Introduction
Spectra Energy Corp ("Spectra Energy") appreciates the opportunity to provide additional comments to the New York State Energy Coordinating Working Group on its 2009 State Energy Plan Draft ("Energy Plan") addressing the energy challenges facing the State of New York ("the State").

Our comments focus on the Energy Plan’s Natural Gas Assessment Draft ("Draft Assessment"), provide a third party consultant’s review and evaluation of certain natural gas pricing dynamics associated with the New York City ("the City") market area and offer critical insights into key dynamics and issues the Draft Assessment considers.

In brief summary, our comments affirm the need for, and benefits of, new pipeline transportation infrastructure into Manhattan and the importance of improving the diversity of pipelines, and therefore supply sources, directly servicing the City. While the benefits of such a pipeline will also accrue to the Greater New York City Area, we have focused our comments on the benefits and impacts to the City.

By way of background, Spectra Energy Corp (NYSE: SE), a FORTUNE 500 company, is one of North America’s premier natural gas infrastructure companies serving three key links in the natural gas value chain: gathering and processing,
transmission and storage, and distribution. For nearly a century, Spectra Energy and its predecessor companies have developed critically important pipelines and related infrastructure connecting natural gas supply sources to premium markets. We operate approximately 19,100 miles of transmission pipeline and 285 billion cubic feet (Bcf) of storage, with over 87 Bcf of this storage located in the Northeast. Spectra Energy’s Texas Eastern Transmission (“TETLP”) and Algonquin Gas Transmission (“AGT”) pipeline systems currently provide diverse natural gas supplies to the State and the region. We are focused on operating our facilities safely and reliably, demonstrating a commitment to environmental responsibility and partnering with communities where we live and work.

Since January 2007, we have successfully placed into service more than 42 natural gas infrastructure expansion projects, totaling an investment of approximately $3.1 billion. Nineteen of these projects were placed into service in 2008 and represent an investment of $1.8 billion. We have achieved this level of project execution success through diligent consultation and collaboration with all affected stakeholders.

As one of North America’s largest operators of natural gas infrastructure, Spectra Energy has significant insight into the domestic natural gas market. We believe that natural gas, as an abundant, domestic and the cleanest conventional fuel, is well-positioned to play a major, lasting role as the State and our nation transitions to a lower-carbon economy. Spectra Energy is on track to complete the attachment of over 4 Bcf per day of new natural gas supplies to our Northeast pipeline system. We have improved our customers’ access to growing Mid-Continent gas supplies, new Rockies Supply, Northeast LNG supplies, and the newly developing Marcellus Shale located in the Appalachian basin. We have invested over $1.2 billion to bring these new supply sources to the City’s doorsteps. These new supplies offer significant benefits for the region’s consumers.
Our May 15, 2009 response to the Interim Draft Energy Plan focused on the many benefits of these new natural gas supplies and the need for a new pipeline connection to New York’s downstate region. As noted in the Energy Plan, we are proposing the New Jersey – New York Expansion Project (“NJ-NY Expansion”) off of our TETLP facilities. This proposed pipeline expansion will increase energy security and reliability for the region’s consumers while facilitating economic and environmental benefits for New Yorkers through direct access to these new sources of natural gas supply.

We believe additional pipeline infrastructure into the City will:
- Enhance overall natural gas reliability into Manhattan
- Reduce exposure from over-reliance on a single pipeline system
- Directly access multiple market area gas supply options
- Add value to shippers through new and improved service options
- Meet local distribution company (“LDC”) demand growth over the next ten years
- Provide electric generators improved fuel-switching and backup generation options with natural gas
- Relieve natural gas price premiums and price volatility caused by existing infrastructure constraints into the City
- Yield significant cost savings for energy consumers
- Improve energy independence for the State and support the State’s policy objectives to develop low-carbon natural gas use

Spectra Energy agrees with the Draft Assessment’s overview and conclusions:
- Adequate market area supplies and additional pipeline capacity are needed to reliably meet natural gas demand in the downstate area.
- Pipeline delivery capacity is critical to ensure that available market area gas supplies can be delivered to the markets.
Economic benefits are associated with planned pipeline additions for new LDC delivery points into the downstate market area and would significantly reduce both the volatility of spot market gas prices in the downstate market and the delivered price of natural gas to that market.

From the perspective of natural gas infrastructure adequacy, the retirement and replacement of Indian Point and the re-powering of existing downstate power plants is viable utilizing natural gas. (Spectra Energy’s AGT pipeline is located on Indian Point’s property and can directly provide access to natural gas supplies. As noted in the Draft Assessment, upstream pipeline capacity would be needed if this facility is converted to natural gas.)

Natural gas will act as an important bridge fuel for the implementation of a carbon-limiting policy and given its attributes as a clean, abundant and domestic energy resource, we believe natural gas will be a critical component of any long-term strategy to improve our environment and increase energy security.

**Interstate Pipeline Capacity**

Spectra Energy agrees with the Draft Assessment’s conclusion that over 95 percent of the natural gas supply required to meet the demands of New York natural gas customers is sourced from natural gas supply production regions in other states, principally and currently the Gulf Coast region, and Canada. The supply is delivered to the New York market by interstate pipelines that transport the gas from producing and storage areas for customers, such as LDCs and electric generators, who purchase the gas supplies from gas producers and marketers.

The Draft Assessment identifies the interstate pipelines serving the Northeast; however, it does not report the pipeline flow or natural gas delivery limitations by pipeline operators nor the specific location of the natural gas deliveries. These
factors are important when considering energy reliability and supply diversity. For example, four interstate pipelines deliver natural gas to the Greater New York City area. Those interstate pipelines include: Iroquois Gas Transmission System, Tennessee Gas Pipeline Company, Transcontinental Gas Pipe Line Company and Texas Eastern Transmission LP. Currently, this mix of pipelines directly serving Manhattan and the New York Facilities Group is dominated by one pipeline. On any peak winter day one pipeline accounts for over fifty percent of natural gas deliveries into the City. This is an over-reliance for the City on a single pipeline system.

Mayor Bloomberg’s PlaNYC, “Initiative 10 - Support expansion of natural gas infrastructure”, specifically states, “This delivery constraint leaves us vulnerable to any disruptions along the pipelines or unexpected temperature swings…. As the demand for heat and power grows these problems will only get worse – unless we take action and expand our natural gas supply. That’s why we will support siting and permitting applications to the Federal Energy Regulatory Commission and other relevant regulatory authorities for additions to our natural gas infrastructure…. Given how critical new natural gas infrastructure is to our long-term energy security, the City will support the development of new infrastructure projects designed to be sensitive to environmental and community needs.”

Unlike Manhattan, the overall competitive environment for the U.S. has resulted in an efficient and interconnected natural gas pipeline system that delivers reliable and flexible services. The existing U.S. pipeline grid is extensive and easily expandable. The regional natural gas pipeline bottlenecks, such as the City’s current pipeline infrastructure must be improved in order to attain energy security and the other benefits suggested in the State’s Energy Plan.

As noted in the Draft Assessment’s Section 4, “Natural Gas System Modeling Analysis”, the key assumptions for the Modeling effort includes the completion of
certain Spectra Energy projects. The Spectra Energy projects noted in the Draft Assessment are completed and in service:

- AGT’s Ramapo expansion in New York
- Maritimes & Northeast Phase IV project in New England
- TETLP’s TIME II project in Pennsylvania and New Jersey
- Steckman Ridge Storage project in Pennsylvania

In addition, the Draft Assessment’s Section 6, “Infrastructure Issues”, Table 5. “Planned Northeast Pipeline Projects”, describes projects and status with estimated in-service dates. Spectra Energy has an excellent track record for project execution. The following is an update on Spectra Energy’s projects:

- Northern Bridge: TETLP system expansion to provide additional capacity to receive Rockies Express (“REX”) supplies with delivery capacity by 150 MMcfd. In-service is on schedule for 11/09.


These expansions provide additional, diversified natural gas supplies to the Northeast; however, they do not resolve the existing pipeline capacity limitations in the City or downstate New York. By resolving this pipeline capacity bottleneck
and constraint with TETLP’s proposed NJ-NY Expansion, the State’s consumers will benefit from enhanced energy reliability and natural gas supply diversity, ultimately lowering energy costs.

The introduction of a new pipeline connecting the City’s consumers with alternative supply sources from the Rockies and Appalachian natural gas basins, including Marcellus Shale, increases supply diversity and provides the region’s consumers the ability to directly access these new sources of natural gas. This would increase the reliability and security of supply to the City. It is important to note that the State’s access to growing Mid-Continent gas supplies and Northeast LNG is also critical, as the Gulf of Mexico natural gas reserves are in decline.

The introduction of a new natural gas infrastructure provider into Manhattan provides natural gas shippers with new service options and introduces pipe-on-pipe competition. Similar to the introduction of competition in other markets, pipeline competition results in enhanced shipper contracting flexibility in terms of both rates and services, and drives the development of innovative new service offerings. In addition, pipe-on-pipe competition can also result in enhanced liquidity and price transparency, promoting more effective and efficient operation of the wholesale natural gas market.

During the winter, particularly during periods of peak demand, the pipeline infrastructure serving downstate New York is fully utilized. In its analysis of price volatility in natural gas markets, the U.S. Energy Information Administration ("EIA") noted that "localized capacity constraints have been an issue in the City area as the existing pipelines operate at full capacity during peak periods. Demand is hugely influenced by the dense population and cold winters, and the market becomes tighter when the area experiences extreme temperatures. Lastly, most power generation in the City is fired by natural gas or residual fuel. The need for more power generation capacity and the attractiveness of natural
gas-fired plants for environmental and economic reasons has created an increased reliance on natural gas. The expanded use of natural gas for power generation adds to market pressures during times of peak electricity demand.”

**Spectra Energy’s NJ-NY Expansion Project**

Over the past five years, in response to the changing dynamics of the North American natural gas market, specifically, TETLP and AGT have acted aggressively to bring new natural gas supplies to its customers. As the Draft Assessment described in Section 5, Spectra Energy’s TETLP is exploring a new pipeline extension with a 2013 in service date to meet the future needs of New York with access to multiple, reliable natural gas supplies. The new pipeline extension connects the City area with the existing TETLP system originating in Staten Island and terminating at an interconnection with the existing Consolidated Edison ("Con Edison") system in Manhattan. Even though Spectra Energy has safely and reliably served Con Edison’s natural gas transportation needs through its interconnect with the New York Facilities Group and indirectly through its affiliate pipeline AGT, TETLP does not currently have a direct connection with Con Edison’s system in Manhattan.

The NJ-NY Expansion proposal gives Con Edison a unique opportunity to increase its diversity of pipeline service providers and further bolster natural gas security and reliability for the people of New York. An upstream expansion of the TETLP and AGT systems directly connects the extension with all the new and emerging supply sources such as Northeastern LNG, Marcellus Shale, Rockies production and the growing Mid-Continent supply. As the map on the following page illustrates, TETLP’s proposal provides Con Edison with the flexibility to access traditional Gulf Coast and Mid-Continent gas supplies as well as almost 2 Bcf/d of new LNG supplies delivered to AGT. These deliveries will be met through backhaul transportation services on AGT as described in the Draft Assessment. Additionally, effective this year, TETLP will begin receiving up to 1.8
Bcf/d of new natural gas supplies arriving from the Rocky Mountains. Finally, TETLP and AGT are uniquely positioned to transport natural gas from one of the most exciting new discoveries to occur in our lifetime, the Marcellus Shale located in the Appalachian Basin. The significance of the Marcellus Shale for the Northeast gas market can not be underestimated. Its close proximity to the TETLP and AGT systems offers transportation economies that cannot be duplicated.

Spectra Energy’s expansion activities have resulted in significant new supplies being added to its system, and substantial project development and execution experience for its team of industry professionals. Over the past three years, Spectra Energy has successfully deployed over $3.1 billion in new projects across its different pipeline systems - safely installing over 475 miles of pipeline,
more than 350,000 HP of new compression and over 40 Bcf of new natural gas storage. Of that $3.1 billion, $1.2 billion was directly invested in the Northeast U.S. for customers such as Con Edison. These projects met both rural and urban permitting and construction challenges. The team identified to execute the NJ-NY Expansion is the same team of professionals that has been responsible for the successful installation of much of the $1.2 billion in Northeast infrastructure investments identified above as well as other complex greenfield projects such as the Maritimes & Northeast Pipeline, HubLine and Northeast Gateway.

When developing projects, Spectra Energy conducts a comprehensive consultation process with all affected stakeholders to develop a technically feasible pipeline route that meets the balance between the number of landowners affected, impact to the environment, constructability requirements and safety regulations, while also meeting customer needs and creating economic development opportunities for communities.

**Natural Gas Supplies into NY**

Gas supply options noted in the Draft Assessment are accurate but incomplete; both the Neptune offshore LNG port in Massachusetts Bay and the Canaport™ LNG terminal in New Brunswick were excluded from the Draft Assessment. We believe both facilities should be included. The Neptune facilities are near completion and will provide an average of 400 million cubic feet of natural gas per day -- enough to serve 1.5 million homes daily. On very cold days and other periods of peak demand, Neptune can increase its delivery rate to 750 million cubic feet per day. The Canaport™ facility is the first LNG regassification plant in Canada and supplies natural gas to Canadian and American markets. Its initial send-out capacity (or, the ability to distribute via pipeline) is 1.2 billion cubic feet of natural gas a day. Canaport™ provides LNG to the US through Spectra Energy’s Maritimes & Northeast Pipeline.
There are four operating LNG import facilities currently located in the Northeast and Spectra Energy’s pipelines are the only pipelines that are directly connected to all four LNG import facilities, thereby offering consumers in the region a direct connection to this additional source of supply. Additionally, the LNG facilities proposed in Maine will also utilize Spectra Energy’s pipelines for downstream transportation. Spectra Energy agrees with the Draft Assessment’s recognition that these new LNG sources will “provide New York with added supply access and options that could serve to put downward pressure on prices in the future.”

The Marcellus Shale formation is a significant new source of natural gas production in New York. As the Draft Assessment accurately explains, the Marcellus Shale extends from Ohio through West Virginia and into Pennsylvania and New York. Estimated natural gas reserves for the Marcellus Shale formation are significant and it is expected that the region will become a major natural gas production area in the United States. Spectra Energy is working with producers on additional expansions of our TETLP system to bring more of the Marcellus supplies to New York. This project is referred to as Texas Eastern Appalachia to Market Expansion Program (TEAM) and is the first project of a multiple year supply connection and expansion program that can grow each year as production rates increase. We are targeting 300 million cubic feet per day, but the project can be scalable and sized to meet customer needs and will be based on actual commitments. We have over thirty interconnects and are estimating in-service dates as early as 2012 with additional projects ramping up over the next few years as production efforts expand. TEAM is expected to be announced before year end.

Natural Gas Price Volatility and Need for Diversity

We agree with the New York Public Service Commission’s (“PSC”) statement that “excessive reliance on any one gas pricing mechanism or strategy does not appear to reflect the best management of the gas portfolio and any LDC without
a diversified gas purchasing strategy will have to meet a heavy burden to
demonstrate that its approach is reasonable. In addition, the PSC expects LDCs
to diversify the pricing of their gas purchases in order to ameliorate price volatility
because of the historically volatile nature of gas prices.” Spectra Energy’s
proposed NJ-NY Expansion provides the LDC with extensive market area supply
diversity and, as such, creates enhanced pricing point optionality and reduced
price volatility within the LDC’s gas supply portfolio.

Concentric Energy Advisors, Inc. (“Concentric”) was retained by Spectra Energy
to review and evaluate certain natural gas pricing dynamics associated with the
City market area. Concentric evaluated the qualitative and quantitative impact on
the City energy market if new natural gas infrastructure is developed in the City
area and specifically the additional benefits uniquely associated with the
extension of the TETLP system into Manhattan. Included in Concentric’s
summary is reference to new natural gas supply projects that have already
started to reduce the price premium. It is important to note that Spectra Energy’s
incremental pipeline expansion projects discussed earlier in this document on
page six either currently transport or will transport these new supplies to the
Northeast. Without new, incremental pipeline projects these new supplies of
natural gas cannot reach the market. Below is a brief summary of the
conclusions reached by Concentric:

1. Constrained Pipeline Capacity Has Caused the City to Pay a Premium for
Natural Gas
   - Over the 2003/04 to 2008/09 time period, the City natural gas price
     (represented by the Transco Zone 6-NY price index) has traded at
     an average annual premium of approximately $0.30 per MMcfd
     over the adjacent natural gas markets (represented by the TETLP
     M-3 price index). If the historical price analysis is narrowed to the
     winter period, the City natural gas premium over the adjacent
     market price has been approximately $0.66 per MMcfd.
Based on natural gas futures prices, the City natural gas price premium is not only expected to continue, but is forecasted to increase by over 50% from $0.66 to over $1.00 per MMcf/d during the next three winter periods.

The introduction of substantial new natural gas infrastructure into the City market would debottleneck the current pipeline constraint and likely result in a convergence of the City and adjacent market price indices for natural gas.

2. New Natural Gas Supply Projects Have Already Started to Reduce the Price Premium

On June 29, 2009, the REX pipeline initiated deliveries to the Lebanon Hub in Ohio. As a result, Eastern U.S. markets now have access to approximately 1.6 Bcf/d of new pipeline capacity and Rockies gas production.

In July 2009 the Canaport™ LNG facility located in Saint John, New Brunswick received its first cargo of LNG. Since then the Canaport™ LNG facility has received six additional cargos.

There are two additional LNG facilities in the Northeast that are online or under construction: Northeast Gateway LNG and Neptune LNG.

The Marcellus Shale basin continues to be a focal point for natural gas producers and pipeline infrastructure investment. The Marcellus Shale basin is possibly the largest shale gas reservoir in the U.S., and extends across the Appalachian region including major portions of Pennsylvania, West Virginia, and New York.

Taken together these new supply projects will have a significant impact generally on the Northeast natural gas market; and specifically the City market subsequent to the elimination of the current pipeline constraints.
Recent forward natural gas pricing data indicates that the projected basis between the TETLP M-3 natural gas price index and Henry Hub natural gas price index is decreasing over the next three years (e.g., in early-June 2009, the average TETLP M-3 natural gas basis futures price (i.e., the locational price difference between the supply area-represented by Henry Hub natural gas index, and the market area-represented by the TETLP M-3 price index) for the next three winters was approximately $1.55/MMcfd; by late-July 2009 basis spread had dropped to below $1.20/MMcfd), indicating that the Northeast market area pricing dynamics may have already been affected by the initial volumes associated with new market area natural gas supplies (e.g., Rockies Express Pipeline, Canaport™ LNG, and Marcellus Shale). This trend (i.e., decreasing TETLP M-3/Henry Hub price basis) is expected to continue as emerging supply sources mature.

3. The Construction of the NJ-NY Expansion Will Further Depress the Price Premium and Benefit Both Gas and Electric Consumers

- Natural gas prices are a significant driver in setting the locational based marginal price for electricity in Zone J (NYC). If the City natural gas price had not traded at a premium to adjacent markets (i.e., if the winter price differential of $0.66 between Transco Z-6 NY and TETLP M-3 had been eliminated) the electric energy costs in Zone J could have been reduced by approximately $96 million per year over the past five winters.
- Assuming that the wholesale generation market is workably competitive, which is the conclusion reached by the NYISO and FERC, the $96 million per year would be a direct benefit for electric consumers.
- This Zone J electricity price analysis does not capture any natural gas cost reduction or locational basis reduction associated with the
incremental Northeast market area natural gas supply projects that could further reduce the City natural gas price (assuming that new gas infrastructure has been built in the City area and the current pipeline constraint has been eliminated).

**Conclusion**

Spectra Energy supports the Energy Coordinating Working Group’s preliminary findings in the 2009 Energy Plan Draft and offers the following key considerations:

A new Spectra Energy pipeline into the City will:

- Provide supply diversity, reliability and system integrity to the New York City natural gas system;
- Provide access to new supply sources, increase competition and provide new purchase options that should yield significant cost savings and reduced price volatility to both gas and electric consumers;
- Ensure reliable, flexible and reasonably priced supply availability as demand for natural gas continues to grow;
- Support the increasing role of natural gas as part of the solution to New York’s economic development, energy security and environmental policy objectives;
- Provide economic development opportunities for the State as well as potential alternative fuel development such as natural gas vehicles for fleet operations; and
Help meet the State’s fundamental goals of supporting energy security and efficient energy use.

We urge the State’s Energy Coordinating Working Group to consider the benefits of de-bottlenecking the City’s constrained pipeline infrastructure to help mitigate price volatility by providing more market area supply alternatives and enhance reliability of the pipeline grid and delivery network.

Thank you for this opportunity to provide comments and we welcome the opportunity to provide more detailed information. For further information please contact Garth Johnson at gjohnson@spectraenergy.com 713 627-5415.