

**Gulfstream Natural Gas System, L.L.C.**

Financial Statements

For the Years Ended December 31, 2010, 2009 and 2008

**GULFSTREAM NATURAL GAS SYSTEM, L.L.C.  
OFFICER'S CERTIFICATE**

I, David A. Shammo, certify that I am an Authorized Officer of Gulfstream Natural Gas System, L.L.C. (the "Company") and that a review of the activities of the Company during the preceding fiscal year has been made under my supervision with a view to determining whether the Company has kept, observed, performed and fulfilled, in all material respects, its obligations under the Indenture dated as October 26, 2005 between the Company and JPMorgan Chase Bank, N.A., as trustee (the "Indenture"), and that to my Knowledge the Company has kept, observed, performed and fulfilled, in all material respects, its obligations under the Indenture and is not in default in any material respect in the performance or observance of any of the terms, provisions and conditions of the Indenture.

Capitalized terms used in this Officer's Certificate without definition shall have the meanings set forth in the Indenture.

**GULFSTREAM NATURAL GAS SYSTEM, L.L.C.**

Dated: March 22, 2011

By: 

Name: David A. Shammo

Title: Authorized Officer

**FINANCIAL STATEMENTS OF  
GULFSTREAM NATURAL GAS SYSTEM, L.L.C.  
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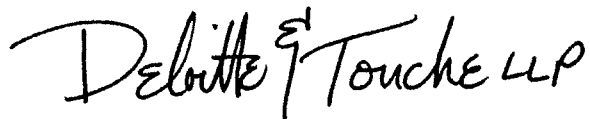
## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Members of Gulfstream Natural Gas System, L.L.C.  
Houston, Texas

We have audited the accompanying balance sheets of Gulfstream Natural Gas System, L.L.C., (the "Company"), as of December 31, 2010 and 2009, and the related statements of operations, cash flows, and members' equity and comprehensive income for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company'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 Company 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 Company'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 Gulfstream Natural Gas System, L.L.C. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Houston, Texas  
February 23, 2011

**GULFSTREAM NATURAL GAS SYSTEM, L.L.C.**  
**STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2010	2009	2008
	(In millions)		
<b>Operating Revenues</b>			
Transportation of natural gas .....	\$ 269.2	\$ 250.0	\$ 204.4
Other .....	4.4	1.5	2.3
Total operating revenues .....	<u>273.6</u>	<u>251.5</u>	<u>206.7</u>
<b>Operating Expenses</b>			
Operating, maintenance and other .....	5.5	4.5	5.7
Operating, maintenance and other—affiliates .....	15.1	14.6	12.6
Depreciation and amortization .....	35.0	34.5	30.3
Property and other taxes .....	17.5	14.0	12.8
Total operating expenses .....	<u>73.1</u>	<u>67.6</u>	<u>61.4</u>
<b>Loss on Sale of Assets</b> .....	—	—	(0.6)
<b>Operating Income</b> .....	200.5	183.9	144.7
<b>Other Income and Expenses</b> .....	0.9	1.4	11.1
<b>Interest Expense</b> .....	69.8	61.3	45.0
<b>Net Income</b> .....	<u>\$ 131.6</u>	<u>\$ 124.0</u>	<u>\$ 110.8</u>

See Notes to Financial Statements.

**GULFSTREAM NATURAL GAS SYSTEM, L.L.C.**  
**BALANCE SHEETS**

	December 31,	
	2010	2009
	(In millions)	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents .....	\$ 63.7	\$ 63.0
Receivables (net of allowance for doubtful accounts. There was none at December 31, 2010 and \$0.1 at December 31, 2009) .....	25.4	22.3
Inventory .....	6.3	4.9
Other .....	2.4	4.3
Total current assets .....	97.8	94.5
<b>Property, Plant and Equipment</b>		
Cost .....	2,056.6	2,036.5
Less accumulated depreciation and amortization .....	247.0	212.0
Net property, plant and equipment .....	1,809.6	1,824.5
<b>Regulatory Assets and Deferred Debits</b>		
Regulatory tax asset .....	24.2	24.4
Unamortized debt expense .....	7.2	8.2
Total regulatory assets and deferred debits .....	31.4	32.6
<b>Total Assets</b> .....	<b>\$ 1,938.8</b>	<b>\$ 1,951.6</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable .....	\$ 4.0	\$ 6.2
Accounts payable—affiliates .....	1.9	2.3
Taxes accrued .....	3.5	2.1
Interest accrued .....	10.0	10.0
Accrued liabilities .....	1.2	2.2
Fuel tracker liabilities .....	3.0	3.7
Natural gas imbalance payables .....	0.6	—
Total current liabilities .....	24.2	26.5
<b>Long-term Debt</b> .....	1,149.0	1,148.8
<b>Other Long-term Liabilities</b> .....	0.4	—
<b>Commitments and Contingencies</b>		
<b>Members' Equity</b>		
Members' equity .....	754.9	764.7
Accumulated other comprehensive income .....	10.3	11.6
Total members' equity .....	765.2	776.3
<b>Total Liabilities and Members' Equity</b> .....	<b>\$ 1,938.8</b>	<b>\$ 1,951.6</b>

See Notes to Financial Statements.

**GULFSTREAM NATURAL GAS SYSTEM, L.L.C.**  
**STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2010	2009	2008
	(In millions)		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income.....	\$ 131.6	\$ 124.0	\$ 110.8
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization .....	36.2	35.4	31.0
Loss on sale of assets .....	—	—	0.6
Allowance for funds used during construction—equity .....	(0.4)	(0.6)	(7.8)
Reclassification adjustments from accumulated other comprehensive income into net income .....	(1.3)	(1.3)	(1.3)
Decrease (increase) in:			
Receivables .....	(3.2)	(3.0)	(5.8)
Other current assets.....	0.4	4.6	(6.7)
Increase (decrease) in:			
Accounts payable.....	(1.1)	1.7	2.2
Taxes accrued .....	1.4	(1.0)	(2.7)
Interest accrued.....	—	1.8	—
Accrued liabilities .....	(1.0)	1.7	(5.5)
Fuel tracker liabilities .....	0.1	—	(0.1)
Other current liabilities .....	(0.2)	(0.5)	—
Other, assets .....	0.6	(3.4)	1.6
Other, liabilities .....	0.4	—	—
Net cash provided by operating activities .....	<u>163.5</u>	<u>159.4</u>	<u>116.3</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures .....	(21.6)	(53.5)	(191.4)
Proceeds on sale of assets .....	—	—	1.4
Net cash used in investing activities .....	<u>(21.6)</u>	<u>(53.5)</u>	<u>(190.0)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Capital contributions from members .....	20.0	40.2	179.4
Distributions to members .....	(161.2)	(445.1)	(116.4)
Proceeds from the issuance of long-term debt .....	—	299.0	—
Net cash provided by (used in) financing activities .....	<u>(141.2)</u>	<u>(105.9)</u>	<u>63.0</u>
Net increase (decrease) in cash and cash equivalents .....	0.7	—	(10.7)
Cash and cash equivalents at beginning of period .....	63.0	63.0	73.7
Cash and cash equivalents at end of period .....	<u>\$ 63.7</u>	<u>\$ 63.0</u>	<u>\$ 63.0</u>
<b>Supplemental Disclosures</b>			
Cash paid for interest, net of amount capitalized .....	\$ 70.3	\$ 60.1	\$ 49.5
Significant non-cash transaction:			
Property, plant and equipment accruals .....	\$ 3.3	\$ 4.9	\$ 19.8

See Notes to Financial Statements.

**GULFSTREAM NATURAL GAS SYSTEM, L.L.C.**  
**STATEMENTS OF MEMBERS' EQUITY AND COMPREHENSIVE INCOME**

	Spectra Energy Corp	Spectra Energy Partners, LP	The Williams Companies, Inc.	Williams Partners, L.P.	Total
	(in millions)				
<b>Balance December 31, 2007</b> .....	\$ 225.5	\$ 216.7	\$ 442.3	\$ —	\$ 884.5
Net income .....	28.3	27.1	55.4	—	110.8
Reclassification of cash flow hedges into earnings .....	(0.3)	(0.3)	(0.7)	—	(1.3)
<b>Total comprehensive income</b> .....					<u>109.5</u>
Capital contributions from members .....	45.7	44.0	89.7	—	179.4
Distributions to members .....	(29.7)	(28.5)	(58.2)	—	(116.4)
Attributed deferred tax benefit .....	0.4	0.3	0.7	—	1.4
<b>Balance December 31, 2008</b> .....	<u>269.9</u>	<u>259.3</u>	<u>529.2</u>	<u>—</u>	<u>1,058.4</u>
Net income .....	31.6	30.4	62.0	—	124.0
Reclassification of cash flow hedges into earnings .....	(0.3)	(0.3)	(0.7)	—	(1.3)
<b>Total comprehensive income</b> .....					<u>122.7</u>
Capital contributions from members .....	10.3	9.8	20.1	—	40.2
Distributions to members .....	(113.5)	(109.0)	(222.6)	—	(445.1)
Attributed deferred tax benefit .....	—	—	0.1	—	0.1
<b>Balance December 31, 2009</b> .....	<u>198.0</u>	<u>190.2</u>	<u>388.1</u>	<u>—</u>	<u>776.3</u>
Net income .....	30.3	35.5	37.8	28.0	131.6
Reclassification of cash flow hedges into earnings .....	(0.3)	(0.3)	(0.4)	(0.3)	(1.3)
<b>Total comprehensive income</b> .....					<u>130.3</u>
Capital contributions from members .....	4.0	6.0	5.6	4.4	20.0
Distributions to members .....	(41.1)	(39.5)	(51.4)	(29.2)	(161.2)
Attributed deferred tax expense .....	(0.1)	—	(0.1)	—	(0.2)
<b>Balance December 31, 2010</b> .....	<u>\$ 190.8</u>	<u>\$ 191.9</u>	<u>\$ 379.6</u>	<u>\$ 2.9</u>	<u>\$ 765.2</u>

See Notes to Financial Statements.



# GULFSTREAM NATURAL GAS SYSTEM, L.L.C.

## Notes to Financial Statements

### 1. Summary of Operations and Significant Accounting Policies

**Nature of Operations.** Gulfstream Natural Gas System, L.L.C. (collectively, “we”, “our”, “us” and “company”) owns an approximate 745-mile interstate natural gas pipeline system and is owned 1% by a subsidiary of Spectra Energy Corp (Spectra Energy), 49% by Spectra Energy Partners, LP (Spectra Energy Partners), 25.5% by The Williams Companies, Inc. (Williams) and 24.5% by Williams Partners L.P. We are operated under joint management by Spectra Energy, which provides the business functions, and Williams, which provides the technical functions. We transport natural gas that we receive from various onshore and offshore supply sources in the Mississippi and Alabama area, across the Gulf of Mexico, and deliver that natural gas to markets in central and southern Florida. Our interstate natural gas transmission operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC). We were formed on May 17, 1999 as a Delaware limited liability company.

**Basis of Presentation.** The financial statements reflect the results of operations, financial position and cash flows of our company. The financial statements do not include any of the assets, liabilities, revenues or expenses of the members.

**Use of Estimates.** To conform with generally accepted accounting principles (GAAP) in the United States, we make estimates and assumptions that affect the amounts reported in the Financial Statements and Notes to Financial Statements. Although these estimates are based on our best available knowledge at the time, actual results could differ.

**Fair Value Measurements.** We measure the fair value of financial assets and liabilities by maximizing the use of observable inputs and minimizing the use of unobservable inputs. Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

**Cost-Based Regulation.** The economic effects of regulation can result in a regulated company 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, we record assets and liabilities that result from the regulated ratemaking process that may not be recorded under GAAP for non-regulated entities. We continually assess whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes and recent rate orders applicable to other regulated entities. Based on this continual assessment, we believe our existing regulatory assets are probable of recovery. These regulatory assets and liabilities are primarily classified in the Balance Sheets as Other Current Assets, Regulatory Assets and Deferred Debits, and Current Liabilities. We periodically evaluate our regulated assets, and consider factors such as regulatory changes and the effect of competition. If cost-based regulation ends or competition increases, we may have to reduce our asset balances to reflect a market basis less than cost and write-off the associated regulatory assets. See Note 3 for further discussion.

**Revenue Recognition.** Revenues from the transportation of natural gas are recognized when the service is provided. Revenues related to these services provided but not yet billed are estimated each month. These estimates are generally based on contract data, regulatory information and preliminary throughput and allocation measurements. Final bills for the current month are billed and collected in the following month. Differences between actual and estimated unbilled revenues are immaterial.

Customers accounting for 10% or more of revenues during 2010, 2009 and 2008 are as follows:

Customer	% of Revenues		
	2010	2009	2008
Florida Power & Light Company.....	53%	52%	49%
Florida Power Corporation.....	26	27	25
TECO Energy and affiliates.....	(a)	(a)	10

(a) Percentage less than 10%.

**Allowance for Funds Used During Construction (AFUDC).** AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction and expansion of certain new regulated facilities, consists of two components, an equity component and an interest expense 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 Statements of Operations through Other Income and Expenses, Net for the equity component and Interest Expense for the interest expense component. After construction is completed, we are permitted to recover these costs through inclusion in the rate base and in the depreciation provision. The total amount of AFUDC included in the Statements of Operations was \$0.9 million in 2010 (an equity component of \$0.4 million and an interest expense component of \$0.5 million), \$0.9 million in 2009 (an equity component of \$0.6 million and an interest expense component of \$0.3 million) and \$11.6 million in 2008 (an equity component of \$7.8 million and an interest expense component of \$3.8 million).

**Income Taxes.** We are not subject to income tax, but rather our taxable income or loss is reported on the respective income tax returns of our members. Accordingly, there is no federal tax provision in these financial statements. Since we are not responsible for the attributed income taxes, amounts related to the tax gross-up of AFUDC equity are carried in the individual capital accounts of our members. The deferred income tax effect of the AFUDC equity gross up of \$24.2 million at December 31, 2010 and \$24.4 million at December 31, 2009 is classified in the Balance Sheets as Regulatory Assets and Deferred Debits.

**Cash and Cash Equivalents.** Highly liquid investments with original maturities of three months or less at the date of acquisition are considered cash equivalents.

**Inventory.** Inventory consists primarily of other materials and supplies and is recorded at cost, using average cost.

**Natural Gas Imbalances.** The Balance Sheets include in-kind balances as a result of differences in gas volumes received and delivered for customers. Since settlement of imbalances is in-kind, changes in these balances do not have an effect on our Statements of Cash Flows. Natural gas volumes owed to or by us are valued at natural gas market index prices as of the balance sheet dates.

**Cash Flow Hedges.** In 2005, we entered into derivative transactions that are hedges of the future cash flows of forecasted transactions (cash flow hedges). For all hedge contracts, we provide documentation of the hedge in accordance with accounting standards and assess whether the hedge contract is highly effective, both at inception and on a quarterly basis, in offsetting changes in cash flows. We document hedging activity by transaction type (i.e. swaps) and risk management strategy (i.e. interest rate risk).

Changes in the fair value of a derivative designated and qualified as a cash flow hedge, to the extent effective, are included in Statements of Members' Equity and Comprehensive Income as Accumulated Other Comprehensive Income (AOCI) until earnings are affected by the hedged transaction. We discontinue hedge accounting prospectively when it is determined that a derivative no longer qualifies as an effective hedge, or when it is no longer probable that the hedged forecasted transaction will occur. When hedge accounting is discontinued because the derivative no longer qualifies as an effective hedge, the derivative is subject to the mark-to-market model of accounting (MTM Model) prospectively. Gains and losses related to discontinued

hedges that were previously accumulated in AOCI will remain in AOCI until the underlying contract is reflected in earnings; unless it is probable that the hedged forecasted transaction will not occur at which time associated deferred amounts in AOCI are immediately recognized in current earnings. All derivatives designated and accounted for as hedges are classified in the same category as the item being hedged in the Statements of Cash Flows. In addition, all components of each derivative gain or loss are included in the assessment of hedge effectiveness.

When available, quoted market prices or prices obtained through external sources are used to measure a contract's fair value.

**Property, Plant and Equipment.** Property, plant and equipment are stated at historical cost less accumulated depreciation. We capitalize all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of funds used during construction. The cost of renewals and betterments that extend the useful life or increase the expected output of property, plant and equipment is also capitalized. The cost of repairs, replacements and major maintenance projects that do not extend the useful life or increase the expected output of property, plant and equipment is expensed as incurred. Depreciation is generally computed over the asset's estimated useful life using the straight-line method.

When we retire regulated property, plant and equipment, we charge the original cost plus the cost of retirement, less salvage value, to accumulated depreciation and amortization. When we sell entire regulated operating units, or retire or sell 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 in earnings, unless otherwise required by the FERC.

**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 capitalized when it is determined that recovery of such costs through regulated revenues of the completed project is probable. Any inception-to-date costs that were initially expensed are reversed and capitalized as Property, Plant and Equipment.

**Unamortized Debt Expense.** Debt expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt issues. Any call premiums or 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.

**New Accounting Pronouncements—2010.** The following new accounting pronouncements were adopted during 2010 and the effect of such adoption, if applicable, has been presented in the accompanying Financial Statements:

In June 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard which is intended to address (1) the effects on certain consolidation provisions as a result of the elimination of the concept of qualifying special-purpose entities and (2) constituent concerns about the application of certain consolidation provisions including those in which the accounting and disclosures do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. The adoption of the provisions of this standard on January 1, 2010 did not have any impact on our results of operations, financial position or cash flows.

**2009.** The following significant accounting pronouncements were adopted during 2009 and the effects of such adoptions, if any, are presented in the accompanying Financial Statements:

*ASC 105, "Generally Accepted Accounting Principles."* This accounting standard results in the FASB Accounting Standards Codification (the Codification) becoming the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) are also considered sources of authoritative GAAP for SEC registrants. The Codification supersedes all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the Codification is nonauthoritative. The adoption of the provisions of this accounting standard did not change the application of existing GAAP for us, and as a result, did not have any impact on our results of operations, financial position or cash flows.

*ASC 820, "Fair Value Measurement and Disclosures."* This accounting standard defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The FASB issued an amendment to this standard which delayed its effective date for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of the provisions of this amended standard on January 1, 2009 did not have any impact on our results of operations, financial position or cash flows.

*ASC 805, "Business Combinations."* This accounting standard requires an acquiring entity in a business combination to recognize all and only the assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This accounting standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of the provisions of this standard on January 1, 2009 did not have an impact on our results of operations, financial position or cash flows.

*ASC 815-10, "Derivatives and Hedging—Overall."* This accounting standard expands the disclosure requirements related to derivative instruments and hedging activities with the intent to provide users of financial statements an enhanced understanding of how and why derivative instruments are used, how derivative instruments and related hedged items are accounted for and how they affect an entity's financial position, financial performance and cash flows. We adopted the provisions of this standard effective January 1, 2009 as required.

*ASC 275-10, "Risks and Uncertainties—Overall" and ASC 350-30, "Intangibles—Goodwill and Other—General Intangible Other than Goodwill."* These accounting standards amend the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The adoption of the provisions of these standards on January 1, 2009 had no impact on our results of operations, financial position or cash flows.

*ASC 855-10, "Subsequent Events—Overall."* This accounting standard establishes general standards for the accounting for and disclosure of events that occur subsequent to the balance sheet date but before the financial statements of an entity are issued or are available to be issued. The adoption of the provisions of this standard effective June 30, 2009 did not have any impact on our results of operations, financial position or cash flows.

**2008.** There were no significant accounting pronouncements adopted during 2008 that had a material impact on our results of operations, financial position or cash flows.

## 2. Transactions with Affiliates

Gulfstream Management & Operating Services, L.L.C. (GMOS), owned 50% by an affiliate of Spectra Energy and 50% by an affiliate of Williams, provides management, construction and operating services pursuant to agreements entered into with us and with affiliates of Spectra Energy and Williams. GMOS bills us for services rendered including labor and benefit costs, employee expenses, overhead costs and in some cases, third-party costs. Such amounts are reflected in the Statements of Operations as Operating, Maintenance and Other—Affiliates or in the Balance Sheets as Property, Plant and Equipment, as appropriate.

Transactions with affiliates are summarized in the tables below:

### Statements of Operations

	2010	2009	2008
	(in millions)		
Operating, maintenance and other—affiliates .....	\$ 15.1	\$ 14.6	\$ 12.6

### Balance Sheets

	December 31,	
	2010	2009
	(in millions)	
Property, plant and equipment(a).....	\$ 2.3	\$ 3.1
Current assets - other .....	1.9	1.7
Accounts payable—affiliates.....	1.9	2.3

(a) Reflects additions to Property, Plant and Equipment billed from an affiliate in the respective year.

## 3. Regulatory Matters

**Regulatory Assets and Liabilities.** We record assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. See Note 1 for further discussion.

### Regulatory Assets and Liabilities

	December 31,		Recovery/Refund
	2010	2009	Period Ends
	(in millions)		
<b>Regulatory Assets (a)</b>			
Regulatory asset related to income taxes (b) .....	\$ 24.2	\$ 24.4	
Gas purchase costs (c) .....	—	2.2	
Total Regulatory Assets.....	<u>\$ 24.2</u>	<u>\$ 26.6</u>	
<b>Regulatory Liabilities (a)</b>			
Gas purchase costs (d) .....	\$ 3.0	\$ 3.7	2011 (e)
Total Regulatory Liabilities .....	<u>\$ 3.0</u>	<u>\$ 3.7</u>	

(a) All regulatory assets and liabilities are excluded from rate base unless otherwise noted.

(b) Included in Regulatory Assets and Deferred Debits.

(c) Included in Other Current Assets.

(d) Included in Current Liabilities.

(e) Amortized over the life of the related property, plant and equipment.

**Rate Related Information.** Gulfstream operates under rates approved by the FERC in 2007. In 2007, the FERC issued an order approving our Phase III expansion project. That order also required us to file a Cost and

Revenue Study three years after our Phase III facilities go in service. The projected filing date is in the fall of 2011.

#### 4. Property, Plant and Equipment

	Estimated Useful Life (Years)	December 31,	
		2010	2009
		(in millions)	
Natural gas transmission.....	60	\$ 1,970.9	\$ 1,969.7
Land.....	—	16.0	16.0
Construction in process.....	—	25.4	6.8
Other.....	5-20	44.3	44.0
Total property, plant and equipment.....		2,056.6	2,036.5
Total accumulated depreciation.....		(247.0)	(212.0)
Total net property, plant and equipment.....		<u>\$ 1,809.6</u>	<u>\$ 1,824.5</u>

All of our property, plant and equipment is regulated with estimated useful lives based on rates approved by the FERC. The composite weighted-average depreciation rates were 1.7% for 2010, 1.8% for 2009 and 1.7% for 2008.

#### 5. Debt

##### Summary of Debt and Related Terms

	Year Due	December 31,	
		2010	2009
		(in millions)	
Unsecured note payable, 5.56%.....	2015	\$ 500.0	\$ 500.0
Unsecured note payable, 6.95%.....	2016	300.0	300.0
Unsecured note payable, 6.19%.....	2025	350.0	350.0
Unamortized debt discount.....		(1.0)	(1.2)
Total long-term debt.....		<u>\$ 1,149.0</u>	<u>\$ 1,148.8</u>

All scheduled debt payments correspond to the year due and are not within the next five years, other than the unsecured note payable due 2015.

On May 27, 2009, we issued \$300.0 million aggregate principal amount of 6.95% Senior Notes due 2016. Net proceeds were distributed to our members based upon their ownership percentages.

#### 6. Fair Value Measurements

The following table presents, for each of the fair value hierarchy levels, assets that are measured at fair value on a recurring basis:

Description	Balance Sheet Caption	December 31, 2010			
		Total	Level 1	Level 2	Level 3
		(in millions)			
Short-term money market securities .....	Cash and cash equivalents ....	\$ 61.7	\$ 61.7	\$ —	\$ —
Total Assets.....		<u>\$ 61.7</u>	<u>\$ 61.7</u>	<u>\$ —</u>	<u>\$ —</u>

Description	Balance Sheet Caption	December 31, 2009			
		Total	Level 1	Level 2	Level 3
		(in millions)			
Short-term money market securities .....	Cash and cash equivalents.....	\$ 59.2	\$ 59.2	\$ —	\$ —
Total Assets.....		<u>\$ 59.2</u>	<u>\$ 59.2</u>	<u>\$ —</u>	<u>\$ —</u>

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

**Financial Instruments.** The fair value of our financial instruments, excluding derivatives included in Note 7, is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 2010 and 2009 are not necessarily indicative of the amounts we could have realized in current markets.

	December 31,			
	2010		2009	
	Book Value	Approximate Fair Value	Value	Approximate Fair Value
	(in millions)			
Long-term debt .....	\$ 1,149.0	\$ 1,262.4	\$ 1,148.8	\$ 1,190.4

The fair value of cash and cash equivalents, accounts receivable and accounts payable are not materially different from their carrying amounts because of the short-term nature of these instruments or because stated rates approximate market rates.

During the 2010 and 2009 periods, there were no adjustments to assets measured at fair value on a nonrecurring basis.

## 7. Hedging Activities and Credit Risk

**Interest Rate (Cash Flow) Hedges.** We are exposed to the impact of market fluctuations in interest rates. To protect from increasing interest rates and the resulting higher cost of the debt that was issued in 2005, we locked in existing interest rates by using financial derivatives (swaps) for hedge strategies. The total amount of the debt in 2005 was \$850.0 million of which \$500.0 million was hedged. The associated interest rate swaps were terminated on October 12, 2005, prior to the issuance of the related debt. These derivatives were initially recorded on the Balance Sheets at their fair value as AOCI. Deferred gains of \$10.3 million in AOCI as of December 31, 2010 will continue to be amortized to interest expense over the term of the debt issued (November 2015). The total amortization for 2010, 2009 and 2008 was \$1.3 million.

**Credit Risk.** Our principal customers for natural gas transportation are utilities located throughout the state of Florida. We have concentrations of receivables from utilities throughout Florida. These concentrations of customers may affect our overall credit risk in that risk factors can negatively affect the credit quality of the entire sector. Where exposed to credit risk, we analyze the customers' financial condition prior to entering into an agreement, establish credit limits and monitor the appropriateness of those limits on an ongoing basis. We also obtain parental guarantees, cash deposits or letters of credit from customers to provide credit support, where appropriate, based on our financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each contract.

## 8. Commitments and Contingencies

**General Insurance.** We carry, either independently or through our owners, insurance consistent with companies engaged in similar commercial operations with similar type properties. Our insurance program includes (1) liability insurance covering our liabilities arising from bodily injury or property damage to third parties resulting from our operations including liabilities arising from the use of owned, non-owned and hired vehicles and (2) property insurance on an all-risk basis covering loss or damage to real and personal property owned or leased by our company. We also carry onshore business interruption insurance. All coverages are subject to certain deductibles, terms and conditions common for companies with similar types of operations. The cost of our general insurance will continue to fluctuate reflecting changing conditions of the insurance market.

**Environmental.** We are subject to various federal, state and local regulations regarding air and water quality, hazardous and solid waste disposals and other environmental matters. We believe there are no matters outstanding that upon resolution will have a material adverse effect on our results of operations, financial position or cash flows.

**Litigation.** We are 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 may involve substantial monetary amounts. We have insurance for certain of these losses should they be incurred. We believe that the final disposition of these proceedings will not have a material adverse effect on our results of operations, financial position or cash flows.

## **9. Subsequent Event**

We have evaluated significant events and transactions that occurred from January 1, 2011 through February 23, 2011 the date the financial statements were issued.

- A distribution to members of \$40.3 million was declared and paid on January 18, 2011.