

**In Response to the
New York Energy Highway RFI
Spectra Energy Corp's Comments
May 30, 2012**

Spectra Energy Corp ("Spectra Energy") appreciates the opportunity to provide comments to the New York Energy Highway ("Energy Highway") Request for Information addressing the energy challenges facing the State of New York ("the State").

In summary, our comments will explain Spectra Energy's existing infrastructure in the region and affirm the need for, and benefits of, new pipeline transportation infrastructure into New York and the importance of improving the diversity of supply directly serving the region. Spectra Energy firmly believes that a model of coordinated energy supply that will support new natural gas-fired electric generation in the State of New York should be foundational to the Energy Highway.

By way of background, Spectra Energy, 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 more than 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 19,300 miles of transmission pipeline and over 300 billion cubic feet (Bcf) of storage, with over 87 Bcf of this storage located in the Northeast.

Spectra Energy's Texas Eastern Transmission, LP ("TETLP") and Algonquin Gas Transmission, LLC ("AGT") pipeline systems currently provide diverse natural gas supplies to the State of New York and the region. The attached Exhibit A illustrates the AGT and TETLP pipelines in New York and identifies two proposed expansions—the Algonquin Incremental Market Expansion ("AIM") and New Jersey – New York Expansion Project ("NJ-NY Expansion"). Spectra Energy is committed to operating our facilities safely and reliably, demonstrating environmental responsibility and partnering with communities where we live and work.

As one of North America's largest operators of natural gas infrastructure, Spectra Energy has significant insight, experience and leadership in the domestic natural gas market. We believe natural gas represents a golden opportunity for New York and the region to meet its energy security, economic and environmental goals. Today, we know that domestic natural gas supplies are immense, with a large, economically accessible natural gas resource base. And given the versatility of natural gas as an energy source for power generation, residential and commercial applications, as a feedstock for the industrial sector and as a transportation fuel, the market for natural gas is also growing.

Spectra Energy has provided our customers with access to growing Mid-Continent gas supplies, new Rockies Supply, Northeast LNG supplies, and the newly developing Marcellus Shale gas. By 2013 Spectra Energy will have invested over \$7 billion since 2007 in new natural gas infrastructure throughout our North American footprint — and approximately \$3 billion for Northeast-only expansions — all of which help to bring these new supply sources to New York’s doorstep. These new supplies offer significant benefits for the region’s consumers.

Spectra Energy has placed the following projects into service in the Northeast since 2007:

- AGT’s Ramapo-East expansion in New York
- Maritimes & Northeast Pipeline, L.L.C.’s Phase IV project in New England
- TETLP’s TIME II project in Pennsylvania and New Jersey
- Steckman Ridge, LP: Storage project in Pennsylvania
- Northern Bridge: TETLP system expansion to deliver new supplies of natural gas from the U.S. Rockies to Northeast markets
- East to West: AGT system expansion in New England, New Jersey and New York to bring new LNG supplies to Northeast markets
- TEMAX – TIME III: TETLP expansion to deliver Rockies and Marcellus supplies to Northeast markets

And Spectra Energy has plans to attach significant additional volumes of new natural gas supplies to our Northeast pipeline systems. Many of our new projects are designed to move these supplies to Northeast markets.

Spectra Energy’s TETLP and AGT pipelines currently serve the State of New York and are extremely well-positioned to serve the State’s growing demands for natural gas fired electric generation, as discussed more fully below. Spectra Energy’s focus on Market Area expansions is significantly enhancing the pipeline capacity in the Northeast and specifically to New York. Combined, TETLP and AGT currently have more than 2 Bcf/d of capacity in New York, and existing expansion plans will add over 1 Bcf/d of new pipeline capacity.

In fact, Spectra Energy is developing two projects that specifically target New York regional gas markets. The first AIM project will expand the AGT mainline to address growing demand for both local distribution companies (“LDCs”) and the power generation market. AGT’s existing mainline serves New York in an area with extensive electric transmission capabilities and has the potential to provide natural gas to power plants serving New York City and other downstate demand centers. Second, the NJ–

NY Expansion will provide a new high-pressure gas transmission line into Manhattan, with capacity of almost 1Bcf/d, is in the execution phase and is scheduled to go into service in November 2013. The project, highlighted in the 2009 New York Energy Plan (“2009 Energy Plan”), 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.

Algonquin Incremental Market Expansion (“AIM”)

Spectra Energy’s AIM project, an expansion of AGT, is designed to transport additional volumes of regionally produced natural gas from pipeline interconnects with Tennessee Gas Pipeline, L.L.C. at Mahwah, New Jersey, and the Millennium Pipeline Company, LLC at Ramapo, New York. The AIM project would benefit the State by providing natural gas transportation from these points to potential natural gas-fired power plants located in the state. Specifically, because the existing AGT pipeline is collocated with the Indian Point Energy Center (“IPEC”), the AIM project would be a logical source of natural gas transportation for any proposal to repower IPEC with natural gas.

Since the AIM project is an expansion of AGT’s existing pipeline system, AIM could provide the lowest cost option for natural gas transportation while also resulting in the lowest environmental impact. The AIM expansion will be mostly contained within existing rights of way and current company-owned facilities.

The size of the AIM project will be tailored to meet the demands of the market, including electric generation. For reference, replacing the current generation capacity of IPEC (approximately 2,000 megawatts, or MW) with natural gas would require 336,000 Dth/d of natural gas supply.¹ This amount of natural gas transportation is within the current scope of the AIM project.

In addition to demonstrating firm revenue requirements from customers and obtaining state and local permits, AGT will be required to receive authorization from the Federal Energy Regulatory Commission (“FERC”) to construct the AIM project. Based on an estimated timeline for receiving regulatory approval, Spectra Energy anticipates that the earliest in-service date achievable for AIM would be November 1, 2016. This in-service date assumes that Spectra Energy has commercial commitments in the form of binding agreements by the end of calendar year 2012.

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, TETLP and AGT have acted aggressively to bring new natural gas supplies to customers. Spectra Energy’s NJ-NY Project, expected to be placed in service in late 2013, will meet future needs of New York City by providing 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

¹ Assuming: 2,000,000 kWh * 7,000 Btu/kWh * 24 h/d = 336,000,000 Btu/d = 336,000 Dth/d.

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 Project provides that direct connection.

The NJ-NY Expansion project provides 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 with all the new and emerging supply sources, such as Northeastern LNG, Marcellus Shale, Rockies production and the growing Mid-Continent supply.

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 NJ-NY Expansion provides the LDC customer with extensive market area supply diversity and, as such, creates enhanced pricing point optionality and reduced price volatility within the LDC customer’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 were new natural gas infrastructure to be developed in the city area. Specifically, Concentric evaluated the additional benefits uniquely associated with the extension of the TETLP system into Manhattan from the NJ-NY Expansion.

Concentric concluded, among other things, that new natural gas supply projects have already started to reduce the price premium and Spectra Energy’s incremental pipeline expansion projects 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.

Benefits of Additional Pipeline Infrastructure from AIM and NJ-NY Expansion

Spectra Energy firmly believes that additional pipeline infrastructure into New York City and the State will:

- Enhance overall natural gas reliability
- Reduce exposure from over-reliance on a single pipeline system

- Directly access multiple market area gas supply options
- Add value for shippers through new and improved service options
- Meet LDC demand growth over the next 10 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
- Yield significant cost savings for energy consumers
- Improve energy independence for the state and support its policy objectives to develop low-carbon natural gas use
- As to NJ-NY Expansion specifically, support New York City's 2011 rule phasing out the permitted use of Numbers 4 and 6 fuel oil in order to lower emissions in the New York metropolitan area

The introduction of a new pipeline connecting the State's consumers with alternative supply sources from various natural gas basins increases supply diversity and provides the region's consumers with the ability to directly access these new sources of natural gas. This will increase the reliability and security of supply to the city.

The introduction of new natural gas transportation into the State will provide natural gas shippers with new service options and will encourage pipe-on-pipe competition. Similar to the introduction of competition in other markets, pipeline competition results in enhanced contracting flexibility for shippers, 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.

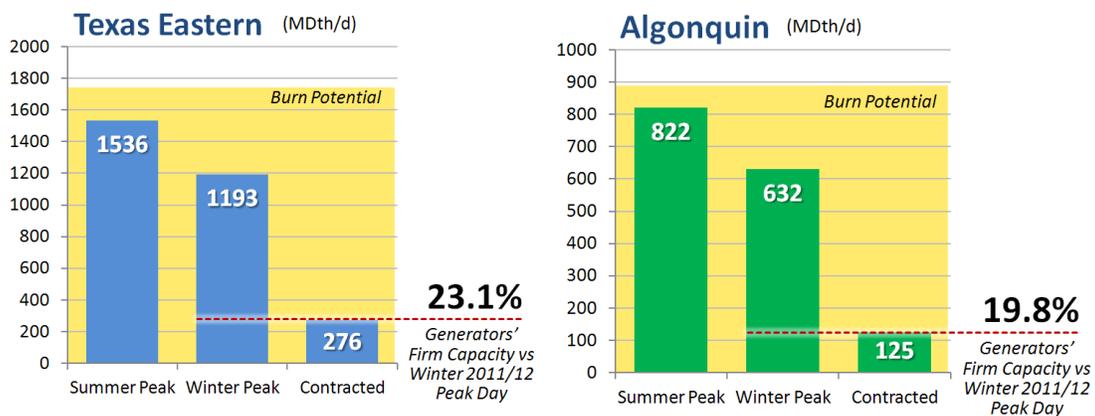
Infrastructure development will have a positive impact in local employment, as well. During the planning and construction phase of the NJ-NY Expansion, for example, more than 5,200 jobs will be provided in and around the local host communities. These jobs will be in the areas of engineering, planning, legal, maintenance, retail, transportation/public utilities, security and construction. Local residents also will benefit through millions of dollars in federal, state and local tax revenues that can be used in any number of ways, for local schools, to offset municipal tax increases, to continue to fund emergency services and for infrastructure improvement projects – just to name a few examples. New pipelines and increased usage of clean-burning technologies provide opportunities to improve air quality, install higher gas efficiency equipment, and lower energy costs.

Gas-Fired Electric Generation

During the winter, particularly during periods of peak demand, the pipeline infrastructure serving downstate New York is fully contracted and 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.

Nevertheless, many electric generators historically have accessed pipeline capacity on an interruptible basis and thus have and continue to run the risk of being unable to access capacity on peak days. TETLP and AGT have high peak day usage on both pipeline systems, but as shown in the charts below, firm contracted capacity committed to electric generation is just 23 percent on TETLP and less than 20 percent on AGT. As natural gas usage increases, particularly for power generation, this disparity causes concern. While interruptible service is an acceptable and workable approach on days when pipeline capacity is not needed by firm customers or when existing capacity is not fully subscribed, interruptible service is not the most reliable alternative when a pipeline has no excess capacity and experiences frequent periods of high utilization.



Infrastructure development is needed so that customers can take advantage of the lower cost and reduced volatility provided by the abundant and diverse supply sources discussed above. However, pipeline companies do not design or build, and importantly the FERC does not approve, infrastructure projects based on the assumption that there

will be a future market for transportation or storage services. Capital investments in pipeline infrastructure must be supported by market demand and revenue from firm service agreements. The pipeline infrastructure we have today is the result of historical decisions by local distribution companies and producers regarding the level of firm service needed – and tomorrow’s infrastructure will result from contracting decisions made today.

The Concentric-prepared market analysis study has affirmed that new natural gas infrastructure provides direct and substantial benefit to electric and natural gas markets. Savings to the region attributable to additional natural gas infrastructure from the NJ-NY Expansion project alone will result in an estimated \$700 million in total annual energy savings in New Jersey and New York. And just the hint of future increased supplies to New Jersey and New York City resulted in a positive impact for customers. In the short week following the announcement that the FERC had approved the New Jersey-New York Expansion Project, the Transco Zone 6 Basis has dropped approximately 20.5%, which equates to a price savings of approximately 6.7%.

Summary

Spectra Energy supports the New York Energy Highway concept and is very well positioned to meet the incremental natural gas demand of the electric generation sector. Our recent expansions on TETLP and AGT, in combination with existing capacity and the proposed AIM expansion and the NJ-NY Expansion project currently in the execution phase, span an extensive portion of the downstate region, including Manhattan.

New Spectra Energy pipeline infrastructure will:

- Provide supply diversity, reliability and system integrity to the New York 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, including growth in the electric generation sector;
- 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 of New York 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.

Thank you for this opportunity to provide comments, and we welcome the opportunity to provide more detailed information. For further information please contact: John Sheridan at jpsheridan@spectraenergy.com.

Exhibit A

