

June 27, 2014

New England States Committee on Electricity
4 Bellows Road
Westborough, MA 01581
Attn: Heather Hunt
Via email: HeatherHunt@NESCOE.com

Re: Enhancing Electric Reliability in New England

Spectra Energy is encouraged by the progress reflected in the June 20, 2014 *Governor's Infrastructure Initiative Update*. As we appreciate the current plan, the New England States Committee on Electricity (NESCOE) will issue in the near future a *Request for Proposal* (RFP) premised upon:

- 1) the selection of the appropriate entity to be the counterparty to hold incremental pipeline capacity;
- 2) a one-time solicitation for incremental pipeline capacity, priced in increments of 200 MMcf/day to allow for the evaluation of costs associated with adding increments of capacity to achieve levels of at least 1 Bcf above 2013 levels; and
- 3) a funding mechanism to be established in the ISO New England, Inc (ISO-NE) tariff to recover from electric ratepayers the costs of new pipeline capacity, subject to the review and approval by the Federal Energy Regulatory Commission (FERC).

Given the importance of this investment to the region's economic vitality and the precedent-setting nature of this endeavor, Spectra Energy offers its perspective on how pipeline infrastructure should be enhanced to: 1) address the power system reliability challenges identified by ISO-NE and others; 2) make New England more economically competitive by reducing electric costs; and 3) protect New England's quality of life by minimizing environmental and community impacts.

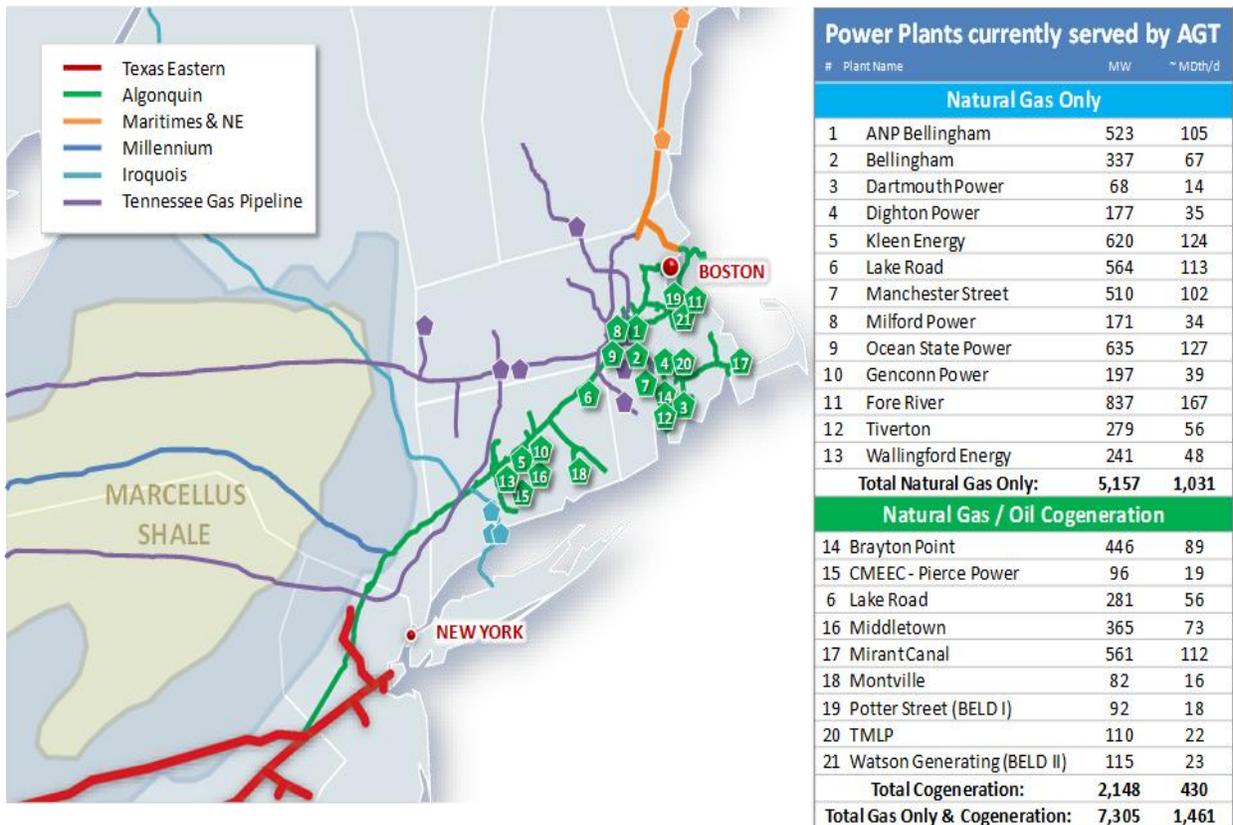
Identifying the Problem

New England retail electric customers are experiencing dramatically high energy costs, and will continue to shoulder these costs until the region's infrastructure constraints are resolved. Infrastructure constraints over several winters have exposed New England's fuel security risks. Both the FERC and North American Electric Reliability Corporation (NERC) have identified pipeline constraints in New England as a threat to electric reliability. Ultimately the FERC will need to recognize that NESCOE's chosen solution is correcting the electric reliability challenge.

To improve electric reliability, the region must increase and improve direct pipeline access to gas fueled generators. Accordingly, NESCOE needs to assure that the selected RFP candidates will have the ability to increase the reliability of the electric grid by physically improving direct interconnects with strategic power plant locations and guarantee natural gas supplies on peak days. This will require expanded pipeline receipt and delivery points, as well as, service flexibility that power generators require.

Defining the Requirements of a Solution

Spectra Energy’s pipeline assets, Algonquin Gas Transmission (“Algonquin”) and Maritimes and Northeast Pipeline (“Maritimes”) are attached to over 60% of ISO New England’s natural gas generation fleet, and therefore, any pipeline infrastructure solution that meets NESCOE’s objectives will ultimately require the expansion of Algonquin and Maritimes. Spectra Energy is eager to submit its regional solution and strategic investment recommendations to address the power system reliability challenges identified by ISO-NE and others. In addition, Spectra Energy will provide a solution that provides supply diversity, while minimizing impact to New England’s environment by enhancing existing facilities.



From our perspective, there are two fundamental questions that must be considered as the region seeks reliable, competitive solutions to its acute natural gas delivery challenges and infrastructure constraints:

Will the particular natural gas transportation solution that is selected provide electric reliability?

Does the particular natural gas transportation solution that is selected get the gas to the electric generator?

If the answer to both is yes, lower prices will follow.

Preview of Our Solution

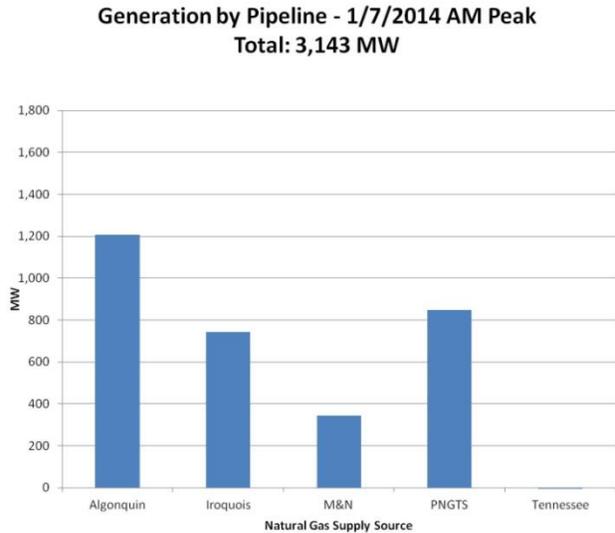
Spectra Energy is prepared to provide a regional solution for the states' current consideration in the RFP process. Spectra Energy's solution will:

- 1) expand existing pipelines that directly interconnect to over 60 percent of New England's most efficient existing electric generation, leverage existing assets directly tied to critical power generation, serve the greatest number of new natural gas power plants, and link directly to the prolific, low- cost natural gas supplies;
- 2) provide local benefits that will be scalable and provide firm peaking service for the electric market (electric reliability must provide strategic power plants with guaranteed supplies of natural gas on peak days, as indicated on the map on page 2);
- 3) provide new innovative services and expand communication regarding maintenance activities;
- 4) accommodate the projected need for more gas-fired quick-start units to respond to sudden changes in output from intermittent renewable resources;
- 5) minimize environmental impact of pipeline solutions; and
- 6) provide cost effective solutions that reduce basis and generate annual savings to consumers (solving electric reliability will automatically solve the spot price blowouts and decrease energy costs in the region).

Electric Reliability through Expansion of Algonquin and Maritimes & Northeast

In response to power generation demand and need for increased electric reliability, Spectra Energy proposes expanding its Algonquin pipeline system in five identified regional zones that directly connect to 40 percent of New England's electric generation and modifying its Maritimes facilities to support 20 percent of the electric generation. The pipeline expansions will be identified in 200 MMcf/day increments by regional zones per power plant access. This regional solution will be scalable and strategic.

To tackle the regional base need, we ranked power plants in ISO-NE that are served by Spectra Energy according to efficiency (based on heat rate) and identified the most desirable and efficient plants up to 5,000 MW. In order to serve that 5,000 MW need, Spectra Energy needs to transport and supply approximately 900,000 MMBtu on a peak day. Based on your feedback of our ranking of the power plants, we can modify our analysis.



Solving New England’s electric reliability issues will require that critical power plants are guaranteed service on peak days. We will propose deliverability to Power Plant Aggregation Areas (PPAA), in order to reach the most efficient power plants on Spectra Energy’s Algonquin and Maritimes pipelines and more than 60 percent of ISO-NE’s gas fired power generation. This will provide direct natural gas deliveries to critical ISO-NE power plants that are required for grid stability.

In addition, Spectra Energy’s proposed project will be scalable for further expansion. The projected in-service date for the expansion is November 2018. Notably, expanding Spectra Energy’s existing pipelines offers the advantage of minimal environmental impact or stakeholder disruption.

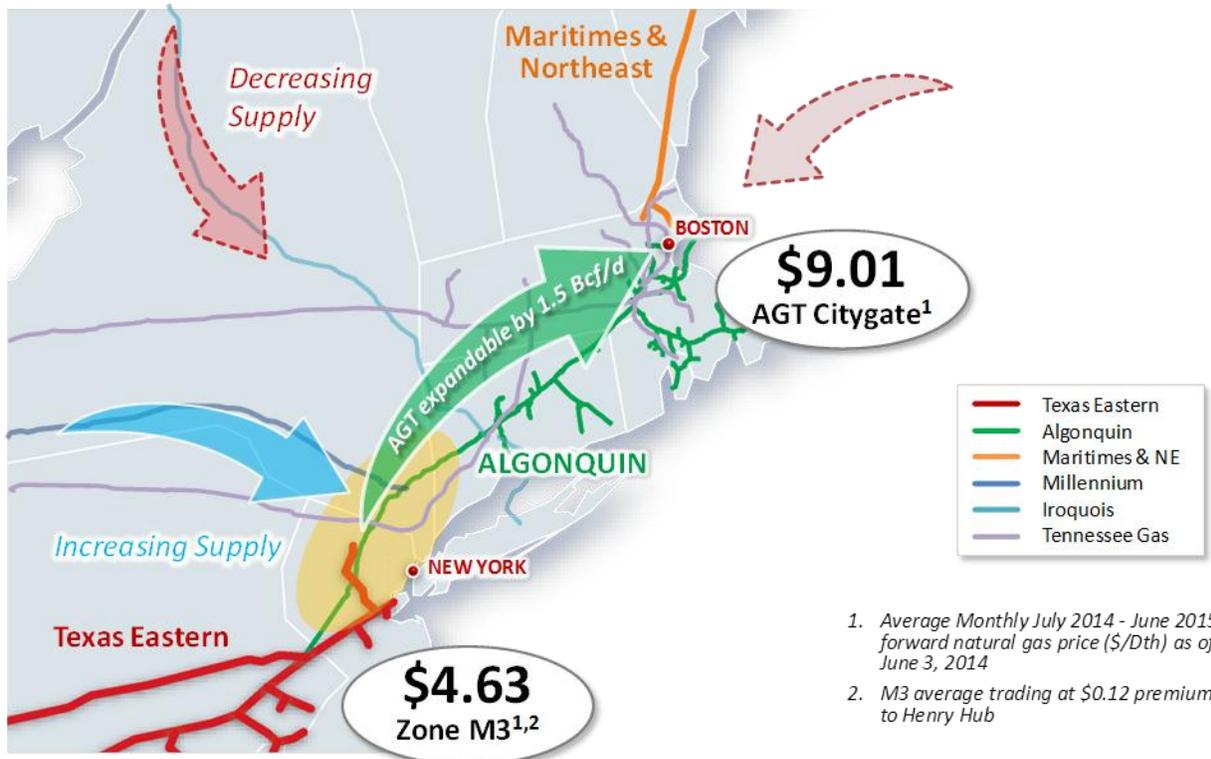
New, low-cost, regional natural gas supplies have been flowing into Algonquin for more than five years. Various pipeline expansion projects accessing abundant and diverse supply points that interconnect with the Algonquin and Maritimes systems have already been placed into service – or are in the final stages of execution. Solving reliability will automatically solve the spot price blowouts and decrease energy costs in the region.

Spectra Energy Served	Heat Rate (MMBtu/KWh)	WinCap (MW)	MDQ (MMBTU)
Westbrook	6,895	542	89,753
Lake Road	6,945	841	140,230
Casco Bay	6,956	538	89,862
Fore River	7,000	785	131,880
Newington	7,040	520	87,789
Tiverton	7,092	278	47,295
Kleen	7,100	620	105,648
ANP Bellingham	7,388	538	95,394
Manchester	8,024	495	95,329
Total		5,038	883,180
Others			
Millennium (WC MA)	6,618	375	59,528
ANP Blackstone (SE MA)	6,848	251	41,252
Bridgeport Energy (SW CT)	6,989	540	90,577
Berkshire Power (WC MA)	7,035	246	41,582
Total		1,412	232,939

Current Spectra Energy Projects & Impact to Electric Reliability and Lower Costs

The LDC natural gas demand will be balanced through sponsored pipeline expansions which include Spectra Energy's Algonquin Incremental Market expansion project (AIM) and the Atlantic Bridge project. The AIM project will begin to de-bottleneck the pipeline system by winter of 2016, helping to enhance reliability and soften prices, specifically in New England. Forward price estimates for Algonquin support this. Current market indications for winter 2016-2017 reflect a 28 percent decrease in price as compared to this coming winter (2014-2015). These pricing dynamics are also consistent with estimates provided by Sussex Economic Advisors that by 2016, AIM will contribute to a 35 percent basis reduction, translating into \$655 million of annual savings for the region. AIM is underpinned by commitments from gas utility companies across southern New England. These gas utilities entered into long-term capacity contracts supported by regulators who value reliable supply and reduced delivery costs for gas consumers. Atlantic Bridge's proposed in-service is November 2017 and is similarly anticipated to be supported by gas utilities. This direct, long-term contracting practice is a concept that the Electric Distribution Companies (EDC) proposal specifically attempts to replicate. Similarly, the Incremental Gas for Electric Reliability (IGER) approach of incorporating a capacity manager and contracting entity could be equally viable in reaching the end goal of increased electric reliability in the region through targeted and strategic natural gas infrastructure.

While both AIM and Atlantic Bridge projects will increase capacity in the region, they will not satisfy the full expanse of electric generation requirements or the electric reliability issue. Accordingly, Spectra Energy is recommending a new expansion program that resolves New England's electric fuel security risk. New supplies delivering to Algonquin will require further expansions on Algonquin to reliably reach power plants, otherwise, supplies will not provide electric reliability. Algonquin can continue to expand up to 1 BCF (equivalent to over 5,000 MW) in addition to AIM and Atlantic Bridge, doubling the current capacity of the system and providing last mile deliverability and service flexibility required by critical power plants. Assuming a timely RFP process, this service can be provided as early as 2018 and will minimize impacts to the environment and regional stakeholders, while providing the greatest confidence for execution success.



Spectra Energy supports the EDC Proposal and IGER approach conceptually. We now seek to help define the NESCOE RFP scope to ensure recognition of the importance of direct interconnects with power generators with sufficient services to adapt to timely start up needs and the ability to integrate renewable services. This past winter highlighted the need for electric utilities and pipelines to work together to develop creative solutions to provide timely and right-sized answers to meet the needs of the region.

Innovative Pipeline Services for Operational and Scheduling Flexibility

Algonquin in New England offers no-notice, firm and interruptible transportation services, including: hourly nomination cycles; transient, non-ratable deliveries; and tariff provisions that allow customers to tailor firm services to meet the unique needs of a particular customer. The gas-fired plants on Algonquin's system located in the ISO-NE's region are generating power for the ISO-NE in a non-ratable manner. Almost all delivery points on Algonquin's system take gas on a non-ratable pattern. In addition to non-ratable take flexibility and hourly scheduling flexibility, Spectra Energy is well positioned to provide creative service options to meet the needs of generators. Such innovative services will require expansion on Algonquin to provide uniquely tailored services to generators.

In addition, Spectra Energy will discuss in its proposal to NESCOE additional processes for its pipelines to consult with stakeholders on maintenance plans, with the goal of minimizing market affects while meeting all required maintenance goals.

Spectra Energy recommends NESCOE's RFP effectively requests proposals to identify all services to support electric generators' reliability needs and that the process for evaluating those proposed services is appropriately assessed.

Conclusion

Spectra Energy appreciates the opportunity to provide feedback to NESCOE on the Governors' Infrastructure Initiative, as well as alternative structures to address New England's reliability challenges. Our existing pipelines are key to improving New England's critical electric fuel security risks and must be expanded to support grid reliability and help achieve desired energy cost reductions. Spectra Energy supports a portfolio of investments to ensure a reliable, diverse and affordable energy supply and to sustain the region's investments in energy efficiency and renewable power. We look forward to the opportunity to submit our regional electric reliability proposal to NESCOE. If you have any questions please contact me wtyardley@spectraenergy.com or Richard Kruse rjkruse@spectraenergy.com.

Sincerely,
/s/ William T. Yardley

William T. Yardley
President, US Transmission and Storage

Cc: Cynthia K. Jacobs, NEPOOL Administrator
New England Gas-Electric Focus Group