

Texas Eastern Transmission, LP

Consolidated Financial Statements

December 31, 2007 and 2006

INDEPENDENT AUDITORS' REPORT

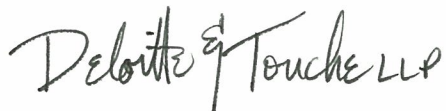
To the Partners of
Texas Eastern Transmission, LP
Houston, Texas

We have audited the accompanying consolidated balance sheets of Texas Eastern Transmission, LP and subsidiaries (the "Partnership") as of December 31, 2007 and 2006, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows, for each of the two years in the period ended December 31, 2007. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Texas Eastern Transmission, LP as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, on January 2, 2007, effective with the spin-off of Spectra Energy Corp from Duke Energy Corporation, the Partnership is no longer subject to a tax sharing agreement.



April 9, 2008

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions)

	Years Ended December 31,	
	2007	2006
Operating Revenues		
Transportation of natural gas	\$ 664	\$ 663
Storage of natural gas and other services	248	262
Total operating revenues	912	925
Operating Expenses		
Operating, maintenance and other	297	331
Depreciation and amortization	91	90
Property and other taxes	32	42
Total operating expenses	420	463
Gains on Sales of Other Assets, net	-	23
Operating Income	492	485
Other Income		
Interest income	6	-
Other income	6	5
Total other income	12	5
Interest Expense	74	75
Earnings Before Income Taxes	430	415
Income Taxes	2	155
Net Income	\$ 428	\$ 260

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED BALANCE SHEETS
(In millions)

	December 31,	
	2007	2006
ASSETS		
Current Assets		
Accounts receivable (net of allowance for doubtful accounts of \$6 at December 31, 2007 and \$4 at December 31, 2006)	\$ 156	\$ 147
Inventory	29	30
Cash collateral held by affiliate	80	55
Total current assets	<u>265</u>	<u>232</u>
Other Assets		
Advances receivable - affiliates	1,602	1,643
Goodwill	136	136
Cash collateral held by affiliate	-	25
Total other assets	<u>1,738</u>	<u>1,804</u>
Property, Plant and Equipment		
Cost	4,547	4,317
Less accumulated depreciation and amortization	<u>1,507</u>	<u>1,437</u>
Net property, plant and equipment	<u>3,040</u>	<u>2,880</u>
Regulatory Assets and Deferred Debits	<u>62</u>	<u>82</u>
Total Assets	<u><u>\$ 5,105</u></u>	<u><u>\$ 4,998</u></u>

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED BALANCE SHEETS
(In millions)

	December 31,	
	2007	2006
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable	\$ 29	\$ 28
Taxes accrued	30	223
Current maturities of long-term debt	-	300
Interest accrued	24	24
Collateral liability	14	17
Gas imbalances payable	70	60
Other	65	59
Total current liabilities	<u>232</u>	<u>711</u>
Long-term Debt	<u>1,166</u>	<u>770</u>
Deferred Credits and Other Liabilities		
Deferred income taxes	3	873
Other	74	76
Total deferred credits and other liabilities	<u>77</u>	<u>949</u>
Commitments and Contingencies		
Partners' Capital		
Partners' capital	3,630	2,569
Accumulated other comprehensive loss	-	(1)
Total partners' capital	<u>3,630</u>	<u>2,568</u>
Total Liabilities and Partners' Capital	<u>\$ 5,105</u>	<u>\$ 4,998</u>

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years Ended December 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 428	\$ 260
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95	94
Deferred income taxes	-	(10)
(Increase) decrease in		
Accounts receivable	1	3
Inventory	1	(1)
Collateral assets	-	(55)
Other current assets	-	7
Other non-current assets	(5)	(23)
Increase (decrease) in		
Accounts payable	3	-
Taxes accrued	(185)	19
Collateral liability	(3)	-
Other current liabilities	3	8
Deferred credits and other liabilities	(6)	(11)
Net cash provided by operating activities	<u>332</u>	<u>291</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(232)	(113)
Net decrease (increase) in advances receivable - affiliates	3	11
Proceeds from sale of assets	1	11
Net cash used in investing activities	<u>(228)</u>	<u>(91)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of long-term debt	396	-
Payments for the redemption of long-term debt	(300)	-
Distributions to partners	(200)	(200)
Net cash used in financing activities	<u>(104)</u>	<u>(200)</u>
Net change in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>
Supplemental Disclosures		
Cash paid for interest, net of amount of capitalized	\$ 71	\$ 71
Cash paid for income taxes	\$ 183	\$ 146

See Notes to Consolidated Financial Statements.

TEXAS EASTERN TRANSMISSION, LP

CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL AND COMPREHENSIVE INCOME
(In millions)

	Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2005	\$ 2,509	\$ (13)	\$ 2,496
Net income	260	-	260
Other comprehensive income			
Net unrealized losses on cash flow hedges	-	(7)	(7)
Reclassification of cash flow hedges into earnings	-	19	19
Total comprehensive income	<u>260</u>	<u>12</u>	<u>272</u>
Distributions to partners	(200)	-	(200)
Balance December 31, 2006	\$ 2,569	\$ (1)	\$ 2,568
Net income	428	-	428
Other comprehensive income			
Reclassification of cash flow hedges into earnings	-	1	1
Total comprehensive income	<u>428</u>	<u>1</u>	<u>429</u>
Equitization of income tax balances due to termination of tax sharing agreement	830		830
Attributed deferred tax benefit	3		3
Distributions to partners	(200)	-	(200)
Balance December 31, 2007	\$ 3,630	\$ -	\$ 3,630

See Notes to Consolidated Financial Statements.

Texas Eastern Transmission, LP
Notes to Consolidated Financial Statements
For The Years Ended December 31, 2007 and 2006

1. Summary of Operations and Significant Accounting Policies

Nature of Operations. Texas Eastern Transmission, LP, a Delaware limited partnership (together with its subsidiaries, the "Partnership"), is an indirect, wholly owned subsidiary of Spectra Energy Corp (Spectra Energy). The Partnership is primarily engaged in the interstate transportation and storage of natural gas. The Partnership's interstate natural gas transmission and storage operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC).

Spin-off from Duke Energy Corporation. On January 2, 2007, Duke Energy Corporation (Duke Energy) completed the spin-off of Spectra Energy, which primarily owns the Natural Gas Transmission and Field Services segments of Spectra Energy Capital LLC, formerly Duke Capital LLC.

Basis of Presentation. The financial statements herein are prepared in accordance with the accounting principles generally accepted (GAAP) in the United States and reflect the financial position, results of operations and cash flows of the Partnership.

Consolidation. The consolidated financial statements include, after eliminating intercompany transactions and balances, the accounts of the Partnership.

Use of Estimates. To conform with GAAP in the United States, management makes estimates and assumptions that affect the amounts reported in the financial statements and notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

Inventory. Inventory consists of materials and supplies held in storage for transmission, and is recorded at the lower of cost or market value, using the average cost method.

Natural Gas Imbalances. The consolidated balance sheets include in-kind balances as a result of differences in gas volumes received and delivered for customers. Since the settlement of imbalances is in-kind, changes in the balances do not have an impact on the Partnership's Consolidated Statements of Cash Flows. Accounts Receivable and Other Current Liabilities each include \$70 million as of December 31, 2007 and \$60 million as of December 31, 2006, related to gas imbalances. Natural gas volumes owed to the Partnership are valued at natural gas market index prices as of the balance sheet dates.

Goodwill. The Partnership evaluates the goodwill for potential impairment related to the purchase of the Partnership under the guidance of SFAS No. 142, "Goodwill and Other Intangible Assets." Under this standard, goodwill is subject to an annual test for impairment. The Partnership has designated August 31 as the date it performs the annual review for goodwill impairment.

Impairment testing of goodwill consists of a two-step process. The first step involves a comparison of the fair value of the Partnership with its carrying amount. If the carrying amount of the Partnership exceeds its fair value, the second step of the process involves a comparison of the fair value and the carrying value of the goodwill of the Partnership. If the carrying value of the goodwill of the Partnership exceeds the fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Additional impairment tests are performed between the annual reviews if events or changes in circumstances make it more likely than not that the fair value of the Partnership is below its carrying amount.

The Partnership completed its annual goodwill impairment test as of August 31, 2007 and no impairments were identified. The Partnership primarily uses a discounted cash flow analysis to determine fair value. 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, the Partnership incorporates expected long-term growth rates, regulatory stability, the ability to renew contracts, and commodity prices (where appropriate), as well as other factors that affect its revenue, expense and capital expenditure projections.

Property, Plant and Equipment. Property, plant and equipment are stated at historical cost less accumulated depreciation. The Partnership capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include administrative and general costs and the cost of funds used during construction. The cost of renewals and betterments that extend the useful life or increases the expected output of property, plant and equipment is also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of property, plant and equipment, is expensed as it is incurred. Depreciation is generally computed over the asset's estimated useful life using the straight-line method. The composite weighted-average depreciation rate was 2.1% for 2007 and 2.1% for 2006. See also "Allowance for Funds Used during Constructions (AFUDC)" discussed below.

When the Partnership retires its regulated property, plant and equipment, it charges the original cost plus the cost of retirement, less salvage value, to accumulated depreciation and amortization. When it sells entire regulated operating units, or retires or sells non-regulated properties, the cost is removed from the property account and the related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded as income, unless otherwise required by the FERC.

Asset Retirement Obligations. The Partnership recognizes asset retirement obligations (AROs) in accordance with SFAS No. 143, "Accounting For Asset Retirement Obligations," for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset and FIN 47, "Accounting for Conditional Asset Retirement Obligations," for conditional AROs in which the timing or method of settlement are conditional on a future event that may or may not be within the control of the Partnership. Both SFAS No. 143 and FIN 47 require that the fair value of a liability for an ARO be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the estimated useful life of the asset. The balance of the liability was \$10 million as of December 31, 2007 and \$6 million as of December 31, 2006 and is included in Other Deferred Credits and Other Liabilities in the Consolidated Balance Sheets. The activity for 2007 included revisions in estimated cash flows of \$4 million.

Unamortized Debt Discount. Discounts and expenses incurred with the issuance of outstanding long-term debt are deferred and amortized over the terms of the debt issues. Any unamortized expenses associated with refinancing higher-cost debt obligations to finance regulated assets and operations are amortized consistent with regulatory treatment of those items, where appropriate.

Environmental Expenditures. The Partnership expenses environmental expenditures related to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate current or future revenues are expensed or capitalized, as appropriate. Undiscounted liabilities are recorded when the necessity for environmental remediation becomes probable and the costs can be reasonably estimated, or when other potential environmental liabilities are reasonably estimable and probable.

Cost-Based Regulation. The Partnership accounts for certain of its regulated operations under the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." The economic effects of regulation can result in a regulated entity recording assets for costs that have been or are expected to be approved for recovery from customers or recording liabilities for amounts that are expected to be returned to customers in the rate-setting process in a period different from the period in which the amounts would be recorded by an unregulated enterprise. Accordingly, the Partnership records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. Management continually assesses whether regulatory assets are probable

of future recovery by considering factors such as applicable regulatory changes, recent rate orders applicable to other regulated entities, and the status of any pending or potential deregulation legislation. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery. These regulatory assets and liabilities are primarily classified in the Balance Sheets as Regulatory Assets and Deferred Debits and Deferred Credits and Other Liabilities. The Partnership periodically evaluates the applicability of SFAS No. 71, and considers factors such as regulatory changes and the impact of competition. If cost-based regulation ends or competition increases, the Partnership may have to reduce its asset balances to reflect a market basis less than cost and write off the associated regulatory assets and liabilities.

Revenue Recognition. Revenues from the transportation and storage of natural gas are recognized when the service is provided. From time to time, certain revenues may be subject to refund pending the outcome of rate matters before the FERC, and reserves are established where required. There were no pending rate cases and no related reserves were recorded as of December 31, 2007 or 2006. The allowance for doubtful accounts was \$6 million as of December 31, 2007 and \$4 million as of December 31, 2006.

Customer billings that are equal to greater than 10% of revenues for the years ended 2007 or 2006 are as follows:

Customer	% of Consolidated Revenues	
	Years Ended December 31,	
	2007	2006
Public Service Electric and Gas Company	10%	-
Spectra Energy Companies ⁽¹⁾	14%	-
Duke Energy Affiliates ^{(2) (3)}	-	17%

⁽¹⁾Includes Spectra Energy affiliates DCP Midstream Marketing, LP, DCP Midstream, LP and Algonquin Gas Transmission, LLC. (AGT)

⁽²⁾Revenues are below 10% in 2007.

⁽³⁾Prior to 2007 Duke Energy Affiliates included AGT and DCP Midstream.

Allowance for Funds Used During Construction (AFUDC). AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities, consists of two components, an equity component and an interest component. The equity component is a non-cash item. AFUDC is capitalized as a component of Property, Plant and Equipment cost, with offsetting credits to the consolidated statements of operations. After construction is completed, the Partnership is permitted to recover these costs through inclusion in the rate base and in the depreciation provision. The total amount of AFUDC included in the consolidated statements of operations was \$7 million in 2007, which consisted of an equity component of \$5 million and an interest expense component of \$2 million. The total amount of AFUDC included in the consolidated statements of operations was \$4 million in 2006, which consisted of an equity component of \$3 million and an interest expense component of \$1 million.

Preliminary Project Costs. Project development costs, including expenditures for preliminary surveys, plans, investigations, environmental studies, regulatory applications and other costs incurred for the purpose of determining the feasibility of capital expansion projects, are initially included in operating expenses for U.S. rate-regulated enterprises that apply the principles of SFAS No. 71. If and when it is determined that recovery of such costs through regulated revenues of the completed project is probable, the inception-to-date costs of the project are recognized as Property, Plant and Equipment in accordance with the provisions of SFAS No. 71 and operating expenses are reduced.

Income Taxes. The Partnership was subject to income tax under a tax sharing agreement with Duke Energy Corporation (Duke Energy) in 2006 prior to the spin-off of Spectra Energy from Duke Energy on January 2, 2007. During that period, income taxes were calculated by the Partnership on the basis of its separate company income and deductions in accordance with respective established practices of Duke Energy. Deferred income taxes were provided for temporary differences between the GAAP and tax carrying amounts of assets and liabilities. These differences create taxable or tax deductible amounts for future periods.

Effective with the spin-off, the Partnership is no longer subject to the tax sharing agreement. In conjunction with the termination of the tax sharing agreement, \$830 million of deferred income tax liabilities and taxes accrued were eliminated and recorded as an increase to Partners Capital on the Consolidated Balance Sheet. The Partnership remains subject to Tennessee and Texas state income tax.

New Accounting Pronouncements — 2007. The following new accounting pronouncements were adopted during 2007 and the effect of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements.

FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities." In September 2006, the FASB issued FSP No. AUG AIR-1. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods, if no liability is required to be recorded for an asset retirement obligation based on a legal obligation for which the event obligating the entity has occurred. The FSP also requires disclosures regarding the method of accounting for planned major maintenance activities and the effects of implementing the FSP. The guidance in this FSP was effective for the Partnership as of January 1, 2007 and was applied retrospectively for all financial statements presented. The adoption of FSP No. AUG AIR-1 did not have an effect on the Partnership's consolidated results of operations, financial position or cash flows.

FIN 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109." In July 2006, the FASB issued FIN 48, which provides guidance on accounting for income tax positions about which the Partnership has concluded there is a level of uncertainty with respect to the recognition in its financial statements. The Partnership implemented FIN 48 effective January 1, 2007. As discussed further in Note 3, the implementation of FIN 48 had no impact on the consolidated financial statements.

New Accounting Pronouncement — 2006. The following significant accounting pronouncement was adopted during 2006 and the effect of such adoption has been presented in the accompanying Consolidated Financial Statements.

Federal Energy Regulatory Commission Accounting Order. In 2005, the Federal Energy Regulatory Commission (FERC) issued an Order on Accounting for Pipeline Assessment Costs that requires most pipeline inspection and integrity assessment activities to be recognized as expenses as incurred. In the Order, FERC confirmed that pipeline betterments and replacements, including those resulting from integrity inspections, will continue to be capitalized when appropriate. This FERC Order was effective for pipeline inspection and integrity assessment costs incurred on or subsequent to January 1, 2006. Annual expenses for the Partnership were \$8 million in both 2007 and 2006. Pipeline inspection and integrity assessment costs capitalized prior to the effective date of the rule were not affected.

New Accounting Pronouncements — Pending. The following new accounting pronouncements have been issued, but have not yet been adopted as of December 31, 2007:

SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, in some cases, the application of SFAS No. 157 may change the Partnership's current practice for measuring and disclosing fair values under other accounting pronouncements that require or permit fair value measurements. For the Partnership, SFAS No. 157 is

effective as of January 2008 and must be applied prospectively except in certain cases. The adoption of SFAS No. 157 is not expected to materially affect the Partnership's consolidated results of operations, financial position or cash flows.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." In February 2007, the FASB issued SFAS No. 159, which permits entities to choose to measure certain financial instruments at fair value. For the Partnership, SFAS No. 159 is effective as of January 1, 2008. The Partnership has determined it will not elect fair value measurements for financial assets and financial liabilities included in the scope of SFAS No. 159.

2. Regulatory Matters

Regulatory Assets. The Partnership's operations are subject to SFAS No. 71. Accordingly, the Partnership records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. (For further information see Note 1 Summary of Operations and Significant Accounting Policies)

	December 31,		Recovery/Refund Period Ends
	2007	2006	
	(in millions)		
Regulatory Assets(a)			
Regulatory asset related to income taxes(b)	\$ 30	\$ 40	(c)
Deferred debt expense	8	11	(c)
Vacation accrual (non-current)(b)	8	13	(c)
Environmental cleanup costs	<u>6</u>	<u>6</u>	(c)
Total Regulatory Assets	<u>\$ 52</u>	<u>\$ 70</u>	
Regulatory Liabilities(d)			
Removal costs	\$ 17	\$ 17	(c)
Pipeline rate credit	35	36	(c)
Other deferred tax credits	<u>-</u>	<u>1</u>	2007
Total Regulatory Liabilities	<u>\$ 52</u>	<u>\$ 54</u>	

(a) Included in Regulatory Assets and Deferred Debits on the Balance Sheets.

(b) These amounts are expected to be included in future rate filings.

(c) Recovery/refund period currently unknown.

(d) Included in Deferred Credits and Other Liabilities on the Balance Sheet.

Fuel Tracker. At December 31, 2007 and 2006, the Consolidated Balance Sheets included in Other Current Liabilities \$19 million and \$12 million, respectively, for costs related to fuel and balancing activity of the pipeline system that are recovered annually in transportation rates in accordance with the Partnership's FERC gas tariff.

3. Income Taxes

Income Tax Expense (in millions)		
	Years Ended December 31,	
	2007	2006
Current income tax expense		
Federal	\$-	\$148
State	2	17
Total current income tax expense	2	165
Deferred income tax (benefit) expense, net		
Federal	-	(9)
State	-	(1)
Total deferred income tax (benefit) expense, net	-	(10)
Total income tax expense	\$2	\$155

Income Tax Expense Reconciliation to Statutory Rate (in millions)		
	Years Ended December 31,	
	2007	2006
Income tax, computed at the statutory rate of 35%	\$152	\$145
Adjustments resulting from:		
State income tax, net of federal income tax effect	2	10
Entity not subject to income tax	(152)	
Total income tax expense	\$2	\$155
Effective tax rate	0.5%	37.3%

Net Deferred Income Tax Liability Components (in millions)		
	December 31,	
	2007	2006
Deferred Income Tax Assets:		
Deferred credits and other liabilities	\$ -	\$39
Environmental cleanup liabilities	-	8
Total deferred income tax assets	-	47
Deferred Income Tax Liabilities:		
Property, plant and equipment	-	(789)
Regulatory assets and deferred debits	-	(48)
Other comprehensive income	-	1
Environmental cleanup costs	-	(11)
Total deferred income tax liabilities	-	(847)
State deferred income tax, net of federal tax effect	(3)	(73)
Total net deferred income tax liability	\$(3)	\$(873)

Deferred income tax balances at December 31, 2006, reflect the effects of temporary differences between the financial carrying amounts and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. The Partnership evaluates the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including the reversal of taxable temporary differences and forecasted operating earnings.

During 2006, the Partnership was subject to corporate income tax under a tax sharing agreement as a member of the Duke Energy consolidated group. Federal income taxes were provided by the Partnership on the basis of its separate Partnership income and deductions in accordance with this tax sharing agreement.

The Partnership is no longer subject to a tax sharing agreement as discussed in Note 1. The Partnership recorded Tennessee and Texas state taxes for 2007.

The Partnership adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*, (FIN48), on January 1, 2007. The implementation of FIN 48 had no impact on the consolidated financial statements.

4. Marketable Securities

During the twelve months ended December 31, 2006, the Partnership received shares of stock as consideration for settlement of a customer's transportation contract. The market value of the equity securities, determined by quoted market prices on the date of receipt, of approximately \$23 million is reflected in Gains on Sales of Other Assets and Other, net in the consolidated statements of operations for the twelve months ended December 31, 2006. Subsequent to receipt, these securities were accounted for under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, as trading securities. During the twelve months ended December 31, 2006, these securities were sold and an additional gain of approximately \$1 million was recognized in Other Income in the consolidated statements of operations for the twelve months ended December 31, 2006. Texas Eastern Transmission, LP did not have any marketable securities during the twelve months ended December 31, 2007.

5. Related Party Transactions

Consolidated Statements of Operations (in millions)		
	Years Ended December 31,	
	2007	2006
Transportation of natural gas (a)	\$7	\$4
Storage of natural gas and other services (a)	3	-
Operation and maintenance expenses (b)	95	128
Interest Income	6	-

(a) In the normal course of business, the Partnership provides natural gas transportation, storage and other services to affiliates such as Duke Energy Trading and Marketing, LLC and DCP Midstream ("DCP Midstream", formerly known as DEFS Marketing and DEFS).

(b) Includes allocations from Spectra Energy affiliates for various services and other costs, including employee benefit costs. Spectra Energy affiliates charge such expenses based on the cost of actual services provided or using various allocation methodologies based on the Partnership's percentage of assets, employees, earnings, or other measures, as compared to other Spectra Energy affiliates.

Consolidated Balance Sheets (in millions)		
	December 31,	
	2007	2006
Accounts receivable	\$2	\$11
Collateral assets	80	55
Interest receivable	6	-
Advances receivable	1,602	1,643
Other non-current assets	-	25
Accounts payable	1	1
Taxes accrued	-	183
Other current liabilities – gas imbalances	12	44

Advances receivable-affiliates do not bear interest. Advances are carried as unsecured, open accounts and are not segregated between current and non-current amounts. Increases and decreases in advances generally result from the movement of funds to provide for operations, capital expenditures and debt payments of the Partnership.

The Partnership made distributions to its partners of \$200 million in both 2007 and 2006.

6. Property, Plant and Equipment

Net Property, Plant and Equipment (in millions)			
	Estimated Useful Life	December 31,	
	(years)	2007	2006
Transmission	7-84	\$4,170	\$3,954
Other	5-122	377	363
Total property, plant, and equipment		4,547	4,317
Less accumulated depreciation and amortization		1,507	1,437
Net property, plant and equipment		\$3,040	\$2,880

7. Debt Facilities

Debt (in millions)				
	Interest Rate	Year Due	December 31,	
			2007	2006
Notes Payable	5.25% – 7.30%	2007 – 2032	\$1,150	\$1,050
Medium term, Series A	9.00% – 9.07%	2012	20	20
Unamortized debt discount			(4)	-
Total debt			\$1,166	\$1,070
Total long-term portion			\$1,166	\$770

Annual Maturities (in millions)	
2008	\$-
2009	-
2010	300
2011	-
2012	20
Thereafter	850
Total long-term debt	\$1,170

In July 2007, the Partnership retired \$300 million of 5.25% notes upon maturity. In September 2007, the Partnership issued \$400 million of 6.00% notes due 2017. Net proceeds from the offering were returned to Spectra Energy and used for general corporate purposes.

8. Commitments and Contingencies

General Insurance. The Partnership is insured under Spectra Energy's master insurance program for insurance coverages consistent with companies engaged in similar commercial operations with similar type properties. The Partnership's insurance program includes (1) commercial general and excess liability insurance for liabilities arising to third parties for bodily injury and property damage resulting from the Partnership's operations; (2) workers' compensation liability coverage to required statutory limits; (3)

automobile liability insurance for all owned, non-owned and hired vehicles covering liabilities to third parties for bodily injury and property damage; (4) insurance policies in support of the indemnification provisions of Spectra Energy's by-laws and (5) property insurance, including machinery breakdown, on an all risk replacement valued basis, onshore business interruption and extra expense. All coverages are subject to certain deductibles, terms and conditions common for companies with similar types of operations. The cost of the insurance coverages trends with the cyclical changes in the insurance market.

Environmental. The Partnership is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. Management believes there are no matters outstanding that will have a material adverse effect on the Partnership's results of operations, financial position or cash flows.

Remediation activities. The Partnership is responsible for various environmental remediation obligations. All of these obligations generally are managed in the normal course of business. The Partnership has recorded reserves for remediation activities on an undiscounted basis of \$9 million at December 31, 2007 and \$10 million at December 31, 2006. Management believes that completion or resolution of these matters will have no material adverse effect on consolidated results of operations, cash flows, or financial position.

Litigation. The Partnership is involved in legal, tax and regulatory proceedings in various forums, including matters regarding contracts, performance and other matters, arising in the ordinary course of business, some of which involve substantial monetary amounts. The Partnership has insurance coverage for certain of these losses should they be incurred. Management believes that the final disposition of these proceedings will not have material adverse effect on the Partnership's results of operations, financial position or cash flows.

9. Risk Management and Hedging Activities, Credit Risk, and Financial Instruments

Commodity Cash Flow Hedges. The Partnership is exposed to the impact of market fluctuations in the prices of natural gas liquids related to the Partnership's operations. The Partnership employs established policies and procedures to manage its risks associated with these market fluctuations including the use of commodity derivatives (swaps). There were no commodity derivatives outstanding throughout 2007. The Partnership closely monitors the potential impacts of commodity price changes and, where appropriate, enters into contracts to protect margins for a portion of future sales.

Credit Risk. The Partnership's principal customers for natural gas transportation and storage services are local distribution companies, industrial end-users, and natural gas marketers located throughout the Mid-Atlantic and northeastern states. The Partnership has concentrations of receivables from these sectors throughout these regions. These concentrations of customers may affect the Partnership's overall credit risk in that risk factors can negatively impact the credit quality of a particular sector. Where exposed to credit risk, the Partnership analyzes the customers' financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of those limits on an ongoing basis. The Partnership also obtains cash, letters of credit, or other acceptable forms of security from customers where appropriate, based on its financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each transaction.

Interest Rate. Changes in interest rates expose the Partnership to risk as a result of its issuance of variable and fixed-rate debt. The Partnership manages its interest rate exposure by limiting its variable-rate exposures to percentages of total capitalization and by monitoring the effects of market changes in interest rates, including consideration of hedging activities, if needed. The Partnership has not previously entered into hedging contracts to mitigate this risk.

Financial Instruments. The Partnership's financial instruments include \$1,166 million of long-term debt (including current maturities) with an approximate fair value of \$1,246 million as of December 31, 2007 and \$1,070 million of long-term debt with an approximate fair value of \$1,151 million as of December 31, 2006. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 2007 and 2006 are not necessarily indicative of the amounts the Partnership could have realized in current markets.

The fair values of Advances Receivable-Affiliates are not readily determinable since such amounts are carried as open accounts. (For further information see Note 5 Related Party Transactions)

10. Employee Benefit Plans

Retirement Plan. The Partnership participates in Spectra Energy's non-contributory defined benefit retirement plan that covers most U.S. employees using a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit consisting of pay credits based upon a percentage (which may vary with age and years of service) of current eligible earnings and current interest credits.

Spectra Energy's policy is to fund amounts on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. Spectra Energy did not make any contributions to its defined benefit retirement plan in 2007 or 2006. Spectra Energy does not anticipate making a contribution to the plan in 2008.

The Partnership's net periodic pension benefit for the U.S. plan, as allocated by Spectra Energy, was \$5 million in 2007 and \$2 million in 2006. These allocations were based on expenses, net of asset returns, as actuarially determined for the employees associated with the Partnership's operating units.

Spectra Energy also sponsors, and the Partnership participates in, an employee savings plan that covers substantially all U.S. employees. Spectra Energy contributes a matching contribution equal to 100% of before tax employee contributions, of up to 6% of eligible pay per period. The Partnership expensed employer matching contributions of \$5 million in 2007 and \$6 million in 2006.

Other Post-Retirement Benefits. The Partnership, in conjunction with Spectra Energy, provides some 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.

These benefit costs are accrued over an employee's active service period to the date of full benefits eligibility. The Partnership's net periodic post-retirement benefit cost, as allocated by Spectra Energy, was \$6 million in 2007 and \$9 million in 2006.