and introduces new and enhanced disclosure requirements. It also requires the use of more estimates and judgments than the previous standards. The adoption of this new standard did not have a material impact on our Condensed Consolidated Financial Statements. See Note 4 for additional information.

Future Accounting Policy Changes

Improvements to Accounting for Hedging Activities

ASU 2017-12 was issued in August 2017 with the objective of better aligning a company's risk management activities and the resulting hedge accounting reflected in the financial statements. The amendments allow cash flow hedging of contractually specified components in financial and non-financial items. Under the new guidance, hedge ineffectiveness is no longer required to be measured and hedging instruments' fair value changes will be recorded in the same income statement line as the hedged item. The ASU also allows the initial quantitative hedge effectiveness assessment to be performed at any time before the end of the quarter in which the hedge is designated. After initial quantitative testing is performed, an ongoing qualitative effectiveness assessment is permitted. The accounting update is effective January 1, 2019, with early adoption permitted, and is to be applied on a modified retrospective basis. We are currently assessing the impact of the new standard on our Condensed Consolidated Financial Statements.

Accounting for Credit Losses

ASU 2016-13 was issued in June 2016 with the intent of providing financial statement users with more useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. Current treatment uses the incurred loss methodology for recognizing credit losses that delays the recognition until it is probable a loss has been incurred. The accounting update adds a new impairment model, known as the current expected credit loss model, which is based on expected losses rather than incurred losses. Under the new guidance, an entity will recognize as an allowance its estimate of expected credit losses, which the Financial Accounting Standards Board believes will result in more timely recognition of such losses. The accounting update is effective January 1, 2020. We are currently assessing the impact of the new standard on our Condensed Consolidated Financial Statements.

Recognition of Leases

ASU 2016-02 was issued in February 2016 with the intent to increase transparency and comparability among organizations. It requires lessees of operating lease arrangements to recognize lease assets and lease liabilities on the statement of financial position and disclose additional key information about lease agreements. The accounting update also replaces the current definition of a lease and requires that an arrangement be recognized as a lease when a customer has the right to obtain substantially all of the economic benefits from the use of an asset, as well as the right to direct the use of the asset. We will adopt the new standard on January 1, 2019 and we intend to apply the transition practical expedients offered in connection with this update. The election to apply the package of practical expedients allows an entity to not apply the new lease standard to the prior year comparative periods in the year of adoption. Application of the package of practical expedients permits entities not to reassess whether any expired or existing contracts contain leases, their lease classification, or any related initial direct costs.

Further, ASU 2018-01 was issued in January 2018 to address stakeholder concerns about the costs and complexity of complying with the transition provisions of the new lease requirements as they relate to land easements. The amendments provide an optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under existing guidance. We intend to elect this practical expedient in connection with the adoption of the new lease requirements.

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3. Segment Information

We manage our business in two reportable segments: U.S. Transmission and Liquids. The remainder of our business operations is presented as "Other", and consists of certain corporate costs. Segment results are presented as earnings before interest, taxes, depreciation and amortization (EBITDA).

Condensed Consolidated Statements of Income	Total Operating Revenue	Depreciation and Amortization	Segment EBITDA/ Consolidated Earnings Before Income Taxes
	(in millions)		
Three Months Ended June 30, 2018			
U.S. Transmission	$624	$ 82	$ 505
Liquids	102	8	67
Total reportable segments	726	90	572
Other	—	—	(2)
Depreciation and amortization	—	—	90
Interest expense	—	—	85
Interest income and other	—	—	3
Total consolidated	$726	$ 90	$ 398
Three Months Ended June 30, 2017			
U.S. Transmission	$592	$ 79	$ 480
Liquids	103	8	64
Total reportable segments	695	87	544
Other	—	—	(25)
Depreciation and amortization	—	—	87
Interest expense	—	—	60
Interest income and other	—	—	—
Total consolidated	$695	$ 87	$ 372
Six Months Ended June 30, 2018			
U.S. Transmission	$1,295	$ 163	$ 1,027
Liquids	210	16	142
Total reportable segments	1,505	179	1,169
Other	—	—	(3)
Depreciation and amortization	—	—	179
Interest expense	—	—	170
Interest income and other	—	—	4
Total consolidated	$1,505	$ 179	$ 821
Six Months Ended June 30, 2017			
U.S. Transmission	$1,188	$ 156	$ 959
Liquids	207	16	130
Total reportable segments	1,395	172	1,089
Other	—	—	(71)
Depreciation and amortization	—	—	172

Interest expense	—	—	116
Interest income and other	—	—	1
Total consolidated	$1,395	$ 172	$ 731

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4. Revenue from Contracts with Customers

Major Products and Services

	U.S. Transmission (in millions)	Liquids	Consolidated
Three Months Ended June 30, 2018			
Transportation of natural gas	$ 575	$ —	$ 575
Transportation of crude oil	—	97	97
Storage of natural gas	47	5	52
Total revenue from contracts with customers	622	102	724
Other revenue	2	—	2
Intersegment revenue	—	—	—
Total revenue	$ 624	$ 102	$ 726
Six Months Ended June 30, 2018			
Transportation of natural gas	$ 1,189	$ —	$ 1,189
Transportation of crude oil	—	195	195
Storage of natural gas and other	102	15	117
Total revenue from contracts with customers	1,291	210	1,501
Other revenue	4	—	4
Intersegment revenue	—	—	—
Total revenue	$ 1,295	$ 210	$ 1,505

We disaggregate revenue into categories which represent our principal performance obligations within each business segment because these revenue categories represent the most significant revenue streams in each segment and consequently are considered to be the most relevant revenue information for management to consider in evaluating performance.

Contract Balances

	Accounts Receivable (in millions)	Contract Assets	Contract Liabilities
Balance at adoption date	$ 265	$ —	$ 65
Balance at reporting date	248	—	65

Contract liabilities primarily relate to deferred revenue. There were no material changes in contract liabilities during the three and six months ended June 30, 2018.

Recognition and Measurement of Revenue

	U.S. Transmission (in millions)	Liquids	Consolidated
Three months ended June 30, 2018			
Revenue from products and services transferred over time - crude oil and natural gas transportation and storage	$ 622	$ 102	$ 724
Six months ended June 30, 2018			
Revenue from products and services transferred over time - crude oil and natural gas transportation and storage	$ 1,291	$ 210	$ 1,501

Revenue to be Recognized from Unfulfilled Performance Obligations

Total revenue from performance obligations expected to be fulfilled in future periods is $22.0 billion, of which $1.3 billion and $2.4 billion is expected to be recognized during the remaining six months ending December 31, 2018 and year ending December 31, 2019, respectively. Revenues from contracts with customers which have an original expected duration of one year or less are excluded from these amounts.

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5. Net Income Per Limited Partner Unit and Cash Distributions

We determined basic and diluted net income per limited partner unit as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions, except per unit amounts)			
Net income attributable to controlling interests	$381	$328	$788	$645
Less: Net income attributable to:				
General partner's interest in general partner units—2% (a)	—	7	—	13
General partner's interest in incentive distribution rights (a)	—	87	—	170
Limited partners' interest in net income attributable to common units	$381	$234	$788	$462
Weighted average limited partner units outstanding—basic and diluted	485	310	465	310
Net income per limited partner unit—basic and diluted	$0.78	$0.75	$1.69	$1.49

(a) General partner units and incentive distribution rights (IDRs) were converted to common units of Spectra Energy Partners as a result of the Equity Restructuring Agreement dated January 21, 2018 (Equity Restructuring Agreement). See Note 13 for additional information.

Our partnership agreement requires that, within 60 days after the end of each quarter, we distribute all of our Available Cash, as defined below, to unitholders of record on the applicable record date.

Available Cash. Available Cash, for any quarter, consists of all cash and cash equivalents on hand at the end of that quarter:

- less the amount of cash reserves established by the general partner to:
- provide for the proper conduct of business,
- comply with applicable law, any debt instrument or other agreement, or
- provide funds for distributions for any one or more of the next four quarters,
- plus, if the general partner so determines, all or a portion of cash and cash equivalents on hand on the date of determination of Available Cash for the quarter;
- provided, however, that disbursements made by us or any of our subsidiaries or cash reserves established, increased or reduced after the end of that quarter but on or before the date of determination of Available Cash for that quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining Available Cash, within that quarter if our general partner so determines.

6. Variable Interest Entities

Sabal Trail. We own a 50% interest in Sabal Trail Transmission, LLC (Sabal Trail), a joint venture that operates a pipeline originating in Alabama that transports natural gas to Florida.

On April 30, 2018, Sabal Trail issued $500 million in aggregate principal amount of 4.246% senior notes due in 2028, $600 million in aggregate principal amount of 4.682% senior notes due in 2038 and $400 million in aggregate principal amount of 4.832% senior notes due in 2048. Sabal Trail distributed net proceeds from the offering to its partners as a partial reimbursement of construction and development costs incurred by the partners. The net distribution made to us was $744 million and was used to pay down short-term borrowings.

As of June 30, 2018, Sabal Trail is no longer a variable interest entity (VIE) due to Sabal Trail having sufficient equity at risk to finance its activities based on reconsideration triggered by to Sabal Trail's debt issuance and the distributions made to its members in April 2018.

NEXUS. We own a 50% interest in NEXUS Gas Transmission, LLC (NEXUS), a joint venture that is constructing a greenfield natural gas pipeline from Ohio to Michigan and leasing capacity on third party pipelines in order to provide transportation of Appalachian Basin natural gas to markets in Ohio, Michigan, and the Dawn Hub in Ontario, Canada through the Vector Pipeline. NEXUS is a VIE due to insufficient equity at risk to finance its activities. We determined that we are not the primary beneficiary because the power to direct the activities of NEXUS that most significantly impact its economic performance is shared. We account for NEXUS under the equity method. Our maximum exposure to loss is $1.3 billion. We have an investment in NEXUS of $869 million and $640 million as of June 30, 2018 and December 31, 2017, respectively, classified as Investments in and loans to unconsolidated affiliates on our Condensed Consolidated Balance Sheets.

In 2016, we issued performance guarantees to a third party and an affiliate on behalf of NEXUS. See Note 12 for further discussion of the guarantee arrangement.

PennEast. In 2017, we purchased an additional 10% interest in PennEast Pipeline Company, LLC (PennEast) from PSEG Power Gas Holdings, LLC, increasing our ownership interest in PennEast to 20%. PennEast is a joint venture that is proposing to construct a natural gas pipeline originating in northeastern Pennsylvania, and ending near Pennington, Mercer County, New Jersey. PennEast is a VIE due to insufficient equity at risk to finance its activities. We determined that we are not the primary beneficiary because the power to direct the activities of PennEast that most significantly impact its economic performance is shared. We account for PennEast under the equity method. Our maximum exposure to loss is $279 million. We have an investment in PennEast of $66 million and $55 million as of June 30, 2018 and December 31, 2017, respectively, classified as Investments in and loans to unconsolidated affiliates on our Condensed Consolidated Balance Sheets.

The maximum exposure to loss for these entities is limited to our current equity investment and the remaining expected contributions for each joint venture.

7. Marketable Securities and Restricted Funds

We routinely invest excess cash and various restricted balances in securities such as commercial paper, corporate debt securities, and other money market securities in the United States, as well as equity securities in 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 the purposes of funding future capital expenditures and National Energy Board (NEB) regulatory requirements, so these investments are classified as 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 AFS securities are presented within Net cash used in investing activities within the Condensed Consolidated Statements of Cash Flows.

AFS Securities. We had $3 million of AFS securities classified as Regulatory and other assets on the Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017. At June 30, 2018 and December 31, 2017, these investments include $3 million of restricted funds held and collected from customers for Canadian pipeline abandonment in accordance with the NEB's regulatory requirements, as well as less than $1 million of restricted funds related to certain construction projects as of December 31, 2017.

At June 30, 2018, the weighted-average contractual maturity of outstanding AFS securities was less than one year. There were no material gross unrecognized holding gains or losses associated with investments in AFS securities at June 30, 2018 or December 31, 2017.

HTM Securities. All of our HTM securities are restricted funds. We had $3 million money market securities classified as Other assets, net on the Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017. These securities are restricted pursuant to certain Express-Platte pipeline system debt agreements.

At June 30, 2018, the weighted-average contractual maturity of outstanding HTM securities was less than one year.

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There were no material gross unrecognized holding gains or losses associated with investments in HTM securities at June 30, 2018 or December 31, 2017.

Other Restricted Funds. In addition to the AFS and HTM securities that were restricted funds as described above, we had other restricted funds totaling $2 million and $4 million classified as Regulatory and other assets on the Condensed Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, respectively. These restricted funds are related to certain construction projects.

Effective January 1, 2018, we adopted ASU 2016-18 on a retrospective basis. As a result, changes in restricted cash and restricted cash equivalents, which include HTM securities and other restricted funds discussed above, have been included within Cash and cash equivalents when reconciling the opening and closing period amounts shown on our Condensed Consolidated Statements of Cash Flows. Changes in restricted funds that are not restricted cash or restricted cash equivalents are presented within Net cash used in investing activities on our Condensed Consolidated Statements of Cash Flows. See Note 2 for additional information.

8. Debt

Credit Facility

	Maturity Date (a)	Total Facility	Draws (b)	Available
		(in millions)		
Spectra Energy Partners, LP	2022	$2,500	$1,161	$ 1,339

(a) Includes $336 million of commitments that expire in 2021.

(b) Includes facility draws and commercial paper issuances that are back-stopped by the credit facility.

The issuances of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facility. As of June 30, 2018, there were no letters of credit issued or revolving borrowings outstanding under the credit facility.

Our commercial paper program provides for the issuance of up to an aggregate principal amount $2.5 billion of commercial paper and is supported by the availability of long-term committed credit facilities and therefore have been classified as long-term debt as of June 30, 2018 and December 31, 2017, respectively.

Our credit facility agreement and term debt indentures include common events of default and covenant provisions, including a financial covenant, whereby accelerated repayment and/or termination of the agreement may result if we were to default on payment or violate certain covenants. As of June 30, 2018, we were in compliance with those covenants.

Debt Issuances. On January 9, 2018, Texas Eastern Transmission, LP (Texas Eastern), an indirect subsidiary of Spectra Energy Partners, issued $400 million in aggregate principal amount of 3.50% senior notes due in 2028 and $400 million in aggregate principal amount of 4.15% senior notes due in 2048. Texas Eastern used a portion of the net proceeds from the offering to fund expansion projects and capital expenditures on the Texas Eastern pipeline system. In addition, Texas Eastern used a portion of the net proceeds from the offering to repay funds we advanced to Texas Eastern in September 2017, which Texas Eastern used to repay a $400 million debt maturity. We used the proceeds received to repay commercial paper and credit facility borrowings, which were incurred primarily to fund Texas Eastern’s capital expenditures, as well as those of our other subsidiaries.

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9. Fair Value Measurements

The following presents, for each of the fair value hierarchy levels, assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017:

Description	Condensed Consolidated Balance Sheet Caption	June 30, 2018			
		Total	Level 1	Level 2	Level 3
		(in millions)			
Interest rate swaps	Other assets, net	22	$ —	$ 22	$ —
Commodity swaps	Other assets, net	1	—	—	1
Canadian equity securities	Regulatory and other assets	3	3	—	—
Interest rate swaps	Regulatory and other assets	6	—	6	—
Commodity swaps	Regulatory and other assets	1	—	—	1
Total Assets		$33	$ 3	$ 28	$ 2
Interest rate swaps	Current liabilities — other	$3	$ —	$ 3	$ —
Interest rate swaps	Regulatory and other liabilities	7	—	7	—
Total Liabilities		$10	$ —	$ 10	$ —

Description	Condensed Consolidated Balance Sheet Caption	December 31, 2017			
		Total	Level 1	Level 2	Level 3
		(in millions)			
Canadian equity securities	Regulatory and other assets	$3	$ 3	$ —	$ —
Interest rate swaps	Other assets, net	4	—	4	—
Commodity swaps	Other assets, net	2	—	—	2
Total Assets		$9	$ 3	$ 4	$ 2
Interest rate swaps	Current liabilities — other	$3	$ —	$ 3	$ —
Interest rate swaps	Regulatory and other liabilities	5	—	5	—
Total Liabilities		$8	$ —	$ 8	$ —

Level 1

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

Level 2

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 Level 2 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.

Level 3

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.

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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.

Condensed Consolidated Balance Sheets	June 30, 2018		December 31, 2017	
	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)	6,650	6,639	5,850	6,211

(a)Included within Investments in and loans to unconsolidated affiliates.

(b)Excludes variable rate debt, unamortized items and fair value hedge carrying value adjustments.

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

The fair values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, note receivable-noncurrent, accounts payable, short-term money market securities, commercial paper, credit facility borrowings and long-term variable-rate debt 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.

10. Risk Management and Hedging Activities

Changes in interest rates expose us to risk as a result of our issuance of variable and fixed-rate debt and commercial paper. We are exposed to foreign currency risk from the Canadian portion of the Express-Platte pipeline. 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 exposures.

Total Interest Rate Derivative Instruments

We generally have a policy of entering into individual International Swaps and Derivatives Association, Inc. agreements, or other similar derivative agreements, with the majority of our financial derivative counterparties. These agreements provide for the net settlement of derivative instruments outstanding with specific counterparties in the event of bankruptcy or other significant credit events, and reduces our credit risk exposure on financial derivative asset positions outstanding with the counterparties in those circumstances. The following table summarizes the maximum potential settlement in the event of these specific circumstances. All amounts are presented gross on the Condensed Consolidated Balance Sheets:

Description	June 30, 2018			December 31, 2017		
	Gross Amounts Presented in the Condensed Consolidated Balance Sheet	Amounts Available for Offset	Net Amount	Gross Amounts Presented in the Condensed Consolidated Balance Sheet	Amounts Available for Offset	Net Amount
	(in millions)					
Assets	$28	$ (1)	$ 27	$4	$ (1)	$ 3
Liabilities	(10)	1	(9)	(8)	1	(7)

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Fair Value Hedges
At June 30, 2018, we had “pay floating - receive fixed” interest rate swaps outstanding with a total notional amount of $900 million to hedge against changes in the fair value of our fixed-rate financial instruments 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 debt securities from fixed-rate to variable-rate interest payments in order to achieve our desired mix of fixed and variable-rate debt. Our "pay floating - received fixed" interest rate derivative instruments are designated and qualify as fair value hedges. The gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk is recognized in the Condensed Consolidated Statements of Income. During the six months ended June 30, 2018, the amounts recognized were $8 million loss on the fair value hedges and offsetting $8 million gain on long-term debt.

Cash Flow Hedges
Our earnings and cash flows are also exposed to variability in longer term interest rates ahead of anticipated fixed rate debt issuances. Forward starting interest rate swaps are used to hedge against the effect of future interest rate movements. Since the third quarter of 2017, we have entered into pre-issuance interest rate swaps which are designated and qualified as cash flow hedges. The information of these cash flow swaps are presented as follows:

Date of Maturity & Contract Type	Accounting Treatment	Average Interest Rate	Notional Amount	Fair Value at June 30, 2018	Fair Value at December 31, 2017
			(in millions)		
Contracts maturing in 2018	Cash Flow Hedge	2.51 %	$560	$22	$ 1
Contracts maturing in 2020	Cash Flow Hedge	2.70 %	250	6	(3)

We estimate that $2 million of Accumulated Other Comprehensive Income will be reclassified into net income in the next 12 months related to these swaps.
The effects of derivative instruments on the Condensed Consolidated Statements of Income and the Condensed Consolidated Statements of Comprehensive Income are shown as follows:

Amount of unrealized gain recognized in Other Comprehensive Income	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(in millions)		(in millions)	
Cash flow hedges - interest rate swaps	$ 9	$ —	$ 35	$ —

Non-qualifying Hedges
Our earnings and cash flows are exposed to changes in commodity prices as a result of our ownership interests in certain assets. In July 2017, we entered into a power swap to fix a portion of the variable price exposure for power costs from the Canadian portion of our Express-Platte pipeline system until 2020. As a result, we recognized an unrealized loss of $1 million and less than $1 million included in Operating, maintenance and other on the Condensed Consolidated Statements of Income during the three and six months ended June 30, 2018, respectively and hedge assets of $2 million included in Other assets, net and Regulatory and other assets on the Condensed Consolidated Balance Sheets at June 30, 2018.
11. 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, relating to the protection of the environment. These laws and regulations can change from time to time,

imposing new obligations on us.

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Environmental risk is inherent to liquid hydrocarbon and natural gas pipeline operations, and we and our affiliates are, at times, subject to environmental remediation at various contaminated sites. We manage this environmental risk through appropriate environmental policies and practices to minimize any impact our operations may have on the environment. To the extent that we are unable to recover payment for environmental liabilities from insurance or other potentially responsible parties, we will be responsible for payment of liabilities arising from environmental incidents associated with the operating activities of our liquids and natural gas businesses.

Litigation

We are subject to various legal and regulatory actions and proceedings which arise in the normal course of business, including interventions in regulatory proceedings and challenges to regulatory approvals and permits by special interest groups. While the final outcome of such actions and proceedings cannot be predicted with certainty, management believes that the resolution of such actions and proceedings will not have a material impact on our condensed consolidated financial position or results of operations.

12. Guarantees

We have various financial guarantees which are issued in the normal course of business. 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 is largely dependent upon future operations of various subsidiaries, investees and other third parties, or the occurrence of certain future events.

In December 2016, we issued performance guarantees to a third party and an affiliate on behalf of an equity method investee. These guarantees were issued to enable the equity method investee to enter into long-term transportation contracts with the third party. While the likelihood is remote, the maximum potential amount of future payments we could have been required to make as of June 30, 2018 was $107 million. These performance guarantees expire in 2032.

As of June 30, 2018, the amounts recorded for the guarantees described above are not material, either individually or in the aggregate.

13. Issuances of Common Units

On January 21, 2018, we entered into the Equity Restructuring Agreement with SEP GP, our general partner pursuant to which the IDRs and the 2% general partner interest in us held by that entity were converted into 172,500,000 newly issued common units and a non-economic general partner interest in us.

Item 2.