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Earnings Call

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PRESENTATION

Operator

Good morning. My name is Sally and I will be your conference operator today. At this time I would like to welcome everyone to the Spectra Energy and Spectra Energy Partners second-quarter earnings conference call. (Operator Instructions). Thank you.

Julie Dill, Chief Communications Officer for Spectra Energy, you may begin your conference.

Julie Dill - *Spectra Energy - Chief Communications Officer*

Thank you, Sally, and good morning everyone and thanks for joining us today for our review of Spectra Energy's and Spectra Energy Partners' 2014 second-quarter results.

With me today are Greg Ebel, our CEO of both Spectra Energy and Spectra Energy Partners; Pat Reddy, Chief Financial Officer of both Companies; and Bill Yardley, President of our US Transmission Business. Bill has responsibility for a significant portion of the near-term expansion projects in our backlog and he is with us today to help field your questions related to US Transmission.

Pat will begin by sharing our financial highlights for the quarter. Additional information on these results is detailed in both the Spectra Energy and Spectra Energy Partners earnings releases as well as the appendix to today's presentation, all of which are available on the investor page of our websites.

Next, Greg will update you on our strategic plans and priorities and the progress we are seeing across the enterprise to deliver long-term shareholder value and as always, we will leave ample time for your questions following Greg's remarks.

Our Safe Harbor statement is contained within our presentation materials and available on our websites. This disclaimer is important and integral to all our remarks so I would ask that you refer it to read as you review our materials. Also contained in our presentation materials are non-GAAP measures that we reconciled to the most directly comparable GAAP measures and those reconciliations are also available on our websites.

So with that, let me turn things over to Pat.



Pat Reddy - Spectra Energy - CFO

Thanks, Julie, and good morning all. As you have seen in our news release, our second-quarter results are very much in line with our expectations and reflect strong performance from our core businesses. The story for the quarter is pretty straightforward. First, we had increased earnings from expansions and asset additions like the New Jersey-New York pipeline, our Express-Platte system, the Sand Hills and Southern Hills natural gas liquids pipelines and the O'Connor, Rawhide and Goliad plants at DCP Midstream.

New SEP assets contributed an incremental \$34 million to Spectra Energy's EBITDA this quarter compared with last year's quarter with DCP adding about \$5 million from their asset additions.

Second, as we mentioned in our first-quarter earnings call, we scheduled a major turnaround at our Empress processing plant that would take the plant out of service for about 45 days beginning in May. This scheduled work resulted in lower revenues while the plant was down and increased O&M for the quarter. The total effect of the turnaround at Empress was about \$33 million at the EBITDA line.

In addition, we had a significantly greater number of planned turnarounds at DCP Midstream compared with last year which reduced our equity earnings by approximately \$8 million.

Third, the Canadian dollar was weaker this year, down about 7% from the prior-year quarter. The EBITDA contributions from our distribution in Western Canadian businesses were lowered by \$15 million as a result. The effect of the currency translation as you know is virtually eliminated at the net income level.

In summary then, our results for the quarter are in line with our expectations and I will take a few minutes to walk you through the components.

For the quarter, Spectra Energy generated EBITDA of \$627 million, \$20 million lower than the previous year and Spectra Energy Partners delivered EBITDA of \$353 million, \$5 million higher than in the same period last year. These results build on our very strong first-quarter putting us well ahead of where we initially expected to be at this point in the year and they position us to exceed the full-year 2014 plan we shared with you in February. I will elaborate on this in a few minutes before I close.

Turning to distributable cash flow, at Spectra Energy, DCF is \$277 million for the quarter. Even though EBITDA is lower quarter over quarter, the higher distributions we received from DCP Midstream driven by higher commodity prices and gathering and processing margins led to a 12% increase in distributable cash flow for the quarter.

Distributable cash flow at SEP is \$239 million for the quarter. You will recall that with the drop-down of our remaining US assets into SEP in November of last year we restated earnings but not DCF. With our strong DCF results year to date, we continue to expect Spectra Energy's coverage to be 1.5x and SEP's to be 1.2x on a full-year basis. In the appendix to our presentation you will find more detail associated with our distributable cash flow calculations.

All in all we delivered a solid quarter with strong operational performance across all of our businesses.

So let's take a quick look at our EBITDA results by segment. Let me start with Spectra Energy Partners which is comprised of our US Transmission and Liquids businesses. US Transmission reported EBITDA of \$320 million, up from \$311 million in the second quarter of last year. Quarterly results reflect increased earnings from expansions primarily on our Texas Eastern system.

Our Liquids business generated EBITDA of \$51 million compared with \$40 million last year. 2014 results reflect the ramp up of our share of both the Sand Hills and Southern Hills NGL pipelines which were put into service in June of 2013. Higher transportation revenues on the Express-Platte system as a result of increased tariff rates and higher contracted volumes also helped.

Spectra Energy received GP distributions from SEP of \$41 million in the second quarter and \$79 million year to date. LP distributions for the quarter were \$132 million with \$262 million received year to date.

Our Distribution segment reported EBITDA of \$112 million for the quarter compared with \$115 million in 2013. The modest reduction is due largely to a considerably weaker Canadian dollar. The FX impact this quarter for our Distribution business was \$7 million.

Our Western Canada Transmission & Processing segment reported EBITDA of \$111 million compared with \$157 million in 2013. As we discussed in our first-quarter call, we had a planned major facility turnaround in the second quarter at Empress. The total O&M associated with this turnaround was \$25 million and while the Empress plant was down, we also realized lower revenues of about \$8 million for a total difference between quarters of \$33 million.

In addition the FX effect of the lower Canadian dollar produced an \$8 million decrease for the quarter. The Empress plant is back in service and we continue to expect it to deliver EBITDA of \$80 million for the year.

Our Field Services segment reported EBITDA of \$54 million compared with \$46 million in 2013. The increase was primarily driven by higher volumes as a result of three new processing plants being placed into service and stronger commodity prices. The increases were partially offset by an \$8 million increase in operating and maintenance costs resulting from the planned turnarounds mentioned earlier. Additionally while they increased volumes and added revenues, the new assets placed into service also contributed to higher O&M.

This segment also recognized an increase in interest expense for the quarter primarily due to lower capitalized interest.

During the second quarters of 2014 and 2013 respectively, DCP's realized NGL prices averaged \$0.93 per gallon versus \$0.82; NYMEX natural gas averaged \$4.67 per MMBTU versus \$4.09; and crude oil averaged approximately \$103 per barrel versus \$94. DCP Midstream paid distributions of \$78 million to Spectra Energy in the second quarter of 2014 with distributions through July of \$179 million.

So all in all we are pleased with where we stand at midyear. Going back to our February plan rollout, you will recall that we targeted EPS for the year of \$1.40 and following historical patterns, about half that amount would be earned in the second half of the year. We have exceeded our initial expectations on a year-to-date basis and we fully expect to achieve the back half of our financial forecast during the balance of the year. So barring any significant unplanned developments, we should exceed the targets laid out for you in February.

So with that, let me turn things over to Greg to talk about our growth projects, our priorities and the progress we are making.

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

Thanks very much, Pat, and again thanks for everybody on the line and the webcast today. As Pat described, Spectra Energy's second-quarter results reflect the earnings and DCF effects of assets delivered into service or acquired last year. Our expansion projects executed on time and on budget by our talented team are really fueling growth and value for investors.

You can see our momentum in the results reported this quarter, you see it in our year-to-date performance and you will continue to see it as we execute on multiple growth opportunities. As always, we are looking ahead to continued growth through a robust backlog of projects that provide investors with long-term attractive returns.

We are dedicated to delivering on our commitment of investing in \$35 billion of expansion projects between 2013 and 2020 and we are making great progress on our 'Drive to \$35' billion goal. Just this past quarter, we moved six new projects underpinned by customer commitments totaling about \$2 billion into execution. Those projects are NEXUS, Atlantic Bridge, Dawn-Parkway 2016, two new expansions off the Sand Hills NGL line Red Lake and Spraberry, and our partial Ozark Conversion with Magellan.

We are operating in a unique opportunity rich environment and an extremely dynamic marketplace. So let me start by reviewing these projects and others we have in execution.

NEXUS, which will bring supply diversity to Eastern Canada by delivering Utica and Marcellus gas by the end of 2017, now has the signed customer support necessary to move forward and we are doing just that. It will be anchored by commitments from Eastern Canadian and Midwest US local



distribution companies as well as Appalachian producers. NEXUS provides Spectra Energy with an investment opportunity in the \$700 million to \$1 billion range.

The Atlantic Bridge project will further expand our Algonquin and Maritimes and Northeast pipeline systems, connecting abundant natural gas supplies with markets in the New England states and Maritime Provinces. We have committed anchor shippers on board and the project is slated to go into service in 2017. We are pursuing additional shippers and when all is settled we will have an investment of at least \$500 million with the possibility of up to \$1 billion.

And we are executing on our 2016 Dawn-Parkway expansion scheduled to go into service in late 2016. Here again we have now secured customer commitments and intend to file the facilities application with the Ontario Energy Board later this month. CapEx associated with this project is approximately \$400 million.

In the Permian, the Red Lake and Spraberry expansions off the Sand Hills NGL pipeline expand our reach into fast-growing production areas and position Sand Hills for continued future growth. Spectra Energy Partners' share of these expansions will total approximately \$70 million and will be fully in service by mid-2015.

We announced our first-quarter call that we had entered into a long-term lease agreement with Magellan to convert a portion of our Ozark pipeline to a refined products pipelines by mid-2016. We are on target to submit our FERC filing for this project in the third quarter of this year. We are also making great progress on the Sabal Trail pipeline into Florida which as you will recall will serve the growing needs of Florida Power & Light and Duke Energy for access to natural gas to fuel new power generation. We are on track to submit our FERC application in October and meet our in-service date of 2017.

We are executing on the 2015 Dawn-Parkway expansion which will provide security of supply and allow Eastern Canadian LDCs to diversify their supply portfolio through enhanced customer access to the Dawn trading hub, one of the top three physically traded natural gas market hubs in North America. The expansion slated to go into service during the fourth quarter of 2015, provides customers the ability to ultimately access new supplies from the Marcellus and the Utica through the NEXUS project.

The OPEN project designed to deliver new incremental production from Utica and Marcellus to markets in the Midwest, Southeast and Gulf Coast received its Notice of Schedule from FERC reaffirming that the project is on target to meet the planned 2015 in-service date. And we will be placing two Texas Eastern projects into service during the last half of this year, TEAM South and TEAM 2014.

TEAM South which is expected to go into service ahead of its November 1st schedule, will be the first of our many north to south projects in service. We are in the home stretch on TEAM 2014 with a targeted November 1 in-service date. Recall that this project creates capacity to the east and to the south of the Marcellus. These projects underpinned by contracts with the likes of CONSOL, Rice Energy, Chevron, and EQT, total over \$500 million in investment and they represent the first 600 million cubic feet a day of the 2.4 BCF a day in projects that make the Texas Eastern Mainline bi-directional.

That is just a quick snapshot of just some of the projects we have in execution. Others in that category like our Gulf Markets project and AIM are likewise proceeding on schedule and on budget and support our plans for significant DCF growth which will in turn advance dividend and distribution growth.

You will be hearing more about these projects later in the year so let's turn our attention now to the opportunities that will support growth in 2017 and beyond beginning with US Transmission.

We are pursuing a number of immediate and very near-term prospects as the next 18 to 24 months provide exceptional infrastructure origination opportunities in the US. There are a host of opportunities in the New England region which is currently constrained in terms of access to affordable natural gas supply. Last month we announced plans to further expand our Algonquin and Maritimes and Northeast systems. This project would provide improved electrical liability in New England by directly supplying about 60% of the region's most efficient gas-fired generation.



We are also further advancing the bi-directional capabilities on our Texas Eastern system. In late July, we commenced two new open seasons, Access South and Adair Southwest. These two projects provide incremental firm transportation capacity from Appalachian Shale for the markets in the southern US. When these additional projects are complete by November 2017, the Texas Eastern system will be capable of providing 2.4 billion cubic feet per day of bi-directional capacity from the Appalachian basin to the west and the south.

And we announced in open season last week for another build on Texas Eastern to the east, Appalachia to Market.

As the Utica and Marcellus continue to grow, there continues to be producer interest in getting their supplies closer to the East Coast markets. We are continuing to pursue opportunities in the Gulf Coast related to both LNG exports and growing industrial demand. We also see the need for more pipeline infrastructure to serve electric generators and other customers in the Mid-Atlantic and Southeast US.

So our US Transmission business has a lot of opportunities to pursue but there are also substantial growth opportunities within SEP's Liquids business. We expect to deliver on a number of new promising organic growth opportunities on the Express-Platte system, projects to de-bottleneck the system which would increase utilization and attach new load and supply. We are pursuing about \$100 million in combined near-term organic growth opportunities on Express-Platte, opportunities that will deliver attractive returns in the next couple of years.

I will note that we are seeing similar organic opportunities associated with our NGL pipeline, similar to the Red Lake and the Spraberry expansions that I highlighted earlier. Additionally, we have a number of long-term step-out Liquids opportunities and we have received sufficient expressions of interest to continue pursuing expansions of our crude oil business through the end of the decade.

Together with Questar Pipeline, we are continuing development work on the Inland California Express project which includes a new rail terminal in Southern California and reactivation of an existing pipeline into the Los Angeles/Long Beach refining complex. We expect that over the next several months we will select a preferred unloading terminal site and complete our engineering efforts and regulatory applications. If things proceed as planned, the ICE project would go into service in early 2017.

We likewise continue to make good progress on our larger longer-term liquids projects. We have completed the preliminary environmental and engineering work for two in particular, the Synergy Pipeline to further link growing oil sands production to the Edmonton's Hardesty hub and the twinning of our entire Express-Platte system from Alberta to Illinois to bring growing oil sand supply to the Midwest and beyond.

We are continuing productive discussions with producers and refiners interested in both of these projects.

Turning to Western Canada, we remain on track to receive our environmental assessment certificate by year end for our West Coast Connector pipeline to serve BG Group's proposed LNG export facility in British Columbia. Of course there are many LNG projects being developed in BC and so we also expect to participate in gathering and processing and pipeline expansions needed by various LNG developers and producers.

We are already seeing a ramp up in producer activity in the Montney region of Western Canada and we are in active discussions with potential customers to build greenfield and brownfield gathering and processing facilities to be in service in 2018. A lot is going on and a lot of good results and as you can see, not only are we executing on projects you have seen on this map before, we are originating new ones, signing customer commitments and quickly responding to fast-paced market dynamics.

Let's turn now to the priorities we shared with you at the beginning of the year and the progress that we are making on these important areas of focus.

We provided an in-depth view of our priorities during our first-quarter call so I just want to remind you that we are well on track and confident that we will deliver on all of these by year end. The team is making great progress and intently focused on achieving these key priorities.

Here is what is new for this quarter. Spectra Energy Partners is advancing our execution project safely and successfully and I shared with you our strong momentum in delivering projects into service, securing regulatory approvals and conducting the siting, public outreach, design, engineering



and construction aspects so critical to project success. So far we have secured about one-third or well in advance of one-third if not half of the \$3 billion commitment we made at the beginning of the year.

We have ramped up our existing contract volumes on the Sand Hills and Southern Hills NGL pipelines as we expected and we see additional opportunities ahead. As noted, we are on track in the execution of our 2015 Dawn-Parkway project. We have customer commitments supporting the 2016 expansion and we expect regulatory approval from the OEB in early 2015.

During the fall of this year, we are planning to initiate another open season to solicit customer interest for additional capacity on Dawn-Parkway system for 2017.

As I mentioned, we are advancing approval of the permits on the Westcoast Connector pipeline. We have completed some milestone environmental filings for the project and we are continuing the important public outreach, education and engagement work associated with a project of this magnitude. Again, we are confident that we will meet or exceed the full complement of our 2014 priorities by year end and we will continue to update you on that progress.

As you have heard today, Spectra Energy delivered a second quarter in line with our expectations in addition to strong distributable cash flow growth. We are pleased with our results for the quarter and pleased to be well ahead of our anticipated mid-year benchmark. We are executing infrastructure projects that are critically needed and we continue to build our backlog of attractive strategic opportunities.

We are intently focused on our Drive to 35 goal and we know how competitive the environment is today but we believe we have what it takes to win, an enviable expansive North American asset footprint, diverse business lines, a proven ability to execute on projects and serve customers through safe, reliable operations, low cost of capital that enables us to efficiently execute and compete, and the financial strength and flexibility to move swiftly on emerging and evolving value creation opportunities.

We will and intend to hit on every cylinder of our 'Drive to 35'. We will pursue greenfield and brownfield expansions, utilize both our MLPs and investment grade balance sheets wisely and consider value adding M&A opportunities.

We know that at the end of the day we are tasked with delivering attractive total shareholder returns and dividend and distribution growth our investors can count on and as Spectra Energy and SEP continue to outperform, our investors will share in that upside.

So with that let me turn things over to Julie so we can take your questions.

Julie Dill - Spectra Energy - Chief Communications Officer

Thank you, Greg. So we would like to hear from you now so we will open up the lines for your questions. Sally, would you please provide instructions again on how folks can ask questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Christine Cho, Barclays.

Christine Cho - Barclays Capital - Analyst

Good morning. Congrats on moving the new projects into execution. For NEXUS, are you still thinking one Bcf a day for this pipeline?



Greg Ebel - Spectra Energy - Chairman, President and CEO

Well Bill is here and he might comment, but I think we are actually thinking up to a Bcf and a half is actually where the project will come in. But as mentioned, I think with what we have got now we can move forward but I expect a Bcf and a half. Bill, do you want to comment on that?

Bill Yardley - Spectra Energy - President, US Transmission & Storage

Yes, I agree. I think we are going to move forward with a 1.5 BCF project now which is our current scope. We've got contracts to support the majority of that and of course you know we are out for a supplemental open season to see if we can fill out the corners over the next few weeks.

Christine Cho - Barclays Capital - Analyst

So when you say like the majority of that is contracted, I am guessing it is well over 50%. Should we think between 50% and 70%? I am just trying to get a sense. Also if you could provide the split between LDCs and producers.

Bill Yardley - Spectra Energy - President, US Transmission & Storage

So your range is good, north of that actually and probably about 50-50 market pull from the LDC community and producer push.

Christine Cho - Barclays Capital - Analyst

Okay. And then what is the ownership going to look like? I think one of your partners had pulled out or had expired so is it going to be just you and DTE splitting it 50-50 or are you going to look to get another partner?

Greg Ebel - Spectra Energy - Chairman, President and CEO

I would fully expect that when all is said and done that you will have the original three folks involved. And as you know, increasingly customers also are interested in holding a piece so I think that is still developing, Christine, and that is why we said we expect probably \$700 million to \$1 billion for an investment for us. I wouldn't read a whole lot into MOUs expiring.

Christine Cho - Barclays Capital - Analyst

Okay. Then can you give us the capacity increases that you are thinking for the Spraberry and Red Lake expansions on Sand Hills and what you are seeing in the plays to drive that?

Pat Reddy - Spectra Energy - CFO

Sure. Let me get that for you, Christine. It is about \$500 million a day in total between the projects.

Greg Ebel - Spectra Energy - Chairman, President and CEO

No, Pat, I think you are thinking about the gas. The project (inaudible) on Spraberry is about 100,000 barrels a day and really Sand Hills isn't incremental to -- or Red Lake isn't incremental to Sand Hills. It just helps fill it up earlier by really helping us connect into our Zia II plant.



Christine Cho - *Barclays Capital - Analyst*

Okay, that is what I was trying to get to if it was actual like expansion on capacity or just connecting to a new plant or something.

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

Connecting, which obviously is important because that means that we can fill up Sand Hills faster, obviously you fill up Sand Hills faster, there is an opportunity for further expansion.

Christine Cho - *Barclays Capital - Analyst*

But the Spraberry one is actual capacity expansion?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

Correct.

Pat Reddy - *Spectra Energy - CFO*

That is about 100,000 barrels a day on Spraberry.

Christine Cho - *Barclays Capital - Analyst*

And then are the contracts at least for the Spraberry, it is going to look similar to your initial?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

Yes, yes. [Clarification from company after the call: Spraberry and Red Lake are laterals connecting to the Sand Hills pipeline, allowing it to ramp up faster which provides future expansion opportunities on Sand Hills.]

Christine Cho - *Barclays Capital - Analyst*

Okay. And then for your Texas Eastern Access South and Adair Southwest, where is this exactly going in the Southeast and when you say final bi-directional capacities, are you saying that you won't be able to do anymore of this physically or is this more a function of it is going to cost a lot more now and the rates won't be competitive?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

Yes, I think I will let Bill speak to that but I know last quarter there was concerns that there wasn't anything else. I think we have proven this quarter there is plenty of other things to do. But Bill, do you want to --?

Bill Yardley - *Spectra Energy - President, US Transmission & Storage*

Yes. So these are obviously right along the lines. The Adair portion of the project, probably 200,000 a day, goes to Adair County in Kentucky and that is an interconnect we've got with Columbia Gulf. Basically what that is doing is as the reverse flow or as the long line pipelines fill up, we kind of filled up Texas Eastern first because we go right from the Marcellus down to the Gulf. There are some other pipelines like Columbia Gulf that



don't quite go to the right places but we can use Texas Eastern to get there. So the first one, Adair, is going to get a couple hundred a day into Columbia Gulf for redelivery to the Gulf.

Access gets down as far as Kosciusko, Mississippi where we are interconnected with a handful of pipelines there - again to spread gas out into the Gulf. That is going to be hopefully a little over 300 a day. So again, very good capital efficient projects.

And no, I would say that we keep finding this sort of pocket capacity and while prices sort of creep up over time if the true opened stuff gets sold out, we do find ways to improve the existing system to move more out and honestly that is what the next TEAM project or the Appalachia to Market project would do which is bring up to 1 BCF going east on Texas Eastern.

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

I think, Christine, I think the real power that we are identifying here, Texas Eastern is an incredible backbone that other people can't replicate and we are building off that backbone. I expect we will continue to find ways to do that.

Christine Cho - *Barclays Capital - Analyst*

Do you have a preliminary cost for the Access South and Southwest projects?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

So between the portion going to Adair and the portion going to Access, we are probably between \$300 million and \$400 million.

Christine Cho - *Barclays Capital - Analyst*

Okay. Then last one for me, this is just more out of curiosity but how does this lease with Magellan work and why was it structured this way?

Pat Reddy - *Spectra Energy - CFO*

Well, Ozark was not being fully utilized so we've got a long-term lease with them where we will convert a portion of the pipeline. And really what it is, is Magellan is avoiding having to spend new capital on greenfield. So it is your typical lease. It is a 10 year lease so there is nothing magical to it, Christine. Maybe I am missing where you are trying to focus.

Christine Cho - *Barclays Capital - Analyst*

Are you going to spend the cost to convert it or is it going to be them?

Pat Reddy - *Spectra Energy - CFO*

No, we are spending the cost to convert it and then we will get a lease payment from them.

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

We basically ready the pipe to get it into service to convert it from gas to products and then that is a portion of the overall Magellan project. And there is still plenty of pipeline left over for gas services.



Pat Reddy - Spectra Energy - CFO

And they are building a piece on that as well, Christine. So I wouldn't focus too much on the word lease. Arguably it is no different than us building other piping, pipeline.

Christine Cho - Barclays Capital - Analyst

So just contractually it is just very similar?

Greg Ebel - Spectra Energy - Chairman, President and CEO

Yes, absolutely.

Christine Cho - Barclays Capital - Analyst

That is what I was getting at. Thank you.

Operator

Shneur Gershuni, UBS.

Shneur Gershuni - UBS - Analyst

Just a couple of quick questions here. Not to drive on the projects that you just spoke about with Christine, but when I think about your Drive to 35, I see that you have added four new projects basically and if I remember correctly, the 35 includes projects that have been put into service as well too. Shouldn't the number effectively go up a little bit with the new additions? Has something dropped off? If you can sort of give us a little bit of color as to is it 35 plus a little now or something else has changed in the mix?

Pat Reddy - Spectra Energy - CFO

No, I think if you go back -- what it was is we put \$6 billion into service last year; \$7 billion we were executing so that gets you rough numbers \$13 billion so you add \$22 billion to go. We added 6 more projects this quarter and those call it \$2 billion, \$1.5 billion, \$2 billion of new projects in execution so that helps fill it in further. So I wouldn't say the \$35 billion increases at this point in time. We will see what happens going forward but that is really kind of the build up so we are filling into the \$35 billion.

Shneur Gershuni - UBS - Analyst

Okay, great. Secondly, as I ask this question I realize you have done some drops at DPM this year but I was wondering if strategically you can talk about the potential for potentially accelerating drops as DPM has grown bigger, it has an ability to handle more and so forth. Is that something that you are considering? Is it something that you are able to talk about a little bit?



Pat Reddy - Spectra Energy - CFO

Sure. I think at the beginning of year we laid out about \$1 billion of drop downs with the potential up to \$1.5 billion and I think we have gone a little bit above \$1 billion already this year. We may do another one this year or maybe not or maybe into the next year but I think your point is well taken. We will continue to utilize DPM's currency much as we do with SEP here with our US Gas Transmission business to grow and fund that growth.

So I don't think it is out of the norm to think that there will be more activity at DPM on an ongoing basis and you will see bigger and bigger utilization of that vehicle over time. But we are already in excess of what we said we would do this year. We may do a little bit more but it may flop over into next year. We are not going to be driven by that calendar from that perspective.

Shneur Gershuni - UBS - Analyst

Great. Just one final question. There have been a lot of projects proposed to bring gas into the Northeast and into the New England market. A competitor of yours made an announcement recently as well too. I was just wondering if you can sort of step back and look at it from a macro perspective. Is there a risk that some of these projects don't get done or conversely, is there robust enough demand effectively to accommodate all the projects that are effectively being announced? I was just wondering if you can sort of opine on that a little bit?

Greg Ebel - Spectra Energy - Chairman, President and CEO

Those are two separate questions and both the answer could be yes to both. In other words, I think that they need all these projects that are out there but there is a risk that some of them don't get done. I particularly think the greenfield projects pose some very unique challenges in the Northeast in that you've got to get complete right-of-way, you are going into territories or areas or communities maybe that don't have the same experience with natural gas infrastructure and pipelines, etc. and we think that really does give advantage to those people that can do incremental builds A, but also B, make sure that they don't have to use completely virgin territory in which to operate in.

And so from our perspective, we try to do projects that are more brownfield than they are greenfield just to ensure that we can get them into service and build off the existing lines. You see that with the New York-New Jersey project that we have done. The TEAM projects are similar examples of this. There is obviously new pipeline that needs to go into New England but we like having to build off our system.

I think virtually anything that is done in New England will involve some development of Algonquin and Maritimes in the Northeast regardless if it is our bigger projects that move forward. So I think that backbone is a critical piece but I think it is all needed but I think you are right, it may not all get done just because of political and other reasons.

Shneur Gershuni - UBS - Analyst

When you say political, are there any states that worry you more than others from a greenfield perspective? Is New York going to be more challenging versus some of the other New England states? Just wondering if you have any thoughts there.

Greg Ebel - Spectra Energy - Chairman, President and CEO

No comment. I think importantly, we serve about 60% of the generation needs in New England so some of this when I say politics, I sort of mean small p politics and a lot of the local politics which we spend so much time making sure that individuals and individual communities understand what benefits we are providing. I think that played out really well in New Jersey and New York when local individuals and particularly after this winter saw the real benefit of having natural gas as opposed to relying on far more expensive resources of energy.

And I don't think that was lost on New England politicians, policymakers or LDCs and power producers and as such, that is probably going to win the day from a cost-benefit perspective.



Shneur Gershuni - *UBS - Analyst*

Great. Thank you very much. That is all for me, guys.

Operator

Carl Kirst, BMO Capital.

Carl Kirst - *BMO Capital Markets - Analyst*

Just a few maybe follow-ups maybe starting on the Northeast side in part because with Atlantic Bridge, I was sort of thinking in the \$500 million, you are kind of now using a range of \$1 billion and I say that in context of maybe thinking about eventually an AIM 2 for lack of a better word something that would serve generation load. And I guess my question here is do you see Atlantic Bridge morphing incrementally to serve some of that generation or is Atlantic Bridge going to be whether it is the \$500 million or the \$1 billion investment, still fundamentally backstopped by LDCs and LDCs only?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

I will let Bill speak to this. He and his team are really nailing these projects and I think you are right. I think what the point was on Atlantic Bridge was at least \$500 million and it may be bigger. But Bill, you might --.

Bill Yardley - *Spectra Energy - President, US Transmission & Storage*

Yes, no, I think so. Just starting from the top, AIM is going to be put into service in 2016, that is 340,000 a day at about \$1 billion. Atlantic Bridge, we feel pretty comfortable with the folks that we have been talking to, got good commitments that we actually think will probably fall into the more 150,000 to 200,000 a day range. And yes, we put the range out there of \$500 million to \$1 billion, I mean I would say we are probably somewhere in the middle of that range. Again these are going to be all LDCs for now simply because the process that the electric organizations are working through really hasn't yielded a whole lot of fruit yet but to your point, what we outlined in July what you I think are referring to as potentially an AIM 2 is a project that would focus on that component. 60% of the generation in the region that Greg referred to come 2018. There may be LDCs in that project as well depending on what happens with other efforts.

Carl Kirst - *BMO Capital Markets - Analyst*

Bill, in order to, as you kind of think about that as a 2018 or perhaps maybe just that the gas generators aren't moving quite perhaps as swiftly as we would like, do you have a sense of timing as to when they are going to settle down with their pipeline commitments? Is that kind of an end of year 2014, end of year 2015? How should we think about that?

Bill Yardley - *Spectra Energy - President, US Transmission & Storage*

I do applaud them for getting together and for the New England governors for trying to move this process along because the way that it is set up it is not conducive for the generators to do this on their own. They need some help. So when you think about that, it is naturally going to take a little bit of time to get all those parties together. I do believe that there are some nice solutions on the table. We talk to these folks weekly if not honestly almost every other day to try to figure out what the right solution is and fine tune what we are looking at. I would be surprised if we didn't have some movement by the end of the year or early next.



Carl Kirst - *BMO Capital Markets - Analyst*

Excellent. If I could do a follow-up on NEXUS, just as I think Christine asked a lot of good questions, I think the one though that I just wanted to make sure -- because we have seen a lot of competitor pressure obviously in the area. And should we think about with what you have contracted today, should we think about that meeting sort of the minimum hurdle rates of your normal return on capital employed or is there still more that needs to be backfilled even though you know you have enough for instance to make it viable?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

I think you can assume that we have enough to make it viable today in moving forward and meeting our typical type of return. You're right, there is a lot of competition, but this is a different project than a lot of others. Nobody else is actually going to the North and nobody else is actually getting into Ontario and serving those markets.

So I think just as we talked in New England and over a year ago, people were concerned. We've been working on this project for two years, Carl, so people were concerned Utica wasn't ramping up. I think those concerns are going away. So feel very good about the returns. And yes, the competition is tough, but there is a need for multiple projects and this one is quite unique.

Bill, I don't know if you want to speak to the uniqueness of that as well?

Bill Yardley - *Spectra Energy - President, US Transmission & Storage*

Well, just to add to, we are going from the Utica and really from the Marcellus as well -- Southwestern Marcellus, right to where the markets want to go. And using -- I think one of the benefits we have got is we have got a greenfield component, but in Michigan we are using MichCon existing facilities' right of way and then, of course, the Vector system to get into Dawn. So very doable by 2017.

Carl Kirst - *BMO Capital Markets - Analyst*

Excellent. Last question if I could -- maybe I'll get back in queue. Excuse me, [coughing].

Operator

Faisal Khan, Citigroup.

Faisal Khan - *Citigroup - Analyst*

Good morning. Just a few questions actually. Just one question on TETCO. So between TEAM 2014 and the TEAM South expansion and then the Gulf Markets expansion and OPEN, it seems like that is about 1.8 BCF a day. Can you just clarify how much of that volume sort of gets directly out of the Marcellus and Utica down to the Gulf coast, to Louisiana and Texas?

The reason I'm asking is because you have seen basis in almost all of the markets in the entire northeast quadrant of the US sort of dip here in the summer and just wondering how much of that capacity you guys are building out is going to make it all the way down south so it will be below the M2 and to be in the south markets?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

Right. I think only two of those really do that, right, Bill, so I don't know if the -- volume would --.

Bill Yardley - Spectra Energy - President, US Transmission & Storage

About 2 BCF of the Texas Eastern Mainline will be reversed by 2017 all the way back to Kosciusko let's say, and then from there it fans out in the Gulf. So I guess it depends on how you define the Gulf but 2 BCF makes it to the Gulf region. The rest of it is sort of pockets getting to other pipelines that might go to the Gulf or to other markets.

Faisal Khan - Citigroup - Analyst

Is the 2 BCF a day by 2017? So then if I am looking at the 2014 number so the TEAM 2014 and I guess the TEAM South expansion, that is about 900 a day so how much of that by the end of the year gets to the Gulf?

Bill Yardley - Spectra Energy - President, US Transmission & Storage

By the end of this year, we will have 600 so it is TEAM 14 and it is TEAM South from (multiple speakers) the Gulf, yes. And then of course as we build out OPEN and the Gulf Markets and now the project Access South, it builds up through 2015, 2016, 2017.

Faisal Khan - Citigroup - Analyst

Okay. I understand. So the customer -- because I'm just trying to figure out how the customer demand is sort of evolving here. New York City used to be the place you wanted to get your gas to, now it is like it is kind of like I'm not sure if you want to get your gas to the city because it is not a great price. I'm just trying to figure out how your customer demand is evolving along these lines?

Bill Yardley - Spectra Energy - President, US Transmission & Storage

You know, to be honest, it is like the Gulf Coast was moved into Southwest Pennsylvania and the way we are looking at it is that the conduit that we have got that runs in both directions moving out of there and now with NEXUS moving forward getting up into Michigan and Ontario, you are really sort of building an octopus. You've got the big supply in the middle and you've got to get legs out -- the existing ones are the easiest to do but then some others coming out. So from a customer standpoint, whether it is producer or LDC, they are looking to tie a line into the Marcellus Utica region.

Faisal Khan - Citigroup - Analyst

Okay. Understood. And then one other question for me. On the ICE project, so what are the sort of next critical milestones for that project? You said the regulators, what are they looking for and what do you have to deliver to them in the near term?

Greg Ebel - Spectra Energy - Chairman, President and CEO

It is a couple of things. We are still firming up customer interest. There are some other projects out there as you know at least one other one, although our belief is that there is room for both. The big one is determining our unloading terminal site and moving forward on the regulatory approvals. I would say customers want to be comfortable that regulatory approvals and really that is around environmental, will be -- we've got a high level of confidence. So we've got to firm that up here over the next couple of months to make sure that we are comfortable telling customers if we make a commitment to them we will in fact deliver. So that is really the next stage here. Still work to do on that one.

And as you know, out of our \$35 billion worth of projects, that would represent \$100 million or so so it is not a huge one but I really think as you know, I was probably more skeptical on this a year ago and now given everything that has been done, the interest that we are seeing and the work that's going, I am optimistic about the project.

Faisal Khan - Citigroup - Analyst

Okay, fair enough. I appreciate the time. Thanks.

Operator

Brad Olsen, TPH.

Brad Olsen - Tudor, Pickering, Holt & Co. - Analyst

Good morning, everyone. My first question maybe unsurprisingly at this point is also kind of on NEXUS and the New England project that you have advanced. Those projects are in direct competition with some big competitive projects from Energy Transfer and Kinder Morgan. And Greg, as you alluded to earlier, both of those competitor projects are dependent on significant new build pipelines going through the Northeast, having to acquire right-of-way and go through a more rigorous regulatory process perhaps.

You have talked a little bit about the contract levels on NEXUS. I guess my question is more broad across both of these projects. Would you say that you are scoping these projects in anticipation of perhaps being able to scoop incremental customers as potentially those competitor projects move more slowly through their right-of-way acquisition and regulatory approvals?

Greg Ebel - Spectra Energy - Chairman, President and CEO

I think a little bit of both. Not so much in New England. New England, we are pretty -- solidly got those filled up. I think with NEXUS there is a little bit of that. I will say I think we have put realistic schedules out there on those and so I think that is important. I have no idea what other people are saying in their contracts other than in terms of being able to meet those commitments and I think that will serve us well in terms of credibility to delivering.

You mentioned the competitors. You know, Brad, that is no different than the competition we have had for the last 30 years. They may have different names but our folks in the Northeast and throughout along Texas Eastern, we have two really main competitors that we have had for a long time and obviously Tennessee, Transco, and obviously we go against Energy Transfer on a regular basis. So I don't think there is anything unique about the competition. Our key is we want to move projects forward when they hit our hurdle rates. I will say on most of our projects when we look back we wish we actually sized them bigger. The OPEN project frankly, we probably should have done twice the size on that project, didn't have customer commitments to do that twice the size but I can tell you there are a lot of people that knock on the door for that kind of thing.

So first meet the hurdle rate and if there is an opportunity to size it such that you can get all of your regulatory approvals but also leave some opening, I think that is a smart idea too. The next 18 to 24 months are really the origination window that I think is going to drive much of people's growth and activity through the end of the decade and that is what we are focused on doing.

Brad Olsen - Tudor, Pickering, Holt & Co. - Analyst

Great. And just maybe to dig a little bit deeper as you kind of think about the competitive dynamic specifically in that kind of Midwestern market, it seems between press releases and market chatter it sounds as though NEXUS' customer list is really dominated by LDCs with maybe CONSOL being the one major producer commitment and the Rover customer list sounds much more like it has no LDC support to speak of but significant E&P support.

If Enbridge is kind of moving out of that position as a third JV partner, is there any maybe contemplated strategy to bring in Energy Transfer as a third partner and combining into a project that could be between two and three Bs and maybe offer a more cost competitive solution?



Greg Ebel - *Spectra Energy - Chairman, President and CEO*

First of all, I wouldn't agree with your articulation that most of ours is LDC. I think as Bill said earlier, we would look at it as 50-50 if not 60% producer. And we do have a number of producers that have signed commitments to that. But all of that being said, as I said before, I would expect Enbridge would ultimately be involved. That is their choice. I know they are trying to grow their gas business but we will see how that shakes out.

But remember the projects did go different places both from a starting point and both from an endpoint as well. We like our competitive advantage that we've got there. We like the schedule that we have laid out and the momentum will build on that.

I never say never to anything. Our goal is to do what is in the best interest of first and foremost our investors and secondly and a very close second, if not tied for, our customers. And so if there are better solutions we are always open to that in partnerships. But I like where we are today and I think Bill and his team very much like where they are today and again not just with LDC support.

Brad Olsen - *Tudor, Pickering, Holt & Co. - Analyst*

Got it. On the Magellan JV, there is about 0.5 Bcf a day of capacity on Ozark as far as gas capacity goes out of the Fayetteville today. You mentioned that not all of that capacity is being utilized. Is the lease agreement that you have with Magellan going to de-rate any of that 500 million a day of gas capacity or is it something where with compression you will be able to preserve effectively all the capacity you have for when pipelines like FEP or the Fayetteville lateral when those start rolling off contracts, are you going to be in a position maybe to compete for Fayetteville volumes on Ozark as well?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

No, we are going to lose that capacity although I'm not concerned about that actually in the piece that we are losing. I think it will still allow us to serve various customers. But yes, we will actually derate -- or our filing will be -- and I think that goes in next month or a little bit later -- that will actually take it out of natural gas utilization and move it directly to refined products. So it wasn't something we could just do a work around. We need the pipe.

Bill Yardley - *Spectra Energy - President, US Transmission & Storage*

There were only a handful of customers that were affected and they have options and then what is remaining we feel is probably right sized for our participation in the Fayetteville.

Brad Olsen - *Tudor, Pickering, Holt & Co. - Analyst*

Great. That helps a lot. A final question which is a pretty big picture question on the Western Canadian side of things. You guys have talked about relatively near-term gathering and processing growth in Canada maybe as near-term is the next 12 months despite the fact that LNG projects seem to kind of be towards the back half of the decade and maybe even getting pushed into early next decade.

I guess on the bright side, we have seen some enhanced completion techniques specifically in the Montney that guys like Encana seem to be getting maybe plus 50% to 100% IP rates on some of the wells that they have been completing here recently. Have you begun to discuss the potential volumetric upside with producers?

I know this is a difficult question to kind of get arms around especially this early in the game up there, but is there any way that we can think of potential returns on existing assets increasing as we see completion methods improve even absent any uplift from LNG, is there a way that we can kind of think of an EBIT or a EBITDA number that you could see maybe adding on to what you are already able to generate up there as a result of these new improved completion techniques?



Greg Ebel - *Spectra Energy - Chairman, President and CEO*

Yes, I would say our utilization of our plants is pretty good, at a very high level and we have seen that kind of to your point, we have seen a little bit of a rotation to the South from the Northeast British Columbia as a result of what is going on in the Montney and other regions. So I don't see a big upside to that piece but that being said, I do see a full utilization of our plants.

You are right, it is kind of tough for me to give you a EBITDA number from that perspective. But I think far in excess of that as you point out, once people start to take or feel good about taking FID on LNG and as some people have talked about the end of this year some others next year and then again 2016, that is when they will have to start building gathering and processing facilities and that is where we think we have a real advantage.

So I don't think it is so much adding to or fully utilizing the plants we have. We largely have that other than a couple of places in the Horn River. I think it is really about the new builds that are going to drive and that will happen well in advance of the LNG because remember as that production comes on, they've got to find places to utilize that. And you will see us probably in the next six months move forward with some pipe expansion on our pipeline system just to deal with the gas that is being produced now in advance and separate from what happens from an LNG perspective.

Brad Olsen - *Tudor, Pickering, Holt & Co. - Analyst*

Got it. That is all for me. Thanks a lot, guys.

Operator

Becca Followill, US Capital Advisors.

Becca Followill - *U.S. Capital Advisors - Analyst*

Good morning, guys. Really nice addition to the backlog and it is incredible what is going on in the industry. Does this change your guidance for 8% to 9% dividend growth at Spectra? Or if it doesn't, what sort of change would you need to see in the backlog in order to up that?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

I think that it sure gives us a lot of -- and we already had a lot of confidence on the number. I think as you know, we start to put together our next round of three-year plans, we laid out a three-year plan for the Street, not everybody does that and we haven't done that before. I think I will hedge a little bit on that question and say let us get through our plans through the end of the year. But I will also say as I have mentioned in the past, if we are doing better I fully expect given the structure that we have, we will want to pass some of that better on to investors.

So I think directionally I am on the same page as you are but we need to get plans together and obviously it is a discussion with the Board. But if we get more and more of that \$35 billion and the sooner we get it, there is an opportunity for investors to realize the benefits as well and there are a couple of really nice big pieces.

Even some of these small ones, the Spraberry piece, some of the organic stuff I mentioned briefly with respect to Express-Platte, those might only be a few hundred million dollars but they have very robust returns because we are able to build off the existing backbone. Let us get towards the end of the year, Becca, and come back and we will get that momentum going.



Becca Followill - *U.S. Capital Advisors - Analyst*

Thank you, that is helpful. And then second, on the 2.4 BCF a day of eventual bi-directional capacity on Texas Eastern, does that involve any turn back of capacity by customers?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

No, ma'am. As you know, we continue to see 98% plus renewal so I guess if you consider that a small amount but as you know, we then go out and remarket that at top rates.

Becca Followill - *U.S. Capital Advisors - Analyst*

Great, thank you. And then I may have missed it but I did not see anything in here on any projects in North Carolina associated with the Duke Piedmont RFP?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

Yes, that is obviously one we are pursuing but I know that is confidential and it is not part of our \$35 billion as you know. That is a new market that we are going into but my understanding is that Duke is going to come to some conclusion on that in the next few weeks or months and they will make a decision on that. But that would be a nice new market and that would be in addition to \$35 billion if we got it but it is not in the number right now.

Becca Followill - *U.S. Capital Advisors - Analyst*

Thank you. And then the last question is what is the timing to make a decision on potentially twinning Express-Platte?

Greg Ebel - *Spectra Energy - Chairman, President and CEO*

That is -- I think to be totally frank, the amount of work that needs to be done there, for us to make FID is probably 24 months away. As you know that would be probably the single largest project we've ever done, well in excess at the 100% level of \$5 billion, so that is not going to happen tomorrow. But I do like the work that is being done. I do like the interest by refiners and producers and we are going to continue to push that one hard.

Becca Followill - *U.S. Capital Advisors - Analyst*

Great. Thank you, guys.

Julie Dill - *Spectra Energy - Chief Communications Officer*

So this is Julie again and I am unfortunately going to have to bring the call to a close. But we want to thank everyone for joining us today. As always, you can give myself or Roni Cappadonna a call and we will be following up with folks that we know we left in the queue. So really appreciate your attention and thanks for joining us.

Operator

This concludes today's conference call. You may now disconnect.

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