Statement for the Record

William T. Yardley
President of U.S. Transmission and Storage
Spectra Energy

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Introduction

Good afternoon Secretary Moniz, Governor Malloy and members of the Quadrennial Energy Review Task Force. I am Bill Yardley, President of U.S. Transmission and Storage at Spectra Energy, one of North America's leading pipeline and midstream companies.

Thank you for inviting me today to discuss Spectra Energy's efforts to address natural gas pipeline constraints in New England, and how these investments relate to electricity and natural gas interdependencies in the region.

In the U.S. and Canada, Spectra Energy operates more than 22,000 miles of natural gas, natural gas liquids, and crude oil pipelines, approximately 305 billion cubic feet (Bcf) of natural gas storage, natural gas gathering and processing, as well as local distribution operations. We operate the largest natural gas infrastructure business serving the Northeast. Spectra Energy also has a 50 percent ownership in DCP Midstream, the largest producer of natural gas liquids and the largest natural gas processor in the U.S.

Our company has operated natural gas pipelines in New England for more than 60 years as major transporters of natural gas through our Algonquin Gas Transmission, LLC (Algonquin) and Maritimes & Northeast Pipeline, L.L.C. (Maritimes) systems.

Our long legacy of service in the Northeast allows our customers to fuel this region's economy by heating homes and businesses, providing energy and feedstock to manufacturers, and generating electricity as a preferred choice for power plants. Over the years, we have designed services, upgraded and expanded capacity to meet the changing needs of our customers like National Grid and Northeast Utilities, who we are privileged to count as long-standing shippers on our New England pipeline system. And today, Algonquin and Maritimes serve approximately 60 percent of the gas-fired electric generation in ISO New England Inc's (ISO-NE) service territory.

I was born in Needham, Massachusetts, I went to college in Waterville, Maine, and I have spent my entire career in the natural gas business – primarily focused on ensuring safe, reliable and cost effective delivery of natural gas to this region. So today's topic is important to me. I commend the Administration for focusing on the critical role that infrastructure plays in our long-term energy security and economic viability, and for bringing this discussion to New England. I also applaud Governor Malloy and the State of Connecticut for their leadership in developing and implementing the state's first ever Comprehensive Energy Plan designed to bring

cheaper, cleaner, more reliable power to residents and businesses while creating jobs via the development of new natural gas infrastructure and access to new natural gas supply.

Investing in Infrastructure

Over the past several years, Spectra Energy has invested more than $10 billion in regulated pipelines and related midstream infrastructure. While much of this investment has been related to maintenance and integrity work to ensure the safety and reliability of our existing facilities, we have also developed more than 60 capital-intensive expansion projects over this period. These investments, underpinned by long-term contracts and supported through private financing, are connecting robust and growing domestic supplies of natural gas from shale basins with new and existing markets for these critical energy and feedstock sources that help to fuel our economy. Over this period, we've deployed more than $2 billion in capital to move natural gas from the Marcellus (a basin now producing approximately 14 Bcf/day, purportedly growing to around 20 Bcf/day by 2020) to the Northeast.

This is not a story unique to our company. According to IHS CERA, U.S. capital spending in the oil and gas midstream and downstream sectors has increased 60 percent over the past three years – from $56 billion in 2010 to $90 billion last year.

And given a robust supply outlook and market growth, necessary investments in pipeline and midstream infrastructure are anticipated to be significant for quite some time. An Interstate Natural Gas Association of America (INGAA) Foundation report completed just last month estimated that approximately $640 billion, or roughly $30 billion per year, in midstream investments will be required to accommodate the development of natural gas, oil and natural gas liquid resources through 2035. Capital requirements for new gas infrastructure alone total $313 billion over the next 22 years, according to the INGAA study.

At Spectra Energy, we're pursuing $35 billion in growth projects between now and the end of this decade that will help to ensure the safe, reliable and cost effective delivery of energy. These investments will facilitate billions more of investments and thousands of jobs throughout North Amerrica.

This robust capital expansion is driven by growing demand as much as our nation's abundance of supply. For example, the Northeast is the largest consuming region in the U.S at roughly 12.2 Bcf/day of natural gas demand. According to the INGAA report, by 2025 consumption in the Northeast is projected to be 18.5 Bcf/day; by 2035 it's 22.2 Bcf/day.

This past winter's string of cold spells underscored what has been clear for some time, the region remains short of adequate pipeline capacity during peak periods of demand, when spot market natural gas prices in New England outpace the rest of the country.

As others on the panel have noted, the role of natural gas for power generation in New England continues to grow, for all the right reasons: It is an efficient, affordable, and clean option. According to the Energy Information Administration, energy related greenhouse gas emissions in 2013 were roughly 10% below 2005 levels. This decrease can be partially attributed to natural gas power plant conversions, a preferred generation source given the accessibility, affordability and environmental benefits associated with natural gas. The region has become increasingly reliant on natural gas-fired

generation facilities without contracting for pipeline capacity on a firm basis to ensure access to supply. Currently, over 50% of electricity in New England is produced using natural gas. While many power plants have connected with the pipeline grid, these generators continue to largely rely on short-term capacity release or 'interruptible' services to access supply from the pipelines. Regrettably, these strategies do little to address capacity constraints and are increasingly straining power market reliability as those who have subscribed for firm pipeline service (i.e. gas utilities) utilize that contracted capacity at growing frequency. For example, only 16.5 percent of the historical winter peak demand of gas-fired electric generation attached to the Algonquin system is contracted for firm mainline pipeline capacity to transport supply to the plants. This reality taken with the fact that interruptible capacity was unavailable for each of the 365 days of 2013 due to firm shipper utilization significantly impairs these generators strategies.

Eliminating Pipeline Bottlenecks

Spectra Energy placed our New Jersey-New York expansion project into service in late 2013. The project brought new gas supplies into New Jersey and New York City for the first time in 40 years – and is delivering significant energy savings of about $700 million a year to residents of both states.

Last winter – 2012-2013 – daily spot prices in New York City were substantially more than their non-New York neighbors – 64 percent higher. With the addition of the New Jersey-New York pipeline, this winter the premium fell to approximately 15 percent. That's significant, welcome savings – and proof positive that new supply and de-bottlenecking can go a long way in leveling costs, which in turn ushers in a host of other economic advantages.

We are pursuing pipeline projects in New England to work through the region's capacity constraints as well. The Algonquin Incremental Market project, or AIM, is a $1 billion effort to increase the west-to-east capacity of the Algonquin pipeline by about 350 million cubic feet per day. The AIM project is 100% subscribed by virtually all the major local distribution companies (LDCs) in New England – including National Grid and Northeast Utilities on the panel with me today. This is a significant expansion for this area. The AIM project, slated to be in-service in 2016, will increase capacity through Algonquin's traditional constraint point by almost 30% and will be a great first step toward materially softening prices in New England.

Still, AIM's impact on electric reliability may be limited as generators have not taken capacity in the project. If LDCs remain the only parties contracting for and supporting additional natural gas pipeline infrastructure developments tailored to support their own LDC customer needs, New England will continue to experience electric reliability concerns and natural gas price volatility in peak times when pipeline capacity is utilized by firm customers and is not available on an interruptible or secondary basis to electric generation.

Earlier this year, Spectra Energy announced an additional expansion proposal of its Algonquin and Maritimes systems, the Atlantic Bridge project, to help meet the continued demand growth foreseen in New England in 2017 and beyond. Unitil Corporation, a natural gas distribution company that serves parts of Massachusetts and New Hampshire and is the largest distributor in Maine, has entered into agreements as an anchor shipper in this project. Importantly, Atlantic Bridge, like AIM will utilize expansion of existing facilities which limits the impact to communities and environment to

further enhance the opportunity for physical delivery of new supplies further into the New England market.

Recommend Policy Actions

As discussed, new natural gas transmission pipelines will be needed to keep pace with the rapid development of new natural gas resources and the increase in natural gas demand. Two things are necessary to make this infrastructure development possible.

Pricing Reliability – The first is proper market signals for new capacity. In most regions, this is not a problem. Shippers sign contracts for proposed firm pipeline capacity, and if enough capacity is contracted, a pipeline project stands a reasonable chance of moving forward. Regions with restructured electricity markets, however, present real challenges. This is especially the case when such markets are capacity constrained and rely heavily on natural gas-fired electricity generators. As noted already, New England is the prime example. We have encouraged the regional stakeholders to take steps that will create such price signals and recent initiatives undertaken by the New England states' governors are promising. Still, the region has far to go in resolving the disconnect that has caused its consumers to pay such a premium for natural gas and electricity. I would note that other regions do not face this mismatch of demand and supply for natural gas infrastructure.

Like New England, Florida is also "at the end of the pipeline system," and is heavily dependent on natural gas for power generation. But Florida has not experienced the same problem getting adequate pipeline capacity built. This is because the local electric utilities have the ability, via the Florida Public Service Commission, to contract for firm pipeline service. This support from state regulators, and the ability to recover the cost associated with ensuring reliability in electric rates, makes all the difference in terms of getting needed natural gas infrastructure built.

Spectra Energy appreciates the efforts of the New England States Committee on Electricity ("NESCOE") and the New England Governors to facilitate the construction of and payment for additional natural gas pipeline infrastructure to relieve New England's electric reliability issues, decrease prices, and reduce daily price volatility. Spectra Energy stands ready to work with NESCOE to develop natural gas pipeline expansion projects based on the conclusions the region reaches on the amount and location of natural gas pipeline capacity necessary now and in the future to support these important goals.

Regulatory Predictability – Additionally, there is an *inherent* lag between drilling activity and the contracting, permitting and construction cycle required to bring pipelines and midstream facilities into service. Unfortunately, there is also a degree of *imposed* lag time, attributable to cumbersome regulatory processes.

We appreciate the role of the Federal Energy Regulatory Commission (FERC), and believe the agency does an effective job in reviewing applications. Unfortunately, however, FERC lacks the authority to enforce permitting deadlines for other federal and state agencies – and the time to obtain required federal authorization from agencies other than FERC for pipeline projects has increased since the passage of the Energy Policy Act of 2005 – a law intended to streamline and expedite permitting. The effects of permitting delays are far-reaching: increased project costs, missed in-service dates, customers and communities losing out on the benefits of affordable

natural gas to fuel industry, create jobs, contribute to tax base and lower consumer costs. The U.S. House of Representatives passed legislation late last year to improve the natural gas permitting process. Providing clear permitting deadline authority would add certainty to the process, encourage timely decision-making and enable consumers to more fully realize the benefits of our domestic bounty of shale gas.

Short of legislative action, there are significant steps the Administration could take to ensure better coordination and commitment to schedule among the various resource agencies which work with FERC on its National Environmental Policy Act review as well as the associated permits and approvals required to construct a linear energy infrastructure project.

A clear, timely review of permits associated with proposed pipeline and midstream infrastructure projects is critical to meeting national environmental goals. We support efforts to enhance and bring greater clarity to the process without compromising environmental integrity.

Closing Thoughts

I again appreciate the opportunity to participate in this important discussion of infrastructure needs and the interdependency of electricity and natural gas in New England. Spectra Energy has been a very active participant in addressing this issue through both the policy dialogue that has taken place and through timely, safe and environmentally responsible expansion of our existing system to meet the growing needs of the New England market.