

**Texas Eastern Transmission, LP**

Consolidated Financial Statements  
(Unaudited)

Quarter Ended September 30, 2005

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Operating Revenues</b>				
Transportation of natural gas	\$ 166	\$ 157	\$ 500	\$ 486
Storage of natural gas and other services	64	48	164	141
Total operating revenues	<u>230</u>	<u>205</u>	<u>664</u>	<u>627</u>
<b>Operating Expenses</b>				
Operation and maintenance	62	62	186	189
Depreciation and amortization	22	21	68	64
Property and other taxes	12	10	37	26
Total operating expenses	<u>96</u>	<u>93</u>	<u>291</u>	<u>279</u>
<b>Gains on Sales of Other Assets, net</b>	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>
<b>Operating Income</b>	134	112	375	348
<b>Other Income</b>	1	2	2	3
<b>Interest Expense</b>	<u>19</u>	<u>21</u>	<u>56</u>	<u>63</u>
<b>Earnings Before Income Taxes</b>	116	93	321	288
<b>Income Taxes</b>	<u>44</u>	<u>35</u>	<u>120</u>	<u>109</u>
<b>Net Income</b>	<u>\$ 72</u>	<u>\$ 58</u>	<u>\$ 201</u>	<u>\$ 179</u>

See Notes to Consolidated Financial Statements.

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

	September 30, 2005	December 31, 2004
<b>ASSETS</b>		
<b>Current Assets</b>		
Accounts receivable, net of allowance for doubtful accounts	\$ 170	\$ 140
Inventory	29	25
Other	10	9
Total current assets	<u>209</u>	<u>174</u>
<b>Other Assets</b>		
Advances receivable - affiliates	1,720	1,576
Goodwill, net of accumulated amortization	136	136
Total other assets	<u>1,856</u>	<u>1,712</u>
<b>Property, Plant and Equipment</b>		
Cost	4,193	4,147
Less accumulated depreciation and amortization	<u>1,363</u>	<u>1,332</u>
Net property, plant and equipment	<u>2,830</u>	<u>2,815</u>
<b>Regulatory Assets and Deferred Debits</b>	<u>81</u>	<u>84</u>
 <b>Total Assets</b>	 <u><u>\$ 4,976</u></u>	 <u><u>\$ 4,785</u></u>

See Notes to Consolidated Financial Statements.

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

	September 30, 2005	December 31, 2004
<b>LIABILITIES AND PARTNERS' CAPITAL</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 16	\$ 18
Taxes accrued	255	136
Interest accrued	17	24
Other	180	121
Total current liabilities	<u>468</u>	<u>299</u>
<b>Long-term Debt</b>	<u>1,070</u>	<u>1,070</u>
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	869	871
Other	92	101
Total deferred credits and other liabilities	<u>961</u>	<u>972</u>
<b>Partners' Capital</b>		
Partners' capital	2,498	2,447
Accumulated other comprehensive loss	(21)	(3)
Total partners' capital	<u>2,477</u>	<u>2,444</u>
<b>Total Liabilities and Partners' Capital</b>	<u><u>\$ 4,976</u></u>	<u><u>\$ 4,785</u></u>

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>\$ 375</u>	<u>\$ 268</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(93)	(112)
Net increase in advances receivable - affiliates	(144)	(83)
Retirements and other	12	2
Net cash used in investing activities	<u>(225)</u>	<u>(193)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Distributions to partners	(150)	(75)
Net cash used in financing activities	<u>(150)</u>	<u>(75)</u>
Net change in cash and cash equivalents	-	-
<b>Cash and cash equivalents at beginning of period</b>	<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at end of period</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See Notes to Consolidated Financial Statements.

**TEXAS EASTERN TRANSMISSION, LP**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)  
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Net Income</b>	\$ 72	\$ 58	\$ 201	\$ 179
Other comprehensive income (loss)				
Net unrealized gains (losses) on cash flow hedges	(29)	(11)	(41)	(29)
Reclassification adjustment into earnings	4	11	13	26
Other comprehensive income (loss), before income taxes	(25)	-	(28)	(3)
Income tax (expense) benefit related to items of other comprehensive income (loss)	9	-	10	1
Total other comprehensive income (loss)	(16)	-	(18)	(2)
<b>Total Comprehensive Income</b>	<u>\$ 56</u>	<u>\$ 58</u>	<u>\$ 183</u>	<u>\$ 177</u>

See Notes to Consolidated Financial Statements.

## **Notes to Consolidated Financial Statements (Unaudited)**

### **1. Nature of Operations**

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

### **2. Basis of Presentation**

These consolidated financial statements include the accounts of the Company and all wholly-owned subsidiaries, after eliminating intercompany transactions and balances and reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the interim Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due in part to the effects of seasonal temperature variations on energy consumption.

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

### **3. 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 are in-kind, changes in the balances do not have an impact on the Company's Consolidated Statements of Cash Flows. Accounts Receivable and Other Current Liabilities each include \$85 million as of September 30, 2005 and \$64 million as of December 31, 2004, related to gas imbalances. The increase in gas imbalances was primarily attributable to an increase in the spot price. Natural gas volumes owed to (by) the Company are valued at natural gas market index prices as of the balance sheet dates.

### **4. Commitments and Contingencies**

**Environmental.** The Company is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters

*Remediation activities.* The Company is responsible for various environmental remediation obligations. All of these obligations generally are managed in the normal course of business. At September 30, 2005, the Company has recorded reserves for remediation activities on an undiscounted basis of approximately \$13 million. 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 Company is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding performance, contracts and other matters arising in the ordinary course of business, some of which involve substantial amounts. Management believes that the final disposition of these proceedings will have no material adverse effect on consolidated results of operations, cash flows or financial position.