



2009 New York State Energy Plan - Interim Report

Spectra Energy Corp's Comments

May 15th, 2009

Introduction

Spectra Energy Corp ("Spectra Energy") congratulates the New York State Energy Coordinating Working Group for its Interim Report addressing the energy challenges facing the State of New York ("the State"). We also appreciate the opportunity to provide our perspective on potential solutions to help the State achieve its goals of energy security and reliability.

By way of background, Spectra Energy is a North American Fortune 500 company operating in the U.S. and Canada. We operate approximately 18,900 miles of transmission pipeline and 275 billion cubic feet (Bcf) of storage, with over 87 Bcf of this storage located in the Northeast. We also have natural gas gathering and processing, natural gas liquids operations and local distribution assets. 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 32 natural gas infrastructure expansion projects, totaling an investment of more than \$2.5 billion.

19 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 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. We are on track to complete the attachment of over 4 Bcf per day of new unconventional natural gas supplies to our Northeast pipeline system. We have improved our access to the growing Mid-Continent supplies to replace the declining reserves in the Gulf of Mexico, and have spent over \$1 billion dollars to bring these new supply sources to the doorsteps of New York City ("NYC"). These new supplies introduce significant benefits for Northeast consumers.

For the State to realize the many benefits of these new natural gas supplies, a new pipeline connection must be added.

The supply picture for natural gas has improved dramatically in recent years. Today we have enough recoverable natural gas in the United States to meet consumer needs for nearly a century. Driven by advances in exploration and production technology, substantial volumes of natural gas are being produced in new, prolific supply areas from the Rockies to near-by Appalachia including the Marcellus shale supply basin in and around the State. In addition, eastern seaboard Liquefied Natural Gas (LNG) terminals are being commissioned. Direct access to these growing unconventional natural gas supplies here in the United States, provides long term security and reliability, should limit future gas price volatility through competition and requires consideration of new pipeline infrastructure transporting these supplies within the State.

Our comments focus on the need for new pipeline transportation infrastructure into constrained locations in the State, specifically Manhattan and Long Island, and the importance of relieving current bottlenecks in the State's pipeline infrastructure system that would improve energy security and reliability while facilitating economic and environmental benefits for New Yorkers through direct access to new, domestic natural gas.

We believe additional NYC pipeline infrastructure will:

- Enhance overall pipeline system reliability into Manhattan
- Reduce exposure from over-reliance on a single pipeline system
- Directly access emerging 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 caused by infrastructure constraints into NYC
- Yield significant cost savings for energy consumers

Natural gas plays a vital role in our overall energy mix today and it will for decades to come. Natural gas is clean, abundant and domestically available. Approximately 98 percent of the natural gas consumed in the U.S. is produced in North America.

Today, natural gas accounts for roughly 25 percent of all U.S. energy use and 20 percent of our electricity is generated by natural gas. In New York, natural gas accounts for approximately 31 percent of electric generation. Given the growth of domestic natural gas production in this country in recent years and the relative environmental benefits of natural gas -- it is the cleanest burning fossil fuel, producing 45 percent less CO₂ than coal and 30 percent less CO₂ than fuel oil --

most experts anticipate an increased role for natural gas in meeting our energy needs.

Until recently, unconventional sources, such as tight sands, coal bed methane and shale, accounted for only a small portion of North American natural gas production. But unconventional gas has begun to tip the scales in a significant way.

In the U.S., as conventional production has declined, technology advances have made it easier – and more cost-efficient – to extract unconventional gas. There has been what some have referred to as a gold rush of sorts toward unconventional sources, and production capacity of these sources in the U.S. has nearly doubled since 2000.

While the expansion of renewable energy sources is critical for any diversified energy plan, these burgeoning supply alternatives will augment, but are not likely to replace, conventional energy sources any time soon. Today, wind, solar and geothermal sources supply roughly one percent of the world's energy. By 2030, renewables are expected to account for only 8 to 10 percent of global energy supply. What's more, given the intermittent nature of wind and solar, these renewable power alternatives require reliable forms of energy to provide backup generation. Natural gas is an excellent complement to renewable technologies, providing low-emission backup generation for these intermittent sources of energy.

The State's Demand for Natural Gas is Expected to Grow and New Pipeline Infrastructure is Needed

Spectra Energy agrees with the New York State Energy Coordinating Working Group's Preliminary Finding number three: "Demand for natural gas is expected to grow over the planning period. New infrastructure may be needed to support the growth in demand to ensure adequate and reasonably priced supplies."

The U.S. natural gas pipeline grid is extensive and easily expandable. Today's competitive environment has resulted in an efficient and interconnected system that delivers reliable and flexible services to a diverse group of customers.

There are however, existing pipeline capacity limitations in New York that need to be addressed. By resolving this issue, the State's consumers will benefit from enhanced reliability and natural gas supply diversity. Here's how:

- The introduction of a new pipeline connecting NYC consumers with Rockies and Appalachian natural gas basins would increase supply diversity by providing greater and potentially more direct access to new sources of natural gas and therefore increase the reliability and security of supply to NYC. It is important to note that the State's access to the Mid-Continent supplies is also critical, as the Gulf of Mexico natural gas reserves are declining.
- The introduction of a new natural gas infrastructure provider into Manhattan will provide shippers of natural gas with new service options and introduce pipe-on-pipe competition. Similar to the introduction of competition in other markets, pipeline competition has resulted in enhanced shipper contracting flexibility in terms of both rates and services, and drives innovation in the development of 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.

Long Island is also a location where current limitations on pipeline infrastructure capacity are impacting the price and availability of supply. Long Island is also in need of new interstate pipeline infrastructure. The demand for natural gas on Long Island has been growing each year at a rate well above the national

average and is expected to continue to grow. Despite continued growth, supply options are limited, due in large part to insufficient interstate pipeline infrastructure to support on-Island generating facilities, as well as conversions from heating oil to natural gas. In its Draft Electric Resource Plan 2009-2018, the Long Island Power Authority expressly states that its plan relies on effective management of fuel supply choices as well as the infrastructure to deliver that fuel. It reports that present natural gas infrastructure issues impose constraints on the operation of Long Island generation units and that additional restrictions occur when demand for natural gas exceeds the pipeline delivery capacity to Long Island.

Current Interstate Natural Gas Pipeline Infrastructure into the State, and Particularly Manhattan, is Constrained

There are four major interstate pipelines that currently transport natural gas to the NYC market: Spectra Energy's TETLP pipeline; Williams' Transcontinental Gas Pipeline ("Transco"); El Paso Energy's Tennessee Gas Pipeline ("TGP"); and Iroquois Gas Transmission ("IGT").

There are two operating LNG import facilities currently located in the northeast with two additional LNG facilities expected to be in-service this year. 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 this additional source of supply.

During the winter, particularly during peak conditions, 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 NYC 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 NYC 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.”

Conclusion

Spectra Energy supports the Energy Coordinating Working Group’s preliminary findings in the Energy Plan’s Interim Report and offers the following key considerations.

New pipeline infrastructure into NYC will:

- **Provide access to new supply sources, increase competition and provide new purchase options that should yield significant cost savings 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 NYC's constrained pipeline infrastructure -- from helping to mitigate price volatility by providing more supply alternatives, to ensuring reliability of the pipeline grid and delivery network.

Further, Spectra Energy has invested more than \$1 billion to bring new supply sources to the doorsteps of NYC; supply sources that, if connected to NYC would ensure reliability and security of supply for consumers and significant cost savings.

Thank you for this opportunity to provide comments and we welcome the opportunity to provide more detailed information. For further information please contact Ms. Toni Beck, Group Vice President, Spectra Energy, tbeck@spectraenergy.com.