Spectra Energy Corp.
Form 10-Q
November 03, 2016
Table of Contents

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-33007

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
Number of shares of Common Stock, $0.001 par value, outstanding as of September 30, 2016: 701,483,324

Table of Contents

SPECTRA ENERGY CORP
FORM 10-Q FOR THE QUARTER ENDED
September 30, 2016
INDEX

		Page
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	4
	Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015	4
	Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015	5
	Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015	6
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015	8
	Condensed Consolidated Statements of Equity for the nine months ended September 30, 2016 and 2015	9
	Notes to Condensed Consolidated Financial Statements	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	46
Item 4.	Controls and Procedures	46
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	47
Item 1A.	Risk Factors	47
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 6.	Exhibits	48
	Signatures	49

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Operating Revenues				
Transportation, storage and processing of natural gas	$792	$781	$2,426	$2,425
Distribution of natural gas	153	160	792	1,005
Sales of natural gas liquids	15	41	68	138
Transportation of crude oil	89	93	262	267
Other	26	28	70	83
Total operating revenues	1,075	1,103	3,618	3,918
Operating Expenses				
Natural gas and petroleum products purchased	50	76	401	627
Operating, maintenance and other	425	364	1,158	1,107
Depreciation and amortization	193	188	582	574
Property and other taxes	86	86	291	274
Total operating expenses	754	714	2,432	2,582
Operating Income	321	389	1,186	1,336
Other Income and Expenses				
Earnings (loss) from equity investments	51	48	100	(117)
Other income and expenses, net	52	31	123	73
Total other income and expenses	103	79	223	(44)
Interest Expense	133	155	437	480
Earnings Before Income Taxes	291	313	972	812
Income Tax Expense	10	70	160	164
Net Income	281	243	812	648
Net Income—Noncontrolling Interests	86	69	234	189
Net Income—Controlling Interests	$195	$174	$578	$459
Common Stock Data				
Weighted-average shares outstanding				
Basic	701	671	692	671
Diluted	703	672	693	672
Earnings per share				
Basic	$0.28	$0.26	$0.84	$0.68
Diluted	$0.28	$0.26	$0.83	$0.68
Dividends per share	$0.405	$0.37	$1.215	$1.11

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Income	$281	$243	$812	$648
Other comprehensive income (loss):				
Foreign currency translation adjustments	(78)	(350)	273	(755)
Pension and benefits impact (net of taxes of $2, $3, $6 and $8, respectively)	5	6	14	19
Other	(2)	1	—	1
Total other comprehensive income (loss)	(75)	(343)	287	(735)
Total Comprehensive Income (Loss), net of tax	206	(100)	1,099	(87)
Less: Comprehensive Income—Noncontrolling Interests	84	64	239	178
Comprehensive Income (Loss)—Controlling Interests	$122	$(164)	$860	$(265)

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	September 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 464	$ 213
Receivables, net	712	806
Inventory	287	307
Fuel tracker	19	41
Other	268	281
Total current assets	1,750	1,648
Investments and Other Assets		
Investments in and loans to unconsolidated affiliates	2,742	2,592
Goodwill	4,203	4,154
Other	401	310
Total investments and other assets	7,346	7,056
Property, Plant and Equipment		
Cost	32,736	29,843
Less accumulated depreciation and amortization	7,399	6,925
Net property, plant and equipment	25,337	22,918
Regulatory Assets and Deferred Debits	1,504	1,301
Total Assets	$ 35,937	$ 32,923

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	September 30, 2016	December 31, 2015
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$ 736	$ 511
Commercial paper	1,637	1,112
Taxes accrued	73	78
Interest accrued	140	179
Current maturities of long-term debt	467	652
Other	634	860
Total current liabilities	3,687	3,392
Long-term Debt	13,094	12,892
Deferred Credits and Other Liabilities		
Deferred income taxes	5,758	5,445
Regulatory and other	1,417	1,323
Total deferred credits and other liabilities	7,175	6,768
Commitments and Contingencies		
Preferred Stock of Subsidiaries	562	339
Equity		
Preferred stock, $0.001 par, 22 million shares authorized, no shares outstanding	—	—
Common stock, $0.001 par, 1 billion shares authorized, 701 million and 671 million shares outstanding at September 30, 2016 and December 31, 2015, respectively	1	1
Additional paid-in capital	5,977	5,053
Retained earnings	1,477	1,741
Accumulated other comprehensive income (loss)	13	(269)
Total controlling interests	7,468	6,526
Noncontrolling interests	3,951	3,006
Total equity	11,419	9,532
Total Liabilities and Equity	$ 35,937	$ 32,923

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$812	$648
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	599	584
Deferred income tax expense	143	78
(Earnings) loss from equity investments	(100)	117
Distributions from equity investments	88	145
Other	57	251
Net cash provided by operating activities	1,599	1,823
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(2,407)	(1,817)
Investments in and loans to unconsolidated affiliates	(181)	(91)
Purchase of intangible, net	(80)	—
Disposition	204	—
Purchases of held-to-maturity securities	(479)	(463)
Proceeds from sales and maturities of held-to-maturity securities	475	457
Purchases of available-for-sale securities	(565)	—
Proceeds from sales and maturities of available-for-sale securities	559	1
Distributions from equity investments	45	441
Distribution to equity investment	(148)	—
Other changes in restricted funds	(19)	(24)
Other	1	(7)
Net cash used in investing activities	(2,595)	(1,503)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	382	1,332
Payments for the redemption of long-term debt	(619)	(153)
Net increase (decrease) in commercial paper	502	(984)
Distributions to noncontrolling interests	(176)	(140)
Contributions from noncontrolling interests	437	164
Proceeds from the issuances of Spectra Energy common stock	878	—
Proceeds from the issuances of Spectra Energy Partners, LP common units	473	351
Proceeds from the issuance of Westcoast Energy Inc. preferred stock	229	—
Dividends paid on common stock	(842)	(747)
Other	(20)	(14)
Net cash provided by (used in) financing activities	1,244	(191)
Effect of exchange rate changes on cash	3	(6)
Net increase in cash and cash equivalents	251	123
Cash and cash equivalents at beginning of period	213	215

Cash and cash equivalents at end of period	$464	$338
Supplemental Disclosures		
Property, plant and equipment non-cash accruals	$374	$276

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Foreign Currency Translation Adjustments	Accumulated Other Comprehensive Income (Loss) Other	Noncontrolling Interests	Total
December 31, 2015	$ 1	$ 5,053	$ 1,741	$ 79	$ (348)	$ 3,006	$ 9,532
Net income	—	—	578	—	—	234	812
Other comprehensive income	—	—	—	268	14	5	287
Dividends on common stock	—	—	(842)	—	—	—	(842)
Stock-based compensation	—	20	—	—	—	—	20
Distributions to noncontrolling interests	—	—	—	—	—	(180)	(180)
Contributions from noncontrolling interests	—	—	—	—	—	437	437
Spectra Energy common stock issued	—	878	—	—	—	—	878
Spectra Energy Partners, LP common units issued	—	25	—	—	—	432	457
Other, net	—	1	—	—	—	17	18
September 30, 2016	$ 1	$ 5,977	$ 1,477	$ 347	$ (334)	$ 3,951	$ 11,419
December 31, 2014	$ 1	$ 4,956	$ 2,541	$ 1,016	$ (354)	$ 2,238	$ 10,398
Net income	—	—	459	—	—	189	648
Other comprehensive income (loss)	—	—	—	(744)	20	(11)	(735)
Dividends on common stock	—	—	(747)	—	—	—	(747)
Stock-based compensation	—	14	—	—	—	—	14
Distributions to noncontrolling interests	—	—	—	—	—	(142)	(142)
Contributions from noncontrolling interests	—	—	—	—	—	164	164
Spectra Energy common stock issued	—	2	—	—	—	—	2
Spectra Energy Partners, LP common units issued	—	49	—	—	—	281	330
Other, net	—	3	—	—	—	(4)	(1)
September 30, 2015	$ 1	$ 5,024	$ 2,253	$ 272	$ (334)	$ 2,715	$ 9,931

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

1. General

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

On September 6, 2016, we announced that we entered into a definitive merger agreement with Enbridge Inc. (Enbridge) under which Enbridge and Spectra Energy will combine in a stock-for-stock merger transaction, which values Spectra Energy’s stock at approximately $28 billion, based on the closing price of Enbridge’s common shares as of September 2, 2016. This transaction was unanimously approved by the boards of directors of both Spectra Energy and Enbridge and is expected to close in the first quarter of 2017, subject to shareholder and certain regulatory approvals and other customary conditions.

Upon completion of the proposed merger, Spectra Energy shareholders will receive 0.984 Enbridge common shares for each share of Spectra Energy stock they own. The consideration to be received by Spectra Energy shareholders is valued at $40.33 per Spectra Energy share, based on the closing price of Enbridge common shares as of September 2, 2016, representing an approximate 11.5% premium to the closing price of Spectra Energy stock as of September 2, 2016. Upon completion of the merger, Enbridge shareholders are expected to own approximately 57% of the combined company and Spectra Energy shareholders are expected to own approximately 43%.

Nature of Operations. Spectra Energy Corp, through its subsidiaries and equity affiliates, owns and operates a large and diversified portfolio of complementary natural gas-related energy assets, and owns and operates a crude oil pipeline system that connects Canadian and United States (U.S.) producers to refineries in the U.S. Rocky Mountain and Midwest regions. We currently operate in three key areas of the natural gas industry: gathering and processing, transmission and storage, and distribution. We provide transmission and storage of natural gas to customers in various regions of the northeastern and southeastern U.S., the Maritime Provinces in Canada, the Pacific Northwest in the U.S. 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 U.S. and one of the largest U.S. producers and marketers of natural gas liquids (NGLs).

Basis of Presentation. The accompanying Condensed Consolidated Financial Statements include our accounts and the accounts of our majority-owned subsidiaries, after eliminating intercompany transactions and balances. These interim financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015, 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 U.S., 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. Disposition

On August 4, 2016, Westcoast Energy Inc. (Westcoast) completed the sale of its ownership interests in the Empress NGL operations (Empress) to Plains Midstream Canada ULC. Consideration received by Westcoast in this transaction was approximately $204 million in cash, including approximately $51 million for inventory and working capital. The

total consideration is subject to final working capital adjustments, which are expected to be completed in the fourth quarter of 2016. The sale resulted in a pre-tax loss of less than $1 million and a tax benefit of $27 million, which are reflected in Operating, Maintenance and Other and Income Tax Expense, respectively, on our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016.

Table of Contents

3. Business Segments

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

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

Spectra Energy's presentation of its Spectra Energy Partners segment is reflective of the parent-level focus by our CODM, considering the resource allocation and governance provisions associated with SEP's master limited partnership structure. SEP maintains a capital and cash management structure that is separate from Spectra Energy's, is self-funding and maintains its own lines of bank credit and cash management accounts. From a Spectra Energy perspective, our CODM evaluates the Spectra Energy Partners segment as a whole, without regard to any of SEP's individual businesses.

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

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

Western Canada Transmission & Processing provides transmission of natural gas and natural gas gathering and processing services to customers in western Canada, the northern tier of the U.S. and the Maritime Provinces in Canada. This segment conducts business mostly through BC Pipeline, BC Field Services, Canadian Midstream and Maritimes & Northeast Pipeline Limited Partnership (M&N Canada). BC Pipeline, BC Field Services and M&N Canada operations are primarily subject to the rules and regulations of the NEB. See Note 2 for discussion related to the sale of Empress on August 4, 2016.

Field Services gathers, compresses, treats, processes, transports, stores and sells natural gas, produces, fractionates, transports, stores and sells NGLs, recovers and sells condensate, and trades and markets natural gas and NGLs. It conducts operations through DCP Midstream, which is owned 50% by us and 50% by Phillips 66. DCP Midstream gathers raw natural gas through gathering systems connecting to several interstate and intrastate natural gas and NGL pipeline systems, one natural gas storage facility and one NGL storage facility. DCP Midstream operates in a diverse number of regions, including the Permian Basin, Eagle Ford, Niobrara/DJ Basin and the Midcontinent. DCP Midstream Partners, LP (DCP Partners) is a publicly traded master limited partnership, of which DCP Midstream acts as general partner. As of September 30, 2016, DCP Midstream had an approximate 21% ownership interest in DCP Partners, including DCP Midstream's limited partner and general partner interests.

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

Table of Contents

Business Segment Data
Condensed Consolidated Statements of Operations

	Unaffiliated Revenues	Intersegment Revenues	Total Operating Revenues	Depreciation and Amortization	Segment EBITDA/ Consolidated Earnings before Income Taxes
	(in millions)				
Three Months Ended September 30, 2016					
Spectra Energy Partners	$628	$ —	$ 628	$ 79	$ 464
Distribution	209	—	209	47	77
Western Canada Transmission & Processing	236	—	236	56	93
Field Services	—	—	—	—	12
Total reportable segments	1,073	—	1,073	182	646
Other	2	16	18	11	(30)
Eliminations	—	(16)	(16)	—	—
Depreciation and amortization	—	—	—	—	193
Interest expense	—	—	—	—	133
Interest income and other (a)	—	—	—	—	1
Total consolidated	$1,075	$ —	$ 1,075	$ 193	$ 291
Three Months Ended September 30, 2015					
Spectra Energy Partners	$612	$ —	$ 612	$ 74	$ 488
Distribution	209	—	209	43	70
Western Canada Transmission & Processing	279	9	288	59	117
Field Services	—	—	—	—	(3)
Total reportable segments	1,100	9	1,109	176	672
Other	3	16	19	12	(12)
Eliminations	—	(25)	(25)	—	—
Depreciation and amortization	—	—	—	—	188
Interest expense	—	—	—	—	155
Interest income and other (a)	—	—	—	—	(4)
Total consolidated	$1,103	$ —	$ 1,103	$ 188	$ 313
Nine Months Ended September 30, 2016					
Spectra Energy Partners	$1,870	$ —	$ 1,870	$ 234	$ 1,408
Distribution	958	—	958	138	351
Western Canada Transmission & Processing	784	15	799	173	313
Field Services	—	—	—	—	1
Total reportable segments	3,612	15	3,627	545	2,073
Other	6	48	54	37	(85)
Eliminations	—	(63)	(63)	—	—
Depreciation and amortization	—	—	—	—	582
Interest expense	—	—	—	—	437
Interest income and other (a)	—	—	—	—	3
Total consolidated	$3,618	$ —	$ 3,618	$ 582	$ 972
Nine Months Ended September 30, 2015					
Spectra Energy Partners	$1,821	$ —	$ 1,821	$ 220	$ 1,421

Distribution	1,161	—	1,161	133	360
Western Canada Transmission & Processing	929	33	962	184	382
Field Services	—	—	—	—	(253)
Total reportable segments	3,911	33	3,944	537	1,910
Other	7	47	54	37	(39)
Eliminations	—	(80)	(80)	—	—
Depreciation and amortization	—	—	—	—	574
Interest expense	—	—	—	—	480
Interest income and other (a)	—	—	—	—	(5)
Total consolidated	$3,918	$ —	$3,918	$ 574	$ 812

(a) Includes foreign currency transaction gains and losses related to segment EBITDA.

Table of Contents

4. Regulatory Matters

Union Gas. In December 2015, Union Gas filed an application with the OEB for the disposition of the 2014 demand side management (DSM) deferral and variance account balances. As a result of this application, Union Gas has a receivable from customers of approximately $9 million as of September 30, 2016 and $8 million as of December 31, 2015, which is reflected as Current Assets—Other on the Condensed Consolidated Balance Sheets. In June 2016, the OEB approved Union Gas' application as filed and Union Gas has begun to recover the receivable from ratepayers effective October 1, 2016.

In March 2016, Union Gas filed a Draft Rate Order with the OEB for rates effective January 1, 2016 based on the OEB's February 24, 2016 updated Decision and Order on the 2015-2020 DSM Plan. In May 2016, a decision from the OEB was received approving recovery from ratepayers of approximately $19 million effective January 1, 2016 with an implementation date of July 1, 2016.

In April 2016, Union Gas filed an application with the OEB for the annual disposition of the 2015 deferral account balances. As a result, Union Gas has a net receivable from customers of approximately $18 million as of September 30, 2016 and December 31, 2015, which is primarily reflected as Current Assets—Other on the Condensed Consolidated Balance Sheets. Union Gas filed a Settlement Proposal with the OEB in July 2016 reflecting a full settlement on all issues in the proceeding. In August 2016, the OEB approved the Settlement Proposal as filed. Union Gas has begun to implement the disposition of the balances effective October 1, 2016.

5. Income Taxes

Income tax expense was $10 million for the three months ended September 30, 2016, compared to $70 million for the same period in 2015. Income tax expense was $160 million for the nine months ended September 30, 2016, compared to $164 million for the same period in 2015. The lower tax expense for the three-month period was primarily due to the sale of Empress on August 4, 2016 and the release of tax reserves. The nine-month periods include the $74 million tax impact of the loss on investment due to the impairment of goodwill at DCP Midstream in 2015, partially offset by tax rate changes in 2016.

The effective income tax rate was 3% for the three months ended September 30, 2016, compared to 22% for the same period in 2015. The effective income tax rate was 16% for the nine months ended September 30, 2016, compared to 20% for the same period in 2015. The lower effective income tax rate for the three-month period was primarily due to the sale of Empress on August 4, 2016 and the release of tax reserves. The nine-month periods include the $74 million tax impact of the loss on investment due to the impairment of goodwill at DCP Midstream in 2015, partially offset by tax rate changes in 2016.

There was an $8 million decrease in unrecognized tax benefits recorded during the nine months ended September 30, 2016. Although uncertain, we believe it is reasonably possible that the total amount of unrecognized tax benefits could decrease by approximately $20 million to $25 million prior to September 30, 2017 due to audit settlements and statute of limitations expirations.

Table of Contents

6. Earnings per Common Share

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

The following table presents our basic and diluted EPS calculations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in millions, except per-share amounts)			
Net income—controlling interests	$195	$174	$578	$459
Weighted-average common shares outstanding				
Basic	701	671	692	671
Diluted	703	672	693	672
Basic earnings per common share (a)	$0.28	$0.26	$0.84	$0.68
Diluted earnings per common share (a)	$0.28	$0.26	$0.83	$0.68

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

7. Accumulated Other Comprehensive Income (Loss)

The following table presents the net of tax changes in Accumulated Other Comprehensive Income (AOCI) by component, 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 (Loss)
	(in millions)				
June 30, 2016	$425	$ (337)	$ —	$ (2)	$ 86
Other AOCI activity	(78)	5	—	—	(73)
September 30, 2016	$347	$ (332)	$ —	$ (2)	$ 13
June 30, 2015	$617	$ (338)	$ —	$ (3)	$ 276
Other AOCI activity	(345)	6	—	1	(338)
September 30, 2015	$272	$ (332)	$ —	$ (2)	$ (62)
December 31, 2015	$79	$ (346)	$ (3)	$ 1	$ (269)
Other AOCI activity	268	14	3	(3)	282
September 30, 2016	$347	$ (332)	$ —	$ (2)	$ 13
December 31, 2014	$1,016	$ (351)	$ (3)	$ —	$ 662
Other AOCI activity	(744)	19	3	(2)	(724)

September 30, 2015	$272	$ (332)	$ —	$ (2)	$ (62)

Table of Contents

8. Inventory

Inventory consists of natural gas held in storage for transmission and processing, and also includes materials and supplies. The NGLs previously included in inventory were disposed of as part of the Empress sale on August 4, 2016. See Note 2 for further discussion related to the sale of Empress. Natural gas inventories primarily relate to the Distribution segment in Canada and are valued at costs approved by the OEB. The difference between the approved price and the actual cost of gas purchased is recorded as either a receivable or a current liability, as appropriate, for future disposition with customers, subject to approval by the OEB. The remaining inventory is recorded at the lower of cost or market, primarily using average cost. The components of inventory are as follows:

	September 30, 2016	December 31, 2015
	(in millions)	
Natural gas	$ 214	$ 217
NGLs	—	23
Materials and supplies	73	67
Total inventory	$ 287	$ 307

9. 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Operating revenues	$1,961	$1,851	$4,974	$5,763
Operating expenses	1,866	1,794	4,823	6,117
Operating income (loss)	95	57	151	(354)
Net income (loss)	94	25	126	(472)
Net income (loss) attributable to members' interests	26	(6)	8	(509)

DCP Partners issues, from time to time, limited partner units to the public, which are recorded by DCP Midstream directly to its equity. Our proportionate share of gains from those issuances, totaled $2 million during the nine months ended September 30, 2015 and is reflected in Earnings (Loss) From Equity Investments in the Condensed Consolidated Statement of Operations.

During the third quarter of 2015, DCP Midstream finalized their goodwill impairment test. This resulted in the recognition of a $460 million goodwill impairment, which reduced our equity earnings from DCP Midstream by $123 million after-tax.

Related Party Transactions

During the third quarter of 2015, Gulfstream Natural Gas System, LLC (Gulfstream) issued unsecured debt of $800 million to fund the repayment of its current debt. Gulfstream distributed $396 million, our proportionate share of proceeds, to us of which we contributed $248 million back to Gulfstream in the fourth quarter of 2015 and the remaining $148 million, classified as Cash Flows from Investing Activities—Distribution to Equity Investment, in the second quarter of 2016.

10. Variable Interest Entities

Sabal Trail. On April 1, 2016, NextEra Energy, Inc. (NextEra) purchased a 9.5% interest in Sabal Trail Transmission, LLC (Sabal Trail) from SEP. Consideration for this transaction consisted of approximately $110 million cash, $102 million of which is classified as Cash Flows from Financing Activities—Contributions from Noncontrolling Interests. See Note 11 for additional information related to this transaction. As of September 30, 2016, we have an effective 37.9% ownership interest in Sabal Trail through our ownership of SEP. Sabal Trail is a joint venture that is

constructing a natural gas pipeline to transport natural gas to Florida. Sabal Trail is a variable interest entity (VIE) due to insufficient equity at risk to finance its activities. We determined that we are the primary beneficiary because we direct the activities of Sabal Trail that most significantly impact its

Table of Contents

economic performance and we consolidate Sabal Trail in our financial statements. The current estimate of the total remaining construction cost is approximately $1.5 billion.

The following table summarizes the assets and liabilities for Sabal Trail:

Condensed Consolidated Balance Sheets Caption	September 30, 2016	December 31, 2015
	(in millions)	
Assets		
Current assets	$ 303	$ 118
Net property, plant and equipment	1,363	773
Regulatory assets and deferred debits	58	25
Total Assets	$ 1,724	$ 916
Liabilities and Equity		
Current liabilities	$ 128	$ 84
Equity	1,596	832
Total Liabilities and Equity	$ 1,724	$ 916

Nexus. We have an effective 37.9% ownership interest in Nexus Gas Transmission, LLC (Nexus) through our ownership of SEP. Nexus is a joint venture that is constructing a natural gas pipeline from Ohio to Michigan and continuing on to Ontario, Canada. 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. Nexus is accounted for under the equity method of accounting. Our maximum exposure to loss is $1.0 billion. We have an investment in Nexus of $281 million and $90 million as of September 30, 2016 and December 31, 2015, respectively, classified as Investments in and Loans to Unconsolidated Affiliates on our Condensed Consolidated Balance Sheets.

11. Intangible Asset

During the first quarter of 2016, SEP entered into a project coordination agreement (PCA) with NextEra, Duke Energy Corporation (Duke Energy) and Williams Partners L.P. In accordance with the agreement, payments will be made, based on SEP's proportional ownership interest in Sabal Trail, as certain milestones of the project are met. During the first quarter of 2016, the first milestone was achieved and paid, consisting of $48 million.

On April 1, 2016, NextEra purchased an additional 9.5% interest in Sabal Trail from SEP, reducing SEP's ownership interest in Sabal Trail to 50%. Upon purchase of the additional ownership interest, NextEra reimbursed SEP $8 million for NextEra's proportional share of the first milestone payment.

During the third quarter of 2016, the second milestone was achieved and paid, consisting of $40 million. The milestone payments are classified as Cash Flows from Investing Activities—Purchase of Intangible, Net. This PCA, in the amount of $80 million as of September 30, 2016, is an intangible asset and is classified as Investments and Other Assets—Other on our Condensed Consolidated Balance Sheet. The intangible asset will be amortized over a period of 25 years beginning at the time of in-service of Sabal Trail, which is expected to occur during the first half of 2017.

12. 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, 2016 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 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 and Spectra Energy Partners reportable segments, 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

Table of Contents

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.

See Note 9 for discussion related to the 2015 impairment of goodwill recognized by DCP Midstream.

13. 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, Canadian equity securities, treasury bills and money market securities in the U.S. and Canada. We do not purchase marketable securities for speculative purposes; therefore we do not have any securities classified as trading securities. While we do not routinely sell marketable securities prior to their scheduled maturity dates, some of our investments may be held and restricted for insurance purposes, capital expenditures and NEB regulatory requirements, 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	
	September 30, 2016	December 31, 2015
	(in millions)	
Corporate debt securities (a)	$ 20	$ 31
Canadian equity securities (b)	17	—
Total available-for-sale securities	$ 37	$ 31

(a) Amounts related to certain construction projects.

(b) Amounts related to restricted funds held and collected from customers of Western Canada Transmission & Processing and Express-Platte for Canadian pipeline abandonment in accordance with the NEB's regulatory requirements.

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

	Estimated Fair Value	
	September 30, 2016	December 31, 2015
	(in millions)	
Restricted funds Investments and other assets—other	$ 31	$ 11
Non-restricted funds Current assets—other	6	20
Total available-for-sale securities	$ 37	$ 31

At September 30, 2016, 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 September 30, 2016 or December 31, 2015.

Table of Contents

HTM Securities. HTM securities are as follows:

Description	Condensed Consolidated Balance Sheets Caption	Estimated Fair Value	
		September 30, 2016	December 31, 2015
		(in millions)	
Bankers acceptances	Current assets—other	$ 44	$ 30
Canadian government securities	Current assets—other	25	24
Money market securities	Current assets—other	8	3
Canadian government securities	Investments and other assets—other	52	50
Bankers acceptances	Investments and other assets—other	—	12
Total held-to-maturity securities		$ 129	$ 119

All of our HTM securities are restricted funds pursuant to certain M&N Canada and Express-Platte (our crude oil pipeline system) debt agreements. The funds restricted for M&N Canada, plus future cash from operations that would otherwise be available for distribution to the partners of M&N Canada, are required to be placed in escrow until the balance in escrow is sufficient to fund all future debt service on the M&N Canada 6.90% senior secured notes. There are sufficient funds held in escrow to fund all future debt service on these M&N Canada notes as of September 30, 2016.

At September 30, 2016, 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 September 30, 2016 or December 31, 2015.

Other Restricted Funds. In addition to the portions of the AFS and HTM securities that were restricted as described above, we had other restricted funds totaling $25 million at September 30, 2016 and $11 million at December 31, 2015 classified as Current Assets—Other on the Condensed Consolidated Balance Sheets. Included in these restricted funds are $13 million at September 30, 2016 of funds received from the province of Ontario related to the Green Investment Fund that is to be distributed to eligible homeowners, based on specific energy conservation initiatives at Union Gas and $12 million and $11 million at September 30, 2016 and December 31, 2015, respectively, related to additional amounts for insurance.

We also had other restricted funds totaling $43 million at September 30, 2016 and $38 million at December 31, 2015 classified as Investments and Other Assets—Other on the Condensed Consolidated Balance Sheets. Included in these restricted funds are $17 million and $24 million at September 30, 2016 and December 31, 2015, respectively, related to funds held and collected from customers of Western Canada Transmission & Processing and Express-Platte for Canadian pipeline abandonment in accordance with the NEB’s regulatory requirements, $7 million and $14 million, respectively, related to certain construction projects and $19 million at September 30, 2016 of funds received from the province of Ontario related to the Green Investment Fund.

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

Table of Contents

14. Debt and Credit Facilities

Available Credit Facilities and Restrictive Debt Covenants

	Expiration Date	Total Credit Facilities Capacity	Commercial Paper Outstanding at September 30, 2016	Available Credit Facilities Capacity
		(in millions)		
Spectra Energy Capital, LLC				
Multi-year syndicated (a)	2021	$1,000	$ 460	$ 540
364-day syndicated (a)	2017	2,000	—	2,000
SEP (b)	2021	2,500	1,177	1,323
Westcoast (c)	2021	305	—	305
Union Gas (d)	2021	533	—	533
Total		$6,338	$ 1,637	$ 4,701

(a) Revolving credit facilities contain a covenant requiring the Spectra Energy consolidated debt-to-total capitalization ratio, as defined in the agreements, to not exceed 65%. Per the terms of the agreements, collateralized debt is excluded from the calculation of the ratio. This ratio was 55.8% at September 30, 2016.

(b) Revolving credit facility contains a covenant that requires SEP to maintain a ratio of total Consolidated Indebtedness-to-Consolidated EBITDA, as defined in the agreement, of 5.0 to 1 or less. As of September 30, 2016, this ratio was 3.7 to 1.

(c) U.S. dollar equivalent at September 30, 2016. The revolving credit facility is 400 million Canadian dollars and contains a covenant that requires the Westcoast non-consolidated debt-to-total capitalization ratio to not exceed 75%. The ratio was 31.1% at September 30, 2016.

(d) U.S. dollar equivalent at September 30, 2016. The revolving credit facility is 700 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 68.1% at September 30, 2016.

On September 29, 2016, we entered into a new one-year, $2 billion credit facility at Spectra Energy Capital, LLC (Spectra Capital), which expires in 2017. Proceeds from borrowings under the credit facility will be used for general corporate purposes. Amounts borrowed under the credit facility must be repaid following any change in control, including any that results from the proposed merger with Enbridge.

On April 29, 2016, we amended the Union Gas and SEP revolving credit agreements. The Union Gas revolving credit facility was increased to 700 million Canadian dollars and the SEP revolving facility was increased to $2.5 billion. The expiration of both facilities was extended, with both facilities expiring in 2021.

On April 29, 2016, we amended the Westcoast and Spectra Capital revolving credit agreements. The expiration of both credit facilities was extended, with both facilities expiring in 2021.

The issuances of commercial paper, letters of credit and revolving borrowings reduce the amount available under the credit facilities. As of September 30, 2016, there were no letters of credit issued or revolving borrowings outstanding under the credit facilities.

Our credit agreements contain various covenants, including the maintenance of certain financial ratios. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of September 30, 2016, we were in compliance with those covenants. In addition, our credit agreements allow for acceleration of payments or termination of the agreements due to nonpayment, or in some cases, due to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. Our debt and credit agreements do not contain provisions that trigger an acceleration of indebtedness based solely on the occurrence

of a material adverse change in our financial condition or results of operations.

Debt Issuances. On May 31, 2016, Union Gas issued 250 million Canadian dollars (approximately $191 million as of the issuance date) of 2.81% unsecured notes due 2026 and 250 million Canadian dollars (approximately $191 million as of the issuance date) of 3.80% unsecured notes due 2046. Net proceeds from the offerings were used for repayment of short term debt and debt maturities, capital expenditures and general corporate purposes.

Table of Contents

15. Preferred Stock of Subsidiaries

On August 30, 2016, Westcoast issued 12 million Cumulative 5-Year Minimum Rate Reset Redeemable First Preferred Shares, Series 12 for an aggregate principal amount of 300 million Canadian dollars (approximately $229 million as of the issuance date). Net proceeds from the issuance were used to fund capital expenditures and for general corporate purposes.

16. 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:

		September 30, 2016			
Description	Condensed Consolidated Balance Sheet Caption	Total	Level 1	Level 2	Level 3
		(in millions)			
Corporate debt securities	Cash and cash equivalents	$346	$ —	$ 346	$ —
Corporate debt securities	Current assets—other	6	—	6	—
Interest rate swaps	Current assets—other	1	—	1	—
Corporate debt securities	Investments and other assets—other	14	—	14	—
Interest rate swaps	Investments and other assets—other	55	—	55	—
Canadian equity securities	Investments and other assets—other	17	17	—	—
Total Assets		$439	$ 17	$ 422	$ —

		December 31, 2015			
Description	Condensed Consolidated Balance Sheet Caption	Total	Level 1	Level 2	Level 3
		(in millions)			
Corporate debt securities	Cash and cash equivalents	$137	$ —	$ 137	$ —
Corporate debt securities	Current assets—other	20	—	20	—
Commodity derivatives	Current assets—other	36	—	—	36
Commodity derivatives	Investments and other assets—other	5	—	—	5
Corporate debt securities	Investments and other assets—other	11	—	11	—
Interest rate swaps	Investments and other assets—other	37	—	37	—
Total Assets		$246	$ —	$ 205	$ 41

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Derivative assets (liabilities)				
Fair value, beginning of period	$(2)	$50	$41	$78
Total gains (losses):				
Included in earnings	8	18	(7)	27
Included in other comprehensive income	—	(4)	1	(9)
Purchases	—	(5)	(1)	(2)
Settlements	(6)	(6)	(34)	(41)
Fair value, end of period	$—	$53	$—	$53
Unrealized gains (losses) relating to instruments held at the end of the period	$—	$5	$—	$(11)

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

Table of Contents

Level 2 Valuation Techniques

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

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

Level 3 Valuation Techniques

Level 3 valuation techniques include the use of pricing models, discounted cash flow methodologies or similar techniques where at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value require significant management judgment or estimation.

As of September 30, 2016, there are no financial instruments classified as Level 3. Those reported in Level 3 at December 31, 2015 consisted of NGL revenue swap contracts related to the Empress assets in Western Canada Transmission & Processing, which were disposed of on August 4, 2016. See Note 2 for further discussion related to the sale of Empress. As of December 31, 2015, we reported certain of our NGL basis swaps at fair value using Level 3 inputs due to such derivatives not having observable market prices for substantially the full term of the derivative asset or liability. For valuations that included both observable and unobservable inputs, if the unobservable input was determined to be significant to the overall inputs, the entire valuation was categorized in Level 3. This included derivatives valued using indicative price quotations whose contract length extended into unobservable periods.

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

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.

	September 30, 2016		December 31, 2015	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
	(in millions)			
Note receivable, noncurrent (a)	$71	$ 71	$71	$ 71
Long-term debt, including current maturities (b)	13,563	15,031	13,567	13,891

(a) Included within Investments in and Loans to Unconsolidated Affiliates.

(b) Excludes commercial paper, capital leases, unamortized items and fair value hedge carrying value adjustments.

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

The fair values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, notes 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 nine months ended September 30, 2016 and 2015, there were no material adjustments to assets and liabilities measured at fair value on a nonrecurring basis.

21

Table of Contents

17. 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 processing operations associated with our U.S. pipeline assets. Exposure to interest rate risk exists as a result of the issuance of variable and fixed-rate debt and commercial paper. We are exposed to foreign currency risk from our Canadian operations. We employ established policies and procedures to manage our risks associated with these market fluctuations, which may include the use of derivatives, mostly around interest rate and commodity exposures. As of April 2016, we ceased entering into new contracts under our Empress risk management program. See Note 2 for further discussion related to the sale of Empress.

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

Other than the interest rate swaps and commodity derivatives as described below, we did not have significant derivatives outstanding during the nine months ended September 30, 2016.

Interest Rate Swaps

At September 30, 2016, we had “pay floating—receive fixed” interest rate swaps outstanding with a total notional amount of $2 billion 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 is as follows:

	September 30, 2016			December 31, 2015		
Description	Gross Amounts Presented in the Condensed Consolidated Balance Sheet	Amounts Not Offset in the Condensed Consolidated Balance Sheet	Net Amount	Gross Amounts Presented in the Condensed Consolidated Balance Sheet	Amounts Not Offset in the Condensed Consolidated Balance Sheet	Net Amount
	(in millions)					
Assets	$56	$ —	$ 56	$ 37	$ —	$ 37

Commodity Derivatives

At September 30, 2016, we had no commodity mark-to-market derivatives outstanding. At December 31, 2015, we had commodity mark-to-market derivatives outstanding that had netting or rights of offset arrangements as follows:

	December 31, 2015		
Description	Gross Amounts	Gross Amounts Offset	Net Amount Presented in the Condensed Consolidated Balance Sheet
	(in millions)		
Assets	$104	$ 63	$ 41
Liabilities	63	63	—

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives	2016	2015	2016	2015

	Condensed Consolidated Statements of Operations Caption				
		(in millions)			
Commodity derivatives	Sales of natural gas liquids	$ 8	$ 13	$ (8)	$ 25

18. 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, climate change, hazardous and solid waste disposal and other environmental matters. These laws and regulations can change from time to time, imposing new obligations on us.

Table of Contents

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 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.

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.

Legal costs related to the defense of loss contingencies are expensed as incurred. We had no material reserves for legal matters recorded as of September 30, 2016 or December 31, 2015 related to litigation.

Other Commitments and Contingencies

See Note 19 for a discussion of guarantees and indemnifications.

19. 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 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 September 30, 2016 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, 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.

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

Table of Contents

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 September 30, 2016, the amounts recorded for the guarantees and indemnifications described above are not material, both individually and in the aggregate.

20. Issuances of Common Stock

On March 1, 2016, we entered into an equity distribution agreement under which we may sell and issue common stock up to an aggregate offering price of $500 million. The equity distribution agreement allows us to offer and sell common stock at prices deemed appropriate through sales agents. Sales of common stock under the equity distribution agreement will be made by means of ordinary brokers' transactions through the facilities of the New York Stock Exchange (NYSE), in block transactions, or as otherwise agreed upon by one or more of the sales agents and us. We intend to use the net proceeds from sales under this at-the-market program for general corporate purposes, including investments in subsidiaries to fund capital expenditures. We issued approximately 12.9 million of common shares to the public under this program, for total net proceeds of $383 million through September 30, 2016.

In April 2016, we issued 16.1 million common shares to the public for net proceeds of approximately $479 million. Net proceeds from the offering were used to purchase approximately 10.4 million common units in SEP. SEP used the proceeds from our unit purchase for general corporate purposes, including the funding of its current expansion capital plan.

21. Issuances of SEP Units

During the nine months ended September 30, 2016, SEP issued 10.4 million common units to the public under its at-the-market program and approximately 212,000 general partner units to Spectra Energy. Total net proceeds to SEP were $483 million (net proceeds to Spectra Energy were $473 million).

In April 2016, SEP issued 10.4 million common units and 0.2 million general partner units to Spectra Energy in a private placement transaction. See Note 20 for further discussion.

In connection with the issuances of the units, a $40 million gain ($25 million net of tax) to Additional Paid-in Capital and a $432 million increase in Equity—Noncontrolling Interests were recorded during the nine months ended September 30, 2016. The issuances decreased Spectra Energy's ownership in SEP from 78% to 76% at September 30, 2016.

The following table presents the effects of the issuances of SEP units:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Net income—controlling interests	$195	$174	$578	$459
Increase in additional paid-in capital resulting from issuances of SEP units	10	24	25	49
Total net income—controlling interests and changes in equity—controlling interests	$205	$198	$603	$508

22. Employee Benefit Plans

Retirement Plans. We have a qualified non-contributory defined benefit (DB) retirement plan for 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 $16

million to our U.S. retirement plans in both of the nine months ended September 30, 2016 and 2015. We made total contributions to the Canadian DC and DB plans of $20 million in the nine months ended September 30, 2016 and $23 million in the same period in 2015. We anticipate that we will make total contributions of approximately $22 million to the U.S. plans and approximately $26 million to the Canadian plans in 2016.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in millions)			
U.S.				
Service cost benefit earned	$4	$ 4	$14	$14
Interest cost on projected benefit obligation	7	6	19	18
Expected return on plan assets	(9)	(10)	(29)	(31)
Amortization of loss	1	2	5	7
Net periodic pension cost	$3	$ 2	$9	$8
Canada				
Service cost benefit earned	$8	$ 8	$23	$24
Interest cost on projected benefit obligation	10	11	32	33
Expected return on plan assets	(16)	(16)	(48)	(50)
Amortization of loss	5	6	14	19
Amortization of prior service cost	—	—	1	1
Net periodic pension cost	$7	$ 9	$22	$27

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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in millions)			
U.S.				
Service cost benefit earned	$—	$ 1	$ —	$ 1
Interest cost on accumulated post-retirement benefit obligation	2	1	6	5
Expected return on plan assets	(2)	(1)	(4)	(4)
Net periodic other post-retirement benefit cost	$—	$ 1	$ 2	$ 2
Canada				
Service cost benefit earned	$1	$ 1	$ 2	$ 3
Interest cost on accumulated post-retirement benefit obligation	1	1	3	3
Net periodic other post-retirement benefit cost	$2	$ 2	$ 5	$ 6

Retirement/Savings Plan. In addition to the retirement plans described above, we also have defined contribution 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 in both of the three months ended September 30, 2016 and

2015, and $11 million in both of the nine months ended September 30, 2016 and 2015 for U.S. employees. We expensed pre-tax employer matching contributions of $3 million and $2 million in the three months ended September 30, 2016 and 2015, respectively, and $9 million and $8 million in the nine months ended September 30, 2016 and 2015, respectively, for Canadian employees.

Table of Contents

23. Condensed 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.

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

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Three Months Ended September 30, 2016					
Total operating revenues	$ —	$ —	$ 1,076	$ (1)	$ 1,075
Total operating expenses	(5)	1	759	(1)	754
Operating income (loss)	5	(1)	317	—	321
Earnings from equity investments	—	—	51	—	51
Equity in earnings of consolidated subsidiaries	193	272	—	(465)	—
Other income and expenses, net	—	—	52	—	52
Interest expense	—	47	86	—	133
Earnings before income taxes	198	224	334	(465)	291
Income tax expense (benefit)	3	31	(24)	—	10
Net income	195	193	358	(465)	281
Net income—noncontrolling interests	—	—	86	—	86
Net income—controlling interests	$ 195	$ 193	$ 272	$ (465)	$ 195
Three Months Ended September 30, 2015					
Total operating revenues	$ —	$ —	$ 1,105	$ (2)	$ 1,103
Total operating expenses	2	(1)	715	(2)	714
Operating income (loss)	(2)	1	390	—	389
Earnings from equity investments	—	—	48	—	48
Equity in earnings of consolidated subsidiaries	170	307	—	(477)	—
Other income and expenses, net	—	(1)	32	—	31
Interest expense	—	61	94	—	155
Earnings before income taxes	168	246	376	(477)	313
Income tax expense (benefit)	(6)	76	—	—	70
Net income	174	170	376	(477)	243
Net income—noncontrolling interests	—	—	69	—	69
Net income—controlling interests	$ 174	$ 170	$ 307	$ (477)	$ 174

Table of Contents

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

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Nine Months Ended September 30, 2016					
Total operating revenues	$ —	$ —	$ 3,620	$ (2)	$ 3,618
Total operating expenses	—	3	2,431	(2)	2,432
Operating income (loss)	—	(3)	1,189	—	1,186
Earnings from equity investments	—	—	100	—	100
Equity in earnings of consolidated subsidiaries	564	925	—	(1,489)	—
Other income and expenses, net	(2)	—	125	—	123
Interest expense	—	170	267	—	437
Earnings before income taxes	562	752	1,147	(1,489)	972
Income tax expense (benefit)	(16)	188	(12)	—	160
Net income	578	564	1,159	(1,489)	812
Net income—noncontrolling interests	—	—	234	—	234
Net income—controlling interests	$ 578	$ 564	$ 925	$ (1,489)	$ 578
Nine Months Ended September 30, 2015					
Total operating revenues	$ —	$ —	$ 3,921	$ (3)	$ 3,918
Total operating expenses	5	(2)	2,582	(3)	2,582
Operating income (loss)	(5)	2	1,339	—	1,336
Loss from equity investments	—	—	(117)	—	(117)
Equity in earnings of consolidated subsidiaries	445	790	—	(1,235)	—
Other income and expenses, net	—	(1)	74	—	73
Interest expense	—	183	297	—	480
Earnings before income taxes	440	608	999	(1,235)	812
Income tax expense (benefit)	(19)	163	20	—	164
Net income	459	445	979	(1,235)	648
Net income—noncontrolling interests	—	—	189	—	189
Net income—controlling interests	$ 459	$ 445	$ 790	$ (1,235)	$ 459

Table of Contents

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

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Three Months Ended September 30, 2016					
Net income	$ 195	$ 193	$ 358	$ (465)	$ 281
Other comprehensive income (loss)	2	—	(77)	—	(75)
Total comprehensive income, net of tax	197	193	281	(465)	206
Less: comprehensive income—noncontrolling interests	—	—	84	—	84
Comprehensive income—controlling interests	$ 197	$ 193	$ 197	$ (465)	$ 122
Three Months Ended September 30, 2015					
Net income	$ 174	$ 170	$ 376	$ (477)	$ 243
Other comprehensive income (loss)	2	1	(346)	—	(343)
Total comprehensive income (loss), net of tax	176	171	30	(477)	(100)
Less: comprehensive income—noncontrolling interests	—	—	64	—	64
Comprehensive income (loss)—controlling interests	$ 176	$ 171	$ (34)	$ (477)	$ (164)
Nine Months Ended September 30, 2016					
Net income	$ 578	$ 564	$ 1,159	$ (1,489)	$ 812
Other comprehensive income	4	—	283	—	287
Total comprehensive income, net of tax	582	564	1,442	(1,489)	1,099
Less: comprehensive income—noncontrolling interests	—	—	239	—	239
Comprehensive income—controlling interests	$ 582	$ 564	$ 1,203	$ (1,489)	$ 860
Nine Months Ended September 30, 2015					
Net income	$ 459	$ 445	$ 979	$ (1,235)	$ 648
Other comprehensive income (loss)	5	1	(741)	—	(735)
Total comprehensive income (loss), net of tax	464	446	238	(1,235)	(87)
Less: comprehensive income—noncontrolling interests	—	—	178	—	178
Comprehensive income (loss)—controlling interests	$ 464	$ 446	$ 60	$ (1,235)	$ (265)

Table of Contents

Spectra Energy Corp
Condensed Consolidating Balance Sheet
September 30, 2016
(Unaudited)
(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$—	$1	$ 463	$ —	$ 464
Receivables—consolidated subsidiaries	19	—	—	(19)	—
Notes receivable—current—consolidated subsidiaries	—	—	388	(388)	—
Receivables—other	—	—	712	—	712
Other current assets	16	2	561	(5)	574
Total current assets	35	3	2,124	(412)	1,750
Investments in and loans to unconsolidated affiliates	—	—	2,742	—	2,742
Investments in consolidated subsidiaries	14,844	20,452	—	(35,296)	—
Advances receivable—consolidated subsidiaries	—	5,064	1,549	(6,613)	—
Notes receivable—consolidated subsidiaries	—	—	2,800	(2,800)	—
Goodwill	—	—	4,203	—	4,203
Other assets	38	31	332	—	401
Net property, plant and equipment	—	—	25,337	—	25,337
Regulatory assets and deferred debits	4	12	1,488	—	1,504
Total Assets	$14,921	$25,562	$ 40,575	$ (45,121)	$ 35,937
Accounts payable	$2	$3	$ 731	$ —	$ 736
Accounts payable—consolidated subsidiaries	—	19	—	(19)	—
Commercial paper	—	460	1,177	—	1,637
Short-term borrowings—consolidated subsidiaries	—	388	—	(388)	—
Taxes accrued	—	4	74	(5)	73
Current maturities of long-term debt	—	—	467	—	467
Other current liabilities	78	45	651	—	774
Total current liabilities	80	919	3,100	(412)	3,687
Long-term debt	—	2,903	10,191	—	13,094
Advances payable—consolidated subsidiaries	6,613	—	—	(6,613)	—
Notes payable—consolidated subsidiaries	—	2,800	—	(2,800)	—
Deferred credits and other liabilities	760	4,096	2,319	—	7,175
Preferred stock of subsidiaries	—	—	562	—	562
Equity					
Controlling interests	7,468	14,844	20,452	(35,296)	7,468
Noncontrolling interests	—	—	3,951	—	3,951
Total equity	7,468	14,844	24,403	(35,296)	11,419
Total Liabilities and Equity	$14,921	$25,562	$ 40,575	$ (45,121)	$ 35,937

Table of Contents

Spectra Energy Corp
Condensed Consolidating Balance Sheet
December 31, 2015
(Unaudited)
(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$—	$1	$ 212	$ —	$ 213
Receivables—consolidated subsidiaries	15	6	13	(34)	—
Notes receivable—current—consolidated subsidiaries	—	—	387	(387)	—
Receivables—other	2	—	804	—	806
Other current assets	25	—	604	—	629
Total current assets	42	7	2,020	(421)	1,648
Investments in and loans to unconsolidated affiliates	—	—	2,592	—	2,592
Investments in consolidated subsidiaries	13,919	19,161	—	(33,080)	—
Advances receivable—consolidated subsidiaries	—	5,273	1,326	(6,599)	—
Notes receivable—consolidated subsidiaries	—	—	2,800	(2,800)	—
Goodwill	—	—	4,154	—	4,154
Other assets	41	27	242	—	310
Net property, plant and equipment	—	—	22,918	—	22,918
Regulatory assets and deferred debits	3	3	1,295	—	1,301
Total Assets	$14,005	$24,471	$ 37,347	$ (42,900)	$ 32,923
Accounts payable	$2	$3	$ 506	$ —	$ 511
Accounts payable—consolidated subsidiaries	4	28	2	(34)	—
Commercial paper	—	481	631	—	1,112
Short-term borrowings—consolidated subsidiaries	—	387	—	(387)	—
Taxes accrued	5	—	73	—	78
Current maturities of long-term debt	—	—	652	—	652
Other current liabilities	102	48	889	—	1,039
Total current liabilities	113	947	2,753	(421)	3,392
Long-term debt	—	2,891	10,001	—	12,892
Advances payable—consolidated subsidiaries	6,599	—	—	(6,599)	—
Notes payable—consolidated subsidiaries	—	2,800	—	(2,800)	—
Deferred credits and other liabilities	767	3,914	2,087	—	6,768
Preferred stock of subsidiaries	—	—	339	—	339
Equity					
Controlling interests	6,526	13,919	19,161	(33,080)	6,526
Noncontrolling interests	—	—	3,006	—	3,006
Total equity	6,526	13,919	22,167	(33,080)	9,532
Total Liabilities and Equity	$14,005	$24,471	$ 37,347	$ (42,900)	$ 32,923

Table of Contents

Spectra Energy Corp
Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2016
(Unaudited)
(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	$ 578	$ 564	$ 1,159	$ (1,489)	$ 812
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	—	—	599	—	599
Earnings from equity investments	—	—	(100)	—	(100)
Equity in earnings of consolidated subsidiaries	(564)	(925)	—	1,489	—
Distributions from equity investments	—	—	88	—	88
Other	(9)	194	15	—	200
Net cash provided by (used in) operating activities	5	(167)	1,761	—	1,599
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditures	—	—	(2,407)	—	(2,407)
Investments in and loans to unconsolidated affiliates	—	—	(181)	—	(181)
Purchase of intangible, net	—	—	(80)	—	(80)
Disposition	—	—	204	—	204
Purchases of held-to-maturity securities	—	—	(479)	—	(479)
Proceeds from sales and maturities of held-to-maturity securities	—	—	475	—	475
Purchases of available-for-sale securities	—	—	(565)	—	(565)
Proceeds from sales and maturities of available-for-sale securities	—	—	559	—	559
Distributions from equity investments	—	—	45	—	45
Distribution to equity investment	—	—	(148)	—	(148)
Advances from (to) affiliates	(57)	196	—	(139)	—
Other changes in restricted funds	—	—	(19)	—	(19)
Other	—	—	1	—	1
Net cash provided by (used in) investing activities	(57)	196	(2,595)	(139)	(2,595)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issuance of long-term debt	—	—	382	—	382
Payments for the redemption of long-term debt	—	—	(619)	—	(619)
Net increase (decrease) in commercial paper	—	(21)	523	—	502
Distributions to noncontrolling interests	—	—	(176)	—	(176)
Contributions from noncontrolling interests	—	—	437	—	437
Proceeds from the issuances of Spectra Energy common stock	878	—	—	—	878
Proceeds from the issuances of SEP common units	—	—	473	—	473
Proceeds from the issuance of Westcoast preferred stock	—	—	229	—	229
Dividends paid on common stock	(842)	—	—	—	(842)
Distributions and advances from (to) affiliates	14	(8)	(145)	139	—

Other	2	—	(22)	—	(20)
Net cash provided by (used in) financing activities	52	(29)	1,082	139	1,244
Effect of exchange rate changes on cash	—	—	3	—	3
Net increase in cash and cash equivalents	—	—	251	—	251
Cash and cash equivalents at beginning of period	—	1	212	—	213
Cash and cash equivalents at end of period	$ —	$ 1	$ 463	$ —	$ 464

Table of Contents

Spectra Energy Corp
Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2015
(Unaudited)
(In millions)

	Spectra Energy Corp	Spectra Capital	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	$ 459	$ 445	$ 979	$ (1,235)	$ 648
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	—	—	584	—	584
Loss from equity investments	—	—	117	—	117
Equity in earnings of consolidated subsidiaries	(445)	(790)	—	1,235	—
Distributions from equity investments	—	—	145	—	145
Other	44	109	176	—	329
Net cash provided by (used in) operating activities	58	(236)	2,001	—	1,823
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditures	—	—	(1,817)	—	(1,817)
Investments in and loans to unconsolidated affiliates	—	—	(91)	—	(91)
Purchases of held-to-maturity securities	—	—	(463)	—	(463)
Proceeds from sales and maturities of held-to-maturity securities	—	—	457	—	457
Proceeds from sales and maturities of available-for-sale securities	—	—	1	—	1
Distributions from equity investments	—	—	441	—	441
Advances from (to) affiliates	(82)	62	—	20	—
Other changes in restricted funds	—	—	(24)	—	(24)
Other	—	—	(7)	—	(7)
Net cash provided by (used in) investing activities	(82)	62	(1,503)	20	(1,503)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from the issuance of long-term debt	—	—	1,332	—	1,332
Payments for the redemption of long-term debt	—	—	(153)	—	(153)
Net increase (decrease) in commercial paper	—	170	(1,154)	—	(984)
Distributions to noncontrolling interests	—	—	(140)	—	(140)
Contributions from noncontrolling interests	—	—	164	—	164
Proceeds from the issuances of SEP common units	—	—	351	—	351
Dividends paid on common stock	(747)	—	—	—	(747)
Distributions and advances from (to) affiliates	774	4	(758)	(20)	—
Other	(3)	—	(11)	—	(14)
Net cash provided by (used in) financing activities	24	174	(369)	(20)	(191)
Effect of exchange rate changes on cash	—	—	(6)	—	(6)
Net increase in cash and cash equivalents	—	—	123	—	123
Cash and cash equivalents at beginning of period	—	1	214	—	215
Cash and cash equivalents at end of period	$ —	$ 1	$ 337	$ —	$ 338

32

Table of Contents

24. New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-10, "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation," which amends the consolidation guidance around reporting entities that invest in development stage entities. We adopted the consolidation guidance of this amendment on January 1, 2016 and applied it retrospectively with no material effect on our consolidated results of operations, financial position or cash flows. This ASU did result in certain of our entities being classified as Variable Interest Entities. See Note 10 for discussion of our Variable Interest Entities.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which makes changes to both the variable interest model and the voting model. These changes required reevaluation of certain entities for consolidation and required us to revise our documentation regarding the consolidation or deconsolidation of such entities. We adopted this standard on January 1, 2016 with no material effect on our consolidated results of operations, financial position or cash flows.

In September 2015, the FASB issued ASU No. 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments," to simplify accounting for adjustments made to provisional amounts recognized in a business combination and to eliminate the retrospective accounting for those adjustments. We adopted this standard on January 1, 2016. The adoption of this standard has not had a material impact on our consolidated results of operations, financial position or cash flow.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," to improve the financial reporting around leasing transactions. The new guidance requires companies to begin recording assets and liabilities arising from those leases classified as operating leases under previous guidance. Furthermore, the new guidance will require significant additional disclosures about the amount, timing and uncertainty of cash flows from leases. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in previous guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in the statement of comprehensive income and the statement of cash flows is largely unchanged from previous guidance. This ASU is effective for us January 1, 2019. We are currently evaluating this ASU and its potential impact on us.

In March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships," which clarifies the hedge accounting impact when there is a change in one of the counterparties to the derivative contract (i.e. novation). This ASU is effective for us January 1, 2017. This ASU is not expected to have a material impact on our consolidated results of operations, financial position or cash flow.

In March 2016, the FASB issued ASU No. 2016-06, "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments," which simplifies the embedded derivative analysis for debt instruments containing contingent call or put options. This ASU is effective for us January 1, 2017. This ASU is not expected to have a material impact on our consolidated results of operations, financial position or cash flow.

In March 2016, the FASB issued ASU No. 2016-07, "Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting," which eliminates the requirement to apply the equity method of accounting retrospectively when a reporting entity obtains significant influence over a previously held investment. This ASU is effective for us January 1, 2017. We are currently evaluating this ASU and its potential impact on us.

In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," to clarify implementation guidance on principal versus agent considerations. This ASU is effective for us on January 1, 2018. We are currently evaluating this ASU and its potential impact on us.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for share-based

payment award transactions. This ASU is effective for us January 1, 2017. We are currently evaluating this ASU and its potential impact on us.

In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing,” to clarify implementation guidance on performance obligations and licensing. This ASU is effective for us on January 1, 2018. We are currently evaluating this ASU and its potential impact on us.

Table of Contents

In May 2016, the FASB issued ASU No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,” to clarify implementation guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. This ASU is effective for us on January 1, 2018. We are currently evaluating this ASU and its potential impact on us.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” to replace the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires the consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This ASU is effective for us on January 1, 2020. We are currently evaluating this ASU and its potential impact on us.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,” to provide guidance on specific cash flow issues with the objective of reducing the existing diversity in practice. This ASU is effective for us on January 1, 2018. We are currently evaluating this ASU and its potential impact on us.

25. Subsequent Events

On October 17, 2016, SEP issued $800 million aggregate principal amount of senior unsecured notes, comprised of $600 million of 3.375% senior notes due 2026 and $200 million of 4.5% senior notes due 2045. The new 2045 notes are an additional issuance of SEP’s 4.5% senior notes issued in March 2015. Net proceeds from the offering were used to repay a portion of outstanding commercial paper, to fund capital expenditures and for general corporate purposes.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

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

Executive Overview

For the three months ended September 30, 2016 and 2015, we reported net income from controlling interests of $195 million and $174 million, respectively. For the nine months ended September 30, 2016 and 2015, we reported net income from controlling interests of $578 million and $459 million, respectively.

The highlights for the three months and nine months ended September 30, 2016 include the following:

- Spectra Energy Partners’ earnings for the three-month period benefited mainly from expansion projects, more than offset by pipeline inspection and repair costs related to the Texas Eastern Transmission, LP (Texas Eastern) incident near Delmont, Pennsylvania and the absence of equity earnings from DCP Sand Hills Pipeline, LLC (Sand Hills) and DCP Southern Hills Pipeline, LLC (Southern Hills) NGL pipelines, which SEP owned until October 2015. For the nine-month period, earnings benefited mainly from expansion projects, more than offset by pipeline inspection and repair costs related to the Texas Eastern incident near Delmont, Pennsylvania, lower interruptible and short-term firm transportation revenue, a one-time property tax accrual adjustment in 2015 and by the absence of equity earnings from Sand Hills and Southern Hills.
- Distribution’s earnings for the three-month period benefited mainly from incremental earnings from the 2015 Dawn-Parkway expansion project and higher storage margins. For the nine-month period, earnings decreased mainly due to warmer weather and the effect of a lower Canadian dollar, partially offset by incremental earnings from the 2015 Dawn-Parkway expansion project and higher storage margins.
- Western Canada Transmission & Processing’s earnings for the three-month period decreased mainly due to lower firm gathering and processing revenues. For the nine-month period, earnings decreased mainly due to the effect of a lower Canadian dollar and lower firm gathering and processing revenues, partially offset by lower plant turnaround costs.
- Field Services’ earnings for the three-month period increased mainly due to higher gathering and processing margins, favorable contract realignment efforts and continued costs savings initiatives. For the nine-month period, earnings increased mainly due to the 2015 impairment of goodwill at DCP Midstream and an increase in gathering and processing margins, partially offset by lower commodity prices.

Table of Contents

We are conducting an assessment of the Texas Eastern natural gas transmission system across Pennsylvania and New Jersey. The assessment is the result of a corrective action order from the Pipeline and Hazardous Materials Safety Administration (PHMSA), as well as our own work plan, related to an incident on the system on April 29, 2016 near Delmont, Pennsylvania. This assessment program and the related system repairs are expected to cost approximately $75 million to $100 million. Most of this program will be completed in 2016, with the remainder of the work to be performed in 2017. Additional inspections and repairs, if any, will be determined after the completion of this work. Importantly, as of November 1, 2016, we were in the position to fully meet our customer obligations.

In the first nine months of 2016, we had $2.6 billion of capital and investment expenditures. We currently project $4.5 billion of capital and investment expenditures for the full year, including expansion capital expenditures of $3.9 billion. These projections exclude contributions from noncontrolling interests.

We are committed to an investment-grade balance sheet and continued prudent financial management of our capital structure. Therefore, financing growth activities will continue to be based on our strong and growing fee-based earnings and cash flows as well as the issuances of debt and equity securities. As of September 30, 2016, our revolving credit facilities included Spectra Capital's two facilities totaling $3 billion, SEP's $2.5 billion facility, Westcoast's 400 million Canadian dollar facility and Union Gas' 700 million Canadian dollar facility. These facilities are used principally as back-stops for commercial paper programs.

On September 6, 2016, we announced that we entered into a definitive merger agreement with Enbridge under which Enbridge and Spectra Energy will combine in a stock-for-stock merger transaction, which values Spectra Energy's stock at approximately $28 billion, based on the closing price of Enbridge's common shares as of September 2, 2016. This transaction was unanimously approved by the boards of directors of both Spectra Energy and Enbridge and is expected to close in the first quarter of 2017, subject to shareholder and certain regulatory approvals and other customary conditions.

Upon completion of the proposed merger, Spectra Energy shareholders will receive 0.984 Enbridge common shares for each share of Spectra Energy stock they own. The consideration to be received by Spectra Energy shareholders is valued at $40.33 per Spectra Energy share, based on the closing price of Enbridge common shares as of September 2, 2016, representing an approximate 11.5% premium to the closing price of Spectra Energy stock as of September 2, 2016. Upon completion of the merger, Enbridge shareholders are expected to own approximately 57% of the combined company and Spectra Energy shareholders are expected to own approximately 43%.

RESULTS OF OPERATIONS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Operating revenues	$1,075	$1,103	$3,618	$3,918
Operating expenses	754	714	2,432	2,582
Operating income	321	389	1,186	1,336
Other income and expenses	103	79	223	(44)
Interest expense	133	155	437	480
Earnings before income taxes	291	313	972	812
Income tax expense	10	70	160	164
Net income	281	243	812	648
Net income—noncontrolling interests	86	69	234	189
Net income—controlling interests	$195	$174	$578	$459

Three Months Ended September 30, 2016 Compared to Same Period in 2015

Operating Revenues. The $28 million decrease was driven by:

- lower firm gathering and processing revenues, the sale of Empress in August 2016 and non-cash mark-to-market commodity-related pricing adjustments associated with the risk management program at Empress at Western Canada

Transmission & Processing, partially offset by
- higher revenues from expansion projects at Spectra Energy Partners.

Table of Contents

Operating Expenses. The $40 million increase was driven by:

- pipeline inspection and repair costs, higher costs related to expansion and higher property tax accruals due to the absence of a 2015 tax benefit at Spectra Energy Partners, partially offset by
- the sale of Empress at Western Canada Transmission & Processing.

Other Income and Expenses. The $24 million increase was mainly attributable to higher equity earnings from Field Services mainly due to higher gathering and processing margins as a result of asset growth and favorable contract realignment at DCP Midstream.

Interest Expense. The $22 million decrease was mainly due to the reversal of an interest accrual related to the release of tax reserves.

Income Tax Expense. The $60 million decrease was primarily attributable to the sale of Empress and the release of tax reserves.

The effective tax rate for income from continuing operations was 3% for the three months ended September 30, 2016 compared to 22% for the same period in 2015.

Net Income—Noncontrolling Interests. The $17 million increase was driven primarily by higher noncontrolling ownership interests at Spectra Energy Partners, partially offset by lower earnings at Spectra Energy Partners.

Nine Months Ended September 30, 2016 Compared to Same Period in 2015

Operating Revenues. The $300 million decrease was driven by:

- lower usage due to warmer weather and lower natural gas prices passed through to customers, partially offset by growth in the number of customers, incremental earnings from the 2015 Dawn-Parkway expansion project and higher storage margins at Distribution,
- the effects of a lower Canadian dollar at Distribution and Western Canada Transmission & Processing and
- a decrease from non-cash mark-to-market commodity-related pricing adjustments associated with the risk management program at Empress, lower firm gathering and processing revenues, lower NGL prices at Empress and the sale of Empress at Western Canada Transmission & Processing, partially offset by
- higher revenues from expansion projects at Spectra Energy Partners.

Operating Expenses. The $150 million decrease was driven by:

- lower volumes of natural gas sold due to warmer weather and lower natural gas prices passed through to customers at Distribution,
- lower costs of sales at Empress, lower plant turnaround costs and the sale of Empress at Western Canada Transmission & Processing and
- the effects of a lower Canadian dollar at Distribution and Western Canada Transmission & Processing, partially offset by
- pipeline inspection and repair costs, higher costs related to expansion and property tax accruals due to the absence of a 2015 tax benefit at Spectra Energy Partners.

Other Income and Expenses. The $267 million increase was mainly attributable to higher equity earnings from Field Services mainly due to the 2015 impairment of goodwill at DCP Midstream.

Interest Expense. The $43 million decrease was mainly due to higher capitalized interest, the reversal of an interest accrual, related to the release of tax reserves, and a lower Canadian dollar, partially offset by higher average debt balances.

Income Tax Expense. The $4 million decrease was primarily attributable to the sale of Empress, tax rate changes and the release of tax reserves, mostly offset by the tax impact of the impairment of goodwill at DCP Midstream in 2015.

The effective tax rate for income from continuing operations was 16% for the nine months ended September 30, 2016 compared to 20% for the same period in 2015.

Table of Contents

Net Income—Noncontrolling Interests. The $45 million increase was driven primarily by higher noncontrolling ownership interests at Spectra Energy Partners, partially offset by lower earnings at Spectra Energy Partners.

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

Segment Results

Management evaluates segment performance based on EBITDA. Cash, cash equivalents and short-term investments are managed at the parent-company levels, so the gains and losses from foreign currency transactions and interest and dividend income are excluded from the segments' EBITDA. We consider segment EBITDA to be a good indicator of each segment's operating performance from its operations, as it represents the results of our operations without regard to financing methods or capital structures. Our segment EBITDA may not be comparable to similarly titled measures of other companies because other companies may not calculate EBITDA in the same manner.

Segment EBITDA is summarized in the following table. Detailed discussions follow.

EBITDA by Business Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in millions)			
Spectra Energy Partners	$464	$488	$1,408	$1,421
Distribution	77	70	351	360
Western Canada Transmission & Processing	93	117	313	382
Field Services	12	(3)	1	(253)
Total reportable segment EBITDA	646	672	2,073	1,910
Other	(30)	(12)	(85)	(39)
Total reportable segment and other EBITDA	$616	$660	$1,988	$1,871
Depreciation and amortization	193	188	582	574
Interest expense	133	155	437	480
Interest income and other (a)	1	(4)	3	(5)
Earnings before income taxes	$291	$313	$972	$812

(a) Includes foreign currency transaction gains and losses related to segment EBITDA.

The amounts discussed below include intercompany transactions that are eliminated in the Condensed Consolidated Financial Statements.

Spectra Energy Partners

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
	(in millions, except where noted)					
Operating revenues	$628	$612	$ 16	$1,870	$1,821	$ 49
Operating expenses						
Operating, maintenance and other	251	207	44	672	606	66
Other income and expenses	87	83	4	210	206	4
EBITDA	$464	$488	$ (24)	$1,408	$1,421	$ (13)
Express pipeline revenue receipts, MBbl/d (a)	235	234	1	234	239	(5)
Platte PADD II deliveries, MBbl/d	131	167	(36)	131	169	(38)

(a) Thousand barrels per day.

Table of Contents

Three Months Ended September 30, 2016 Compared to Same Period in 2015

Operating Revenues. The $16 million increase was driven by:

- a $25 million increase due to expansion primarily on Texas Eastern and
- a $3 million increase in storage revenues due to new contracts at higher rates, partially offset by
- a $5 million decrease in processing revenues primarily due to lower volumes, net of higher prices,
- a $4 million decrease in crude oil transportation revenues, as a result of lower Platte pipeline volumes, net of increased tariff rates mainly on the Express pipeline and
- a $2 million decrease in recoveries of electric power and other costs passed through to gas transmission customers.

Operating, Maintenance and Other. The $44 million increase was driven by:

- a $38 million increase due to pipeline inspection and repair costs related to the Texas Eastern incident near Delmont, Pennsylvania,
- an $8 million increase in costs related to expansion and
- a $5 million increase in property taxes due to the absence of a 2015 tax benefit, partially offset by
- a $5 million decrease in maintenance costs on the Express and Platte pipelines and
- a $2 million decrease in electric power and other costs passed through to gas transmission customers.

Other Income and Expenses. The $4 million increase was primarily due to higher allowance for funds used during construction (AFUDC) from higher capital spending on expansion projects, partially offset by the absence of equity earnings from Sand Hills and Southern Hills owned until October 2015.

Nine Months Ended September 30, 2016 Compared to Same Period in 2015

Operating Revenues. The $49 million increase was driven by:

- an $82 million increase due to expansion, primarily on Texas Eastern and
- a $5 million increase in storage revenues due to new contracts at higher rates, partially offset by
- an $11 million decrease in natural gas transportation revenues mainly from interruptible transportation on Texas Eastern and Maritimes and Northeast, L.L.C. and short-term firm transportation on Algonquin Gas Transmission, LLC,
- an $11 million decrease in recoveries of electric power and other costs passed through to gas transmission customers,
- a $9 million decrease in processing revenues primarily due to lower volumes and prices and
- an $8 million decrease in crude oil transportation revenues, as a result of lower volumes on the Platte and Express pipelines, substantially offset by increased tariff rates mainly on the Express pipeline.

Operating, Maintenance and Other. The $66 million increase was driven by:

- a $44 million increase due to pipeline inspection and repair costs related to the Texas Eastern incident near Delmont, Pennsylvania,
- a $39 million increase in costs related to expansion,
- a $10 million increase in property taxes due to the absence of a 2015 tax benefit and
- a $4 million increase in operating costs, partially offset by
- an $11 million decrease in power costs due to lower usage in 2016 and a decrease in maintenance costs on the Express and Platte pipelines,
- an $11 million decrease in electric power and other costs passed through to gas transmission customers and

Table of Contents

- a $9 million decrease due to a prior year non-cash impairment charge on Ozark Gas Gathering.

Other Income and Expenses. The $4 million increase was driven by primarily due to higher AFUDC from higher capital spending on expansion projects, partially offset by the absence of equity earnings from Sand Hills and Southern Hills owned until October 2015.

Distribution

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
	(in millions, except where noted)					
Operating revenues	$209	$209	$ —	$958	$1,161	$ (203)
Operating expenses						
Natural gas purchased	46	53	(7)	352	539	(187)
Operating, maintenance and other	86	86	—	257	262	(5)
Other income and expenses	—	—	—	2	—	2
EBITDA	$77	$70	$ 7	$351	$360	$ (9)
Number of customers, thousands				1,450	1,429	21
Heating degree days, Fahrenheit	196	245	(49)	4,543	5,370	(827)
Pipeline throughput, TBtu (a)	162	134	28	547	594	(47)
Canadian dollar exchange rate, average	1.30	1.31	(0.01)	1.32	1.26	0.06

(a) Trillion British thermal units.

Three Months Ended September 30, 2016 Compared to Same Period in 2015

Operating Revenues. Relatively flat year over year due to:

- a $6 million decrease from higher utility earnings to be shared with customers in accordance with the incentive regulation framework in 2016,
- a $5 million decrease from lower natural gas prices passed through to customers. Prices charged to customers are adjusted quarterly based on the 12 month New York Mercantile Exchange (NYMEX) forecast and
- a $3 million decrease in residential customer usage of natural gas primarily due to warmer weather in 2016, offset by
- a $5 million increase from the 2015 Dawn-Parkway expansion project,
- a $5 million increase in rates primarily due to increased DSM program charges and
- a $3 million increase in storage margins primarily due to higher storage pricing.

Natural Gas Purchased. The $7 million decrease was driven by:

- a $5 million decrease from lower natural gas prices passed through to customers and
- a $4 million decrease due to lower volumes of natural gas sold to residential customers primarily due to warmer weather, partially offset by
- a $1 million increase from growth in the number of customers and
- a $1 million increase in industrial market usage.

Nine Months Ended September 30, 2016 Compared to Same Period in 2015

Operating Revenues. The $203 million decrease was driven by:

- a $101 million decrease in residential customer usage of natural gas primarily due to warmer weather in 2016,
- an $83 million decrease from lower natural gas prices passed through to customers. Prices charged to customers are adjusted quarterly based on the 12 month NYMEX forecast,

Table of Contents

- a $67 million decrease resulting from a lower Canadian dollar and
- a $7 million decrease in industrial market usage, partially offset by
- a $24 million increase from growth in the number of customers,
- a $16 million increase from the 2015 Dawn-Parkway expansion project,
- an $11 million increase in rates primarily due to increased DSM program charges,
- an $8 million increase in storage margins primarily due to higher storage pricing and
- a $5 million increase from lower utility earnings to be shared with customers in accordance with the incentive regulation framework.

Natural Gas Purchased. The $187 million decrease was driven by:

- an $84 million decrease from lower natural gas prices passed through to customers,
- an $84 million decrease due to lower volumes of natural gas sold to residential customers primarily due to warmer weather,
- a $29 million decrease resulting from a lower Canadian dollar and
- an $8 million decrease in industrial market usage, partially offset by
- a $19 million increase from growth in the number of customers.

Operating, Maintenance and Other. The $5 million decrease was driven by:

- a $13 million decrease resulting from a lower Canadian dollar, partially offset by
- a $5 million increase in operating and maintenance expenses primarily due to higher employee related costs and increased DSM program charges.

Western Canada Transmission & Processing

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
	(in millions, except where noted)					
Operating revenues	$236	$288	$ (52)	$799	$962	$ (163)
Operating expenses						
Natural gas and petroleum products purchased	5	32	(27)	68	124	(56)
Operating, maintenance and other	141	141	—	426	462	(36)
Other income and expenses	3	2	1	8	6	2
EBITDA	$93	$117	$ (24)	$313	$382	$ (69)
Pipeline throughput, TBtu	214	213	1	680	689	(9)
Volumes processed, TBtu	145	157	(12)	484	493	(9)
Canadian dollar exchange rate, average	1.30	1.31	(0.01)	1.32	1.26	0.06

Three Months Ended September 30, 2016 Compared to Same Period in 2015

Operating Revenues. The $52 million decrease was driven by:

- a $24 million decrease in firm gathering and processing revenues partially due to a flood at Grizzly Valley,
- a $21 million decrease due to the sale of Empress and
- a $12 million decrease arising from changes in non-cash mark-to-market commodity-related pricing adjustments associated with the risk management program at Empress.

Table of Contents

Natural Gas and Petroleum Products Purchased. The $27 million decrease was driven primarily by the sale of Empress.

Nine Months Ended September 30, 2016 Compared to Same Period in 2015

Operating Revenues. The $163 million decrease was driven by:

- $46 million decrease resulting from a lower Canadian dollar,
- $41 million decrease in firm gathering and processing revenues,
- $37 million decrease arising from changes in non-cash mark-to-market commodity-related pricing adjustments associated with the risk management program at Empress,
- $23 million decrease due to lower NGL prices associated with Empress and
- $21 million decrease due to the sale of Empress.

Natural Gas and Petroleum Products Purchased. The $56 million decrease was driven by:

- a $24 million decrease primarily as a result of lower costs of NGL sales at Empress,
- $23 million decrease due to the sale of Empress and
- $6 million decrease resulting from a lower Canadian dollar.

Operating, Maintenance and Other. The $36 million decrease was driven by:

- $20 million decrease in plant turnaround costs and
- $21 million decrease resulting from a lower Canadian dollar.

Field Services

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
	(in millions, except where noted)					
Earnings (loss) from equity investments	$12	$(3)	$ 15	$1	$(253)	$ 254
EBITDA	$12	$(3)	$ 15	$1	$(253)	$ 254
Natural gas gathered and processed/transported, TBtu/d (a,b)	6.4	7.3	(0.9)	6.7	7.1	(0.4)
NGL production, MBbl/d (a)	403	421	(18)	400	410	(10)
Average natural gas price per MMBtu (c,d)	$2.81	$2.77	$ 0.04	$2.29	$2.80	$ (0.51)
Average NGL price per gallon (e)	$0.45	$0.42	$ 0.03	$0.43	$0.46	$ (0.03)
Average crude oil price per barrel (f)	$44.94	$46.43	$ (1.49)	$41.34	$51.00	$ (9.66)

(a) Reflects 100% of volumes.
(b) Trillion British thermal units per day.
(c) Average price based on NYMEX Henry Hub.
(d) Million British thermal units.
(e) Does not reflect results of commodity hedges.
(f) Average price based on NYMEX calendar month.

Table of Contents

Three Months Ended September 30, 2016 Compared to Same Period in 2015

EBITDA increased $15 million mainly as a result of the following variances, each representing our 50% ownership portion of the earnings drivers at DCP Midstream:

- a $24 million increase in gathering and processing margins primarily as a result of asset growth and favorable contract realignment,
- a $14 million increase primarily attributable to lower operating expenses as a result of cost savings initiatives,
- a $4 million increase primarily due to favorable results from NGL pipelines and
- a $4 million increase from commodity-sensitive processing arrangements primarily due to increased NGL prices, partially offset by
- a $19 million decrease resulting from increased net income attributable to noncontrolling interests primarily as a result of asset growth and prior year asset impairments and
- a $17 million decrease primarily as a result of the expiration of hedges in the first quarter of 2016.

Nine Months Ended September 30, 2016 Compared to Same Period in 2015

EBITDA increased $254 million mainly as a result of the following variances, each representing our 50% ownership portion of the earnings drivers at DCP Midstream:

- a $213 million increase primarily as a result of the 2015 impairment of goodwill at DCP Midstream,
- a $73 million increase in gathering and processing margins primarily as a result of asset growth and favorable contract realignment,
- a $45 million increase primarily as a result of a producer settlement,
- a $27 million increase due to favorable results from NGL pipelines, partially offset by unfavorable results from wholesale propane and
- a $20 million increase primarily attributable to lower operating expenses as a result of cost savings initiatives, partially offset by
- a $45 million decrease from commodity-sensitive processing arrangements, due to decreased NGL, crude oil and natural gas prices,
- a $41 million decrease resulting from increased net income attributable to noncontrolling interests primarily as a result of asset growth and prior year asset impairments and
- a $27 million decrease primarily as a result of the expiration of hedges in the first quarter of 2016.

Other

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase (Decrease)	2016	2015	Increase (Decrease)
	(in millions)					
Operating revenues	$18	$19	$ (1)	$54	$54	$ —
Operating expenses						
Operating, maintenance and other	48	32	16	138	94	44
Other income and expenses	—	1	(1)	(1)	1	(2)
EBITDA	$(30)	$(12)	$ (18)	$(85)	$(39)	$ (46)

Three Months Ended September 30, 2016 Compared to Same Period in 2015

EBITDA. The $18 million decrease was driven by:

- $16 million higher costs primarily related to the merger with Enbridge announced September 6, 2016 and

Table of Contents

- $12 million due to higher employee benefit costs.

Nine Months Ended September 30, 2016 Compared to Same Period in 2015

EBITDA. The $46 million decrease was driven by:

- $25 million due to higher employee benefit costs,
- $16 million higher costs primarily related to the merger with Enbridge announced September 6, 2016 and
- $10 million due to a captive insurance general liability reserve related to the Texas Eastern incident near Delmont, Pennsylvania.

Impairment of Goodwill

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.

We performed either a quantitative assessment or a qualitative assessment for all of our reporting units to determine whether it is more likely than not that the respective fair values of these reporting units are less than their carrying amounts, including goodwill, as of April 1, 2016 (our annual testing date). Based on the results of our annual goodwill impairment testing, no indicators of impairment were noted and the fair values of the reporting units that we assessed at April 1, 2016 were substantially in excess of their respective carrying values.

No triggering events have occurred with our reporting units since the April 1, 2016 test that would warrant re-testing for goodwill impairment.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2016, we had negative working capital of $1,937 million. This balance includes commercial paper liabilities totaling $1,637 million and current maturities of long-term debt of $467 million. We will rely upon cash flows from operations and various financing transactions, which may include debt and/or equity issuances, to fund our liquidity and capital requirements for the next 12 months. SEP is expected to be self-funding through its cash flows from operations, use of its revolving credit facility and its access to capital markets. We receive cash distributions from SEP in accordance with the partnership agreement, which considers our level of ownership and incentive distribution rights.

On September 29, 2016, we entered into a new one-year, $2 billion credit facility at Spectra Capital, which expires in 2017. With this new credit facility, as of September 30, 2016, we have access to five revolving credit facilities, including Spectra Capital's two facilities totaling $3.0 billion, SEP's $2.5 billion facility, Westcoast's 400 million Canadian dollar facility and Union Gas' 700 million Canadian dollar facility, with available capacity of $1.3 billion under SEP's credit facility and $3.4 billion under our other subsidiaries' credit facilities. These facilities are used principally as back-stops for commercial paper programs. At Spectra Capital, SEP and Westcoast, we primarily use commercial paper for temporary funding of capital expenditures. At Union Gas, we primarily use commercial paper for temporary funding of capital expenditures and to support short-term working capital fluctuations. We also utilize commercial paper, other variable-rate debt and interest rate swaps to achieve our desired mix of fixed and variable-rate debt. See Note 14 of Notes to Condensed Consolidated Financial Statements for a discussion of available credit facilities and Financing Cash Flows and Liquidity for a discussion of effective shelf registrations.

Table of Contents

Cash Flow Analysis

The following table summarizes the changes in cash flows for each of the periods presented:

	Nine Months Ended September 30,	
	2016	2015
Net cash provided by (used in):	(in millions)	
Operating activities	$1,599	$1,823
Investing activities	(2,595)	(1,503)
Financing activities	1,244	(191)
Effect of exchange rate changes on cash	3	(6)
Net increase in cash and cash equivalents	251	123
Cash and cash equivalents at beginning of period	213	215
Cash and cash equivalents at end of period	$464	$338

Operating Cash Flows

Net cash provided by operating activities decreased $224 million to $1,599 million in the nine months ended September 30, 2016 compared to the same period in 2015, driven mostly by changes in working capital.

Investing Cash Flows

Net cash used in investing activities increased $1,092 million to $2,595 million in the nine months ended September 30, 2016 compared to the same period in 2015. This change was driven mostly by:

•a $680 million net increase in capital and investment expenditures,
•a $396 million distribution received from Gulfstream with proceeds from a Gulfstream debt offering in 2015 and
•a $148 million contribution to Gulfstream used to retire debt in 2016, partially offset by
•$204 million in proceeds related to the sale of Empress in 2016.

	Nine Months Ended September 30,	
	2016	2015
Capital and Investment Expenditures	(in millions)	
Spectra Energy Partners	$1,727	$1,252
Distribution	577	374
Western Canada Transmission & Processing	246	241
Total reportable segments	2,550	1,867
Other	38	41
Total consolidated	$2,588	$1,908

Capital and investment expenditures for the nine months ended September 30, 2016 consisted of $2,171 million for expansion projects and $417 million for maintenance.

We project 2016 capital and investment expenditures of approximately $4.5 billion, consisting of approximately $2.5 billion for SEP, $0.9 billion for Distribution, $0.6 billion for Western Canada Transmission & Processing and $0.5 for Other. Total projected 2016 capital and investment expenditures include approximately $3.9 billion of expansion capital expenditures and $0.6 billion for maintenance and upgrades of existing plants, pipelines and infrastructure to serve growth. These projections exclude contributions from noncontrolling interests.

Table of Contents

Financing Cash Flows and Liquidity

Net cash provided by financing activities totaled $1,244 million for the nine months ended September 30, 2016 compared to $191 million used in the same period in 2015. This change was mainly driven mostly by:

•$878 million in proceeds from the issuance of Spectra Energy's common stock in 2016 and

•$229 million in proceeds from the issuance of Westcoast's preferred stock in 2016.

Spectra Energy Common Stock Issuances. On March 1, 2016, we entered into an equity distribution agreement under which we may sell and issue common stock up to an aggregate offering price of $500 million. The equity distribution agreement allows us to offer and sell common stock at prices deemed appropriate through sales agents. Sales of common stock under the equity distribution agreement will be made by means of ordinary brokers' transactions through the facilities of the NYSE, in block transactions, or as otherwise agreed upon by one or more of the sales agents and us. We intend to use the net proceeds from sales under this at-the-market program for general corporate purposes, including investments in subsidiaries to fund capital expenditures. We issued approximately 12.9 million of common shares to the public under this program, for total net proceeds of $383 million through September 30, 2016.

In April 2016, we issued 16.1 million common shares to the public for net proceeds of approximately $479 million. Net proceeds from the offering were used to purchase approximately 10.4 million common units in SEP. SEP used the proceeds from our unit purchase for general corporate purposes, including the funding of its current expansion capital plan.

SEP Common Unit Issuances. During the nine months ended September 30, 2016, SEP issued 10.4 million common units to the public under its at-the-market program and approximately 212,000 general partner units to Spectra Energy. Total net proceeds to SEP were $483 million (net proceeds to Spectra Energy were $473 million). In April 2016, SEP issued 10.4 million common units and 0.2 million general partner units to Spectra Energy in a private placement transaction. In connection with the issuances of the units, a $40 million gain ($25 million net of tax) to Additional Paid-in Capital and a $432 million increase in Equity—Noncontrolling Interests were recorded during the nine months ended September 30, 2016. The issuances decreased Spectra Energy's ownership in SEP from 78% to 76% at September 30, 2016. In 2016, SEP has issued 10.9 million common units to the public and approximately 222,000 general partner units to Spectra Energy, for total net proceeds to SEP of $503 million (net proceeds to Spectra Energy were $493 million) through its at-the-market program.

Westcoast Preferred Stock Issuance. On August 30, 2016, Westcoast issued 12 million Cumulative 5-Year Minimum Rate Reset Redeemable First Preferred Shares, Series 12 for an aggregate principle amount of 300 million Canadian dollars (approximately $229 million as of the issuance date). Net proceeds from the issuance were used to fund capital expenditures and for general corporate purposes.

Available Credit Facilities and Restrictive Debt Covenants. See Note 14 of Notes to Condensed Consolidated Financial Statements for a discussion of available credit facilities and related financial and other covenants.

On September 29, 2016, we entered into a new one-year, $2 billion credit facility at Spectra Capital, which expires in 2017. Proceeds from borrowings under the credit facility will be used for general corporate purposes. Amounts borrowed under the credit facility must be repaid following any change in control, including any that results from the proposed merger with Enbridge.

On April 29, 2016, we amended the Union Gas and SEP revolving credit agreements. The Union Gas revolving credit facility was increased to 700 million Canadian dollars and the SEP revolving facility was increased to $2.5 billion. The expiration of both facilities was extended, with both facilities expiring in 2021.

On April 29, 2016, we amended the Westcoast and Spectra Capital revolving credit agreements. The expiration of both credit facilities was extended, with both facilities expiring in 2021.

The terms of our Spectra Capital credit agreements and term loans require our consolidated debt-to-total-capitalization ratio, as defined in the agreements, to be 65% or lower. Per the terms of the agreements, collateralized debt is excluded from the calculation of the ratio. This ratio was 55.8% at September 30, 2016. Our equity and, as a result, this ratio, is sensitive to significant movements of the Canadian dollar relative to the U.S. dollar due to the significance of our Canadian operations. Based on the strength of our total capitalization as of September 30, 2016, however, it is not likely that a material adverse effect would occur as a result of a lower Canadian dollar.

Dividends. Our near-term objective is to increase our cash dividend by $0.14 per share, per year, through 2018. We expect to continue our policy of paying regular cash dividends. The declaration and payment of dividends are subject to the sole discretion of our Board of Directors and will depend upon many factors, including the financial condition, earnings and

Table of Contents

capital requirements of our operating subsidiaries, covenants associated with certain debt obligations, legal requirements, regulatory constraints and other factors deemed relevant by our Board of Directors. We declared a quarterly cash dividend of $0.405 per common share on October 19, 2016 payable on December 6, 2016 to shareholders of record at the close of business on November 11, 2016.

Debt Issuances. On October 17, 2016, SEP issued $800 million aggregate principal amount of senior unsecured notes, comprised of $600 million of 3.375% senior notes due 2026 and $200 million of 4.5% senior notes due 2045. The new 2045 notes are an additional issuance of SEP's 4.5% senior notes issued in March 2015. Net proceeds from the offering were used to repay a portion of outstanding commercial paper, to fund capital expenditures and for general corporate purposes.

On May 31, 2016, Union Gas issued 250 million Canadian dollars (approximately $191 million as of the issuance date) of 2.81% unsecured notes due 2026 and 250 million Canadian dollars (approximately $191 million as of the issuance date) of 3.80% unsecured notes due 2046. Net proceeds from the offerings were used for repayment of short term debt and debt maturities, capital expenditures and general corporate purposes.

Other Financing Matters. Spectra Energy Corp, Spectra Capital and SEP have effective shelf registration statements on file with the SEC to register the issuance of unlimited amounts of various equity and debt securities. SEP also has $466 million available as of September 30, 2016 for the issuance of limited partner common units under another effective shelf registration statement on file with the SEC related to its at-the-market program. Westcoast and Union Gas have an aggregate 1.2 billion Canadian dollars (approximately $914 million) available as of September 30, 2016 for the issuance of debt securities in the Canadian market under their medium term note shelf prospectuses.

On March 18, 2016, Westcoast filed a new 1 billion Canadian dollar short form base shelf prospectus, which provides for the issuance of first preferred shares. As of the date of this filing, Westcoast has 700 million Canadian dollars (approximately $533 million) available for the issuance of preferred shares under this prospectus, which expires on April 18, 2018.

OTHER ISSUES

New Accounting Pronouncements. See Note 24 of Notes to Condensed Consolidated Financial Statements for discussion.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our exposure to market risk is described in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2015. We believe our exposure to market risk has not changed materially since then.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2016, and based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2016 and found no change that has materially affected, or is reasonably likely to materially affect, internal control

over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Except for the matters described below, we have no material pending legal proceedings that are required to be disclosed hereunder. For information regarding other legal proceedings, including regulatory and environmental matters, see Notes 4 and 18 of Notes to Condensed Consolidated Financial Statements, which information is incorporated by reference into this Part II.

We and our board of directors are named as defendants in six putative class action lawsuits filed by purported stockholders of Spectra Energy that challenge the proposed merger with Enbridge. The lawsuits include Paul Parshall v. Spectra Energy Corp, et al., 12809-CB, filed in the Court of Chancery for the State of Delaware, and Mary Lincoln v. Spectra Energy Corp, et al., 16-cv-03019, Joseph Koller v. Spectra Energy Corp, et al., 16-cv-03059, Joseph Costner v. Spectra Energy Corp et al., 16-cv-03065, John L. Williams v. Spectra Energy Corp et al., 16-cv-03069, and Joseph McMillan v. Spectra Energy Corp et al., 16-cv-03130, all filed in the United States District Court for the Southern District of Texas. The complaints allege, among other things, that Spectra Energy and its board of directors breached their fiduciary duties (in the Delaware lawsuit) and violated Sections 14(a) and 20(a) of the Exchange Act and Rule 14a-9 promulgated thereunder (in the Southern District of Texas lawsuits), as applicable, by issuing or causing to be issued an allegedly materially misleading and incomplete preliminary proxy statement in connection with the proposed merger. Enbridge and its subsidiary are also named as defendants in the Delaware lawsuit, and the Delaware complaint alleges, among other things, that Enbridge and its subsidiary aided and abetted Spectra Energy's board of directors' alleged breach of fiduciary duties. Plaintiffs seek as relief, among other things, an injunction against the merger, rescission of the merger to the extent it is already implemented, declaratory relief, costs and attorneys' fees, and/or damages. We believe the actions are without merit and intend to vigorously defend against them.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our financial condition or future results. There have been no material changes to those risk factors.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased*	Average Price Paid per Share
September 1, 2016—September 30, 2016	19,199	$ 42.76
Total	19,199	$ 42.76

* Includes deemed repurchase of shares of common stock from company employees in connection with the company's long-term incentive plan.

Table of Contents

Item 6. Exhibits.

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

- were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement;
- may apply contract standards of "materiality" that are different from "materiality" under the applicable securities laws; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement.

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

(a) Exhibits

Exhibit Number	
2.1	Agreement and Plan of Merger, dated as of September 5, 2016, among Spectra Energy Corp, Enbridge Inc. and Sand Merger Sub, Inc. (filed as Exhibit No. 2.1 to Form 8-K of Spectra Energy Corp on September 6, 2016).
*31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document.
*101.SCH	XBRL Taxonomy Extension Schema.
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
*101.DEF	XBRL Taxonomy Extension Definition Linkbase.
*101.LAB	XBRL Taxonomy Extension Label Linkbase.
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

*Filed herewith.

The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10% of the total assets of the registrant and its subsidiaries on a

consolidated basis. The registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments to it.

Table of Contents

SIGNATURES

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

SPECTRA ENERGY CORP

Date: November 3, 2016 /s/ Gregory L. Ebel
Gregory L. Ebel
President and Chief Executive Officer

Date: November 3, 2016 /s/ J. Patrick Reddy
J. Patrick Reddy
Chief Financial Officer