Written Opening Statement

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Good afternoon Commissioners and staff. My name is Richard Kruse. I am Vice President of Regulatory and FERC Compliance Officer for Spectra Energy. Spectra Energy is one of North America's leading pipeline and midstream companies. The company's operations include 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; 4.8 million barrels of crude oil storage; as well as natural gas gathering, processing, and local distribution operations. The Spectra Energy pipelines serve electric generators from New England to Florida and the Gulf Coast in both organized and bilateral wholesale electric markets serving the United States' Eastern region.

I appreciate the opportunity to discuss the issues we see regarding the development of necessary pipeline infrastructure for the Eastern region to comply with the Environmental Protection Agency's (EPA's) proposed Clean Power Plan. The EPA's front-loaded compliance timeline for generators, beginning in 2020, raises practical concerns for many whether the pipeline industry can physically construct needed pipeline infrastructure in a timely manner if electric utilities and generators likely will not know until 2017 or 2018, at the earliest, whether they will need to contract for pipeline capacity and, importantly, for how much.

From Spectra Energy's perspective, there is no doubt that the natural gas pipeline industry can, if asked, serve the electric sector. We can design and implement the services necessary to assist the electric sector in maintaining its reliability as it meets the requirements of the EPA's Clean Power Plan. The natural gas pipeline industry has a successful track record of building infrastructure in a timely manner to bring natural gas to market, as demonstrated by the fact that interstate pipelines have built over 10,500 miles of pipeline in the last decade. Since 2007, Spectra Energy alone has executed more than 60 projects – with a total capital expenditure of over $10 billion. We have achieved this level of project execution success through diligent consultation and collaboration with all affected stakeholders.

Will there be adequate market signals?

To make new pipeline infrastructure development possible, there is a need for proper market signals. In some regions, this is not a problem. Shippers sign contracts for proposed firm pipeline capacity, and if enough capacity is contracted, a pipeline stands a reasonable chance of moving forward. An excellent example of this is the Sabal Trail Transmission project, currently under review by the Commission, to provide transportation services for power generation needs beginning in May 2017. Regions with restructured electricity markets, however, have presented real challenges. New England is a prime example.

A lack of sufficient energy infrastructure in the New England region is driving electricity prices higher, limiting economic competitiveness and growth, and straining systems to the point where serious energy reliability issues threaten public safety and security. We need only look to recent winters, when New England wholesale electricity costs were nearly double compared with the previous year, largely due to pipeline constraints.

Complicating the issue in New England is the fact that, to date, generators connected to the pipeline grid have relied on short-term or interruptible services, which increasingly strains power market reliability. For example, only 16.5 percent of the historical winter peak demand of gas-fired electric generation attached to our Algonquin Gas Transmission (Algonquin) system has contracted for firm mainline pipeline capacity to transport gas to the power plants. This reality, combined with the fact that interruptible capacity was unavailable for most of 2013 and 2014 due to firm shipper utilization, significantly challenges power generation reliability when it is needed most.

To break the market signal stalemate in the New England region, we have aligned with Eversource Energy and National Grid to develop the Access Northeast project, www.accessnortheastenergy.com, designed to advance a customized solution to New England's energy challenge. The project accommodates the physical needs and concerns of the various regional stakeholders – to ensure energy reliability, economic competitiveness, and quality of life for New England. Eversource Energy and National Grid account for over 70 percent of New England's electric distribution companies. Access Northeast will resolve the "disconnect" that has caused New England's consumers to pay a hefty premium for natural gas and electricity.

ICF International (ICF) studied the impact that new infrastructure may have on regional gas and electric prices, and the associated economic impacts on consumers. ICF estimates that if the Access Northeast

project had been in operation, New England consumers could have saved $2.5 billion during the winter 2013-14.

The Access Northeast upgrade of existing pipeline and local gas storage facilities will ensure delivery of approximately 1 Bcf/day of natural gas to power plants on the coldest winter days starting as early as 2018. This service will be provided under a new rate schedule, Energy Reliability Service (ERS), designed to meet the unique needs of generators with guaranteed natural gas supplies on peak days to accommodate the need for quick-start gas-fueled electric generation units to respond to sudden changes in output that supports renewable generation development.

Will pipeline operators be asked early enough to build?

As a rule of thumb, on average, under current regulations it takes interstate pipelines about four years to place major facilities into service. In certain areas such as the Northeast, this period may be longer. The time span includes the time between when the pipeline markets the project and when the pipeline is placed in the ground and can begin flowing natural gas to end users. This timeline can vary due to a number of factors, including shipper service requirements, project size, location and permitting challenges.

The EPA's proposed rule provides generators a very tight time period between the certainty of EPA approving their state's compliance plan in 2017 or 2018, at the earliest, and having to meet EPA's interim compliance timeline beginning in 2020, which requires annual reductions through 2030.

Even with the pipeline industry's successful track record for building, if generators, or electric utilities, do not contract for new pipeline capacity until after EPA approves the state's plan, it is difficult to believe that substantial additional pipeline capacity will be in place by 2020.

The pipeline industry is not in the position to advance pipeline projects until generators or shippers sign long-term contracts to support the development of such facilities. Because decisions about how to comply with the Clean Power Plan rest with generators and state and federal regulators, pipeline companies are on hold and cannot begin developing the new and expanded pipeline infrastructure that might be needed to facilitate compliance with the Clean Power. That being said, interstate pipelines actively search for new market opportunities to build/expand pipelines and to market services. Pipelines are available to consult with generators and state and federal regulators to discuss these opportunities.

What can the Commission do to address the timing challenges?

We appreciate the role of the Commission, and the effective job it performs in reviewing pipeline certificate applications. Currently, the Commission 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 has increased significantly since the 2005 passage of the Energy Policy Act – a law intended to streamline and expedite permitting. The effects of permitting delays are far-reaching with increased project costs, missed in-service dates, customers and communities missing out on the benefits of affordable natural gas to fuel industry, create jobs, contribute to tax base and lower consumer costs. Spectra Energy supports Federal legislation to enhance the Commission's ability to enforce deadlines.

Based on experience to date, generators would need to enter into firm commitments for natural gas transportation capacity in 2017 to provide pipelines with sufficient time to have the required capacity in place by 2020. Given that this may not happen, the Commission can take the following steps to improve the efficiency of the certificate review process:

First, the Commission should increase staffing levels in OEP and OGC. Even with increased staffing, however, a Section 7 certificate proceeding may not meet the time frame for generator demand.

Second, the Commission could consider streamlining the certificate approval process for certain mainline projects, particularly projects involving replacement or looping within a previously reviewed right-of way. Under the current regulations, pipeline replacements that have a substantially different design delivery capacity do not qualify to proceed under section 2.55(b) of the Commission's regulations even if the replacement will be located in the same right-of-way or on the same site as the pipe being replaced.

The Commission currently has in place blanket and Section 311 programs that permit significant construction pursuant to standard environmental conditions. The Commission's blanket certificate program establishes standard conditions applicable to blanket activities, including the requirements to (i) avoid or minimize the effects of siting, construction and maintenance of the facilities, (ii) comply with specified statutes including the Clean Water Act, Clean Air Act, National Historic Preservation Act, Coastal Zone Management Act, and Endangered Species Act, (iii) not have a significant adverse impact on a sensitive environmental area, and (iv) comply with noise limits. Similar standard conditions apply to

Section 311 construction, and although there are no cost limits for Section 311 facilities, the universe of customers that can be served by Section 311 facilities is limited.

Historically, the blanket certificate program provides an administratively efficient means to enable a company to construct, modify, acquire, operate, and abandon certain, specified natural gas facilities, and offer a limited set of services, provided each activity complies with constraints on costs and environmental impacts set forth in the Section 157.206 of the Commission's regulations.

To expand the usefulness to the blanket certificate program, Spectra Energy recommends that the Commission consider raising the amount of the cost limitations under the blanket program (currently $32.4 million) to allow more expansions of mainline capacity within existing right-of-way.

Let me be clear, Spectra Energy is not suggesting that we skip critical steps or proceed without appropriate levels of environmental prudence and review. Quite the contrary, enhanced coordination and commitment to a common schedule among the various resource agencies engaged in permitting and approving pipeline projects is critical to meeting national environmental goals. Spectra Energy supports efforts to enhance and bring greater clarity to the process without compromising environmental integrity – and we're addressing the issue through both policy dialogue and through timely, safe and environmentally responsible expansion of our system.

Thank you for inviting me today. I look forward to your questions.