

Spectra Energy Corp.
Form 10-Q
August 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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
(State or other jurisdiction of incorporation) 20-5413139
5400 Westheimer Court
Houston, Texas 77056
(Address of principal executive offices, including zip code) (IRS Employer Identification No.)
713-627-5400
(Registrant's telephone number, including area code)

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

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

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

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

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

Number of shares of Common Stock, \$0.001 par value, outstanding as of June 30, 2014: 670,893,796

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SPECTRA ENERGY CORP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per-share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Revenues				
Transportation, storage and processing of natural gas	\$780	\$766	\$1,667	\$1,566
Distribution of natural gas	309	283	935	908
Sales of natural gas liquids	40	65	227	177
Transportation of crude oil	70	67	141	80
Other	54	39	126	78
Total operating revenues	1,253	1,220	3,096	2,809
Operating Expenses				
Natural gas and petroleum products purchased	209	167	737	632
Operating, maintenance and other	405	410	768	742
Depreciation and amortization	199	196	399	382
Property and other taxes	102	93	215	193
Total operating expenses	915	866	2,119	1,949
Operating Income	338	354	977	860
Other Income and Expenses				
Equity in earnings of unconsolidated affiliates	85	72	246	182
Other income and expenses, net	6	22	15	55
Total other income and expenses	91	94	261	237
Interest Expense	176	160	354	309
Earnings Before Income Taxes	253	288	884	788
Income Tax Expense	65	62	229	192
Net Income	188	226	655	596
Net Income—Noncontrolling Interests	42	27	90	57
Net Income—Controlling Interests	\$146	\$199	\$565	\$539
Common Stock Data				
Weighted-average shares outstanding				
Basic	671	669	671	669
Diluted	673	671	672	671
Earnings per share				
Basic	\$0.22	\$0.30	\$0.84	\$0.81
Diluted	\$0.22	\$0.30	\$0.84	\$0.80
Dividends per share	\$0.335	\$0.305	\$0.67	\$0.61

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
Net Income	\$188	\$226	\$655	\$596
Other comprehensive income (loss)				
Foreign currency translation adjustments	223	(251)	(25)	(440)
Unrealized mark-to-market net gain on hedges	1	—	3	3
Reclassification of cash flow hedges into earnings	1	2	3	4
Pension and benefits impact (net of taxes of \$3, \$5, \$6 and \$9, respectively)	6	10	13	21
Other	—	(1)	—	—
Total other comprehensive income (loss)	231	(240)	(6)	(412)
Total Comprehensive Income (Loss), net of tax	419	(14)	649	184
Less: Comprehensive Income—Noncontrolling Interests	45	25	89	52
Comprehensive Income (Loss)—Controlling Interests	\$374	\$(39)	\$560	\$132

See Notes to Condensed Consolidated Financial Statements.

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

	June 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$300	\$201
Receivables, net	1,222	1,336
Inventory	277	263
Fuel tracker	165	28
Other	241	253
Total current assets	2,205	2,081
Investments and Other Assets		
Investments in and loans to unconsolidated affiliates	2,803	3,043
Goodwill	4,841	4,810
Other	398	385
Total investments and other assets	8,042	8,238
Property, Plant and Equipment		
Cost	29,223	28,456
Less accumulated depreciation and amortization	6,963	6,627
Net property, plant and equipment	22,260	21,829
Regulatory Assets and Deferred Debits	1,439	1,385
Total Assets	\$33,946	\$33,533

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except per-share amounts)

	June 30, 2014	December 31, 2013
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$518	\$ 440
Commercial paper	769	1,032
Taxes accrued	103	72
Interest accrued	193	201
Current maturities of long-term debt	496	1,197
Other	1,077	1,097
Total current liabilities	3,156	4,039
 Long-term Debt	 13,141	 12,488
 Deferred Credits and Other Liabilities		
Deferred income taxes	5,223	4,968
Regulatory and other	1,423	1,457
Total deferred credits and other liabilities	6,646	6,425
 Commitments and Contingencies		
 Preferred Stock of Subsidiaries	 258	 258
 Equity		
Preferred stock, \$0.001 par, 22 million shares authorized, no shares outstanding	—	—
Common stock, \$0.001 par, 1 billion shares authorized, 671 million and 670 million shares outstanding at June 30, 2014 and December 31, 2013, respectively	1	1
Additional paid-in capital	4,918	4,869
Retained earnings	2,497	2,383
Accumulated other comprehensive income	1,236	1,241
Total controlling interests	8,652	8,494
Noncontrolling interests	2,093	1,829
Total equity	10,745	10,323