# TESTIMONY OF TINA V. FARACA

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## Before the

## Committee on Commerce, Science and Transportation

## Of the

## United States Senate

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Chairman Rockefeller, Ranking Member Hutchison, and distinguished Members of the Committee, I am honored to be here today. My name is Tina Faraca and I am vice president of strategic development for Spectra Energy Corp (Spectra Energy). I am responsible for development of strategic plans for the corporation and its business units.

I previously served as president of the Maritimes & Northeast Pipeline (Maritimes) where I was responsible for Maritimes' natural gas pipeline assets in Canada and the United States.

Prior to my role at Maritimes, I served as general manager of business development for Spectra Energy Transmission, where I was responsible for overseeing the development and marketing of all new natural gas pipeline infrastructure and expansion activities on the company's Texas Eastern Transmission, LP (Texas Eastern) and Algonquin Gas Transmission Company, LLC natural gas pipeline systems. I have over 20 years of experience in the energy

industry, including management positions in engineering, system planning, strategy development, marketing and business development.

Spectra Energy 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. Based in Houston, Texas, the company operates in 26 states and seven Canadian provinces approximately 19,300 miles of transmission pipeline, more than 300 billion cubic feet of storage, as well as natural gas gathering and processing, natural gas liquids operations and a natural gas utility which serves over 1.3 million retail customers. The company also has a 50 percent ownership in DCP Midstream, one of the largest natural gas gatherers and processors in the United States. Spectra Energy is a member of both the Dow Jones Sustainability World Index and the U.S. S&P 500 Carbon Disclosure Project's Leadership Index.

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 markets in the United States and Canada. Today, we know that North America's natural gas supplies are immense, with a large, economically accessible natural gas resource base that includes significant sources of unconventional gas from shale, tight sands and coal-bed methane. 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's assets remain well-situated in proximity to both supply-rich producing areas and premium markets. As a result, we are investing in new and needed infrastructure across the continent. Since 2007, Spectra Energy has invested about $1 billion a year in capital expansions, and by the end of the decade we expect that investment to total more than $15

billion. In addition, we will invest approximately $700 million this year alone on maintenance and integrity work to ensure the safety and reliability of our existing facilities. For Spectra Energy, safety is a non-negotiable; it's our license to operate, and our highest commitment to our communities, our customers and our employees.

Our Texas Eastern system which overlies the Marcellus and Utica shale formations in Ohio, northern West Virginia and Pennsylvania has been reliably operating in this region since 1947. We also operate a natural gas storage facility just across the West Virginia state line in Garrett County, Maryland which is capable of storing up to 64 billion cubic feet of natural gas.

Much of our recent pipeline and storage expansion in the region has been a result of the rapidly shifting supply picture, and pursued on behalf of customers such as Chesapeake Energy and CONSOL Energy also testifying here today. The Marcellus shale formation has seen tremendous growth in a very short time span – and estimates point to continued robust development and production increases. Currently the Marcellus is producing about five billion cubic feet per day (with roughly 20 percent transported on our system) and that's expected to double over the next 10 years. The Utica formation, while still in its infancy from a development standpoint, promises to be another major supply contributor.

**Economic Benefits**

Given a robust supply outlook and market growth, necessary investments in infrastructure are anticipated to be significant over the next two decades. A 2011 INGAA Foundation report *North American Midstream Infrastructure Through 2035 – A Secure Energy Future* (the *2035 Midstream Report*)[1] estimated that approximately $250 billion in midstream investments will be required to accommodate the development of natural gas, oil and natural gas liquid (NGL)

[1] *North American Midstream Infrastructure Through 2035 – A Secure Energy Future*, ICF International, June 28, 2011.

resources from 2012 through 2035. The economic impacts through 2035 associated with construction, operation and maintenance, will help support an annual average of over 125,000 jobs and $141 billion in labor income. The cumulative 2012 through 2035 midstream investments in the US are estimated to account for nearly $425 billion in total economic output and generate over $16 billion in state and local taxes and approximately $40 billion in federal taxes.

Other U.S. industries are also benefiting from access to robust natural gas supplies. As Mr. Kean may highlight in his testimony, American manufacturers enjoy the lowest natural gas costs in the world today, a major competitive advantage. A recently completed study from the American Chemistry Council[2] estimated that a modest increase in natural gas supply from shale deposits would generate more than 400,000 new jobs in the United States, more than $132 billion in U.S. economic output and $4.4 billion in new annual tax revenues. The ACC notes that "thanks to affordable and abundant supplies of natural gas from shale, chemistry is driving an American manufacturing renaissance that will lead to a stronger economy, greater international competitiveness and new jobs in communities across the nation."

As you know, the beneficial impact of natural gas is beginning to be realized in West Virginia. Importantly, West Virginia enjoys an existing and expandable transportation network. In addition to Spectra Energy's Texas Eastern system, there are four other major interstate natural gas pipelines located in the state including Columbia Gas Transmission Company, Tennessee Gas Pipeline, Equitrans, L.P. and Dominion Transmission. These interstate pipelines provide producers with direct access to premium markets in the mid Atlantic and northeastern United States. In addition to providing an immediate revenue opportunity for producers, this

[2] *Shale Gas and New Petrochemicals Investment: Benefits for the Economy, Jobs and U.S. Manufacturing*

existing infrastructure also provides the "backbone" for expansion of existing infrastructure or the development of new infrastructure.

One recent example is Hope Gas Inc. which is a West Virginia corporation, and a subsidiary of Dominion Resources. Hope is in the business of purchasing and distributing natural gas in West Virginia, serving approximately 112,000 residential, commercial, wholesale, and industrial customers in 32 of West Virginia's 55 counties by way of approximately 3,100 miles of in-state transmission and distribution facilities. Hope also interconnects with three interstate natural gas pipelines – Dominion Transmission, Inc. (DTI), Columbia Gas Transmission, LLC (Columbia) and Equitrans, L.P.

Hope applied to the Federal Energy Regulatory Commission (FERC) for authorization to transport gas in interstate commerce to these interconnecting pipelines stating that West Virginia is experiencing a significant increase in natural gas exploration and production activities associated with the expansion of shale gas production and that the abundance of shale gas anticipated in the coming years exceeds the amount needed for Hope's LDC system, and demand for the State of West Virginia in general. As such, several producers located proximate to Hope's system expressed interest in receiving transportation from Hope for delivery to one or more of the interstate pipelines Hope interconnects with, in order to access interstate markets. FERC granted Hope's authorization in late March.

This action will allow producers direct access to natural gas markets and provides Hope with greater system utilization while maintaining West Virginia's markets relatively easy access to these natural gas supplies as the economy and natural gas utilization continues to grow. Currently West Virginia's industrial sector accounts for approximately 30 percent of natural gas

consumption in the state. Access to these local supplies will likely help attract further economic development to the state.

Spectra Energy's 670 mile Maritimes system is another example of the economic opportunities afforded by ready access to pipeline infrastructure. The Maritimes pipeline was placed in service approximately 10 years ago, introducing natural gas to parts of Maine and other areas of the northeast that previously did not have access to this clean burning, reliable and cost competitive energy source. In 2009, Maritimes placed its Phase IV Expansion in service at a cost of $300 million which effectively doubled the capacity of the system and now transports natural gas from offshore and onshore supplies as well as liquefied natural gas supplies. Our investment in Maritimes provides over $7 million annually in taxes to Maine alone and has facilitated subsequent infrastructure development including the creation of Bangor Gas Company, Maine Natural Gas, Casco Bay Energy Company, LLC, the Bucksport Energy Plant and the Westbrook Energy Center that now serve the energy needs of thousands of homes and businesses throughout Maine. In addition to this growth in Maine, deliveries in New Hampshire have grown from virtually zero to approximately 12 percent of total deliveries over the past decade.

**Regulatory Stability and Predictability**

The significant capital requirements for natural gas infrastructure require long-term financing commitments which are anchored by long-term service agreements with pipeline customers. As such, interstate pipelines are significantly affected by public and regulatory policy affecting the availability and cost of capital. Energy, environmental and tax policies can all affect a pipeline's ability to raise capital for expansions to meet the markets requirements for access to natural gas supplies.

Companies that are investing significantly in our energy future need certainty – in terms of process and timeline. Regulatory stability is critical to accessing capital, developing projects and maintaining and operating our systems reliably and safely. The FERC has been granted exclusive jurisdiction by Congress under the Natural Gas Act for siting interstate natural gas pipelines and the rates they charge. Interstate pipeline rates are based on a pipeline's cost-of-service plus a reasonable rate of return. These projects can take several years to develop and permit.

The interstate pipeline industry has a proven track record of building infrastructure and providing services in response to increased demand from the market. Over the decades, interstate pipelines consistently have constructed infrastructure to deliver natural gas safely and reliably from supply and production areas to market. From January 2000 through February 2011, the interstate pipeline industry constructed and placed into service 14,600 miles of interstate pipeline, adding 76.4 Bcf/d of capacity. The capital investment in these projects totaled approximately $46 billion. Moreover, industry investments in pipeline infrastructure equaled or exceeded $8 billion per year in three of the past four years.[3]

During the development and permitting process, numerous activities take place including execution of shipper agreements with customers; stakeholder outreach with federal, state, local officials, landowners and other affected parties; environmental analysis and reviews; facilities design and placement of orders for long lead time equipment and negotiation of construction contracts and services. Efficient and effective completion of these activities is highly dependent on a consistent and certain, regulatory environment.

[3] See *North American Natural Gas Midstream Infrastructure Through 2035: A Secure Energy Future, Executive Summary*, prepared for The INGAA Foundation, Inc. by ICF International, June 28, 2011.

The Department of Transportation's Pipeline and Hazardous Materials Safety Administration has jurisdiction for pipeline safety. The Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 developed by this Committee is an important piece of legislation that provided necessary regulatory certainty for the public and industry regarding ongoing safety plans and maintenance programs. This regulatory certainty facilitates a clear regulatory environment during which pipeline operators can make significant decisions on capital, labor and third party resource intensive operations and maintenance activities.

The President's Council on Jobs and Competitiveness' recent 2011 Year-End Report[4] recognized that optimizing the use of America's natural resources through energy and transportation efficiency is a national priority. The report further noted that promoting energy innovation and investment "can fuel the prosperity Americans seek for the coming generation and beyond," but "[t]he permitting process must be streamlined.[5]

The natural gas industry is forecasted to add over 43 Bcf/d of new natural gas transmission capacity over the next 25 years to meet demand[6] with approximately 1,400 miles per year of new natural gas mainline, 600 miles per year of new laterals, 24 Bcf per year of new working gas in storage, and 197,000 horsepower per year for pipeline compression.

The siting, construction, and operation of these natural gas assets require federal permits, grants of rights-of-way, and approvals from various agencies, including the FERC. These federal approvals require compliance with the National Environmental Policy Act (NEPA). Spectra Energy is committed to minimizing adverse impacts to the environment that may occur during development of this critical infrastructure and agree that the permitting for these projects should

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[4] *Road Map to Renewal: Invest in Our Future, Build on Our Strengths, Play To Win*, President's Council on Jobs and Competitiveness, 2011 Year-End Report ("President's Jobs Council Year-End Report").

[5] *Id*. at p. 28.

[6] *See North American Natural Gas Midstream Infrastructure Through 2035: A Secure Energy Future*, Executive Summary, prepared for The INGAA Foundation, Inc., by ICF International, June 28, 2011.

be completed in an environmentally responsible and timely manner while meeting the energy needs of the nation.

Before discussing the merits of this point, it is useful to summarize the NEPA process as it applies to the interstate pipeline industry.

In order to construct, acquire, alter, abandon, or operate an interstate natural gas transportation facility, a company must obtain a certificate of public convenience and necessity from the FERC, pursuant to section 7(c) of the Natural Gas Act (NGA).[7] The Energy Policy Act of 2005 (EPAct 2005) designated FERC as the lead agency, for purposes of NEPA compliance, for such facilities.[8] In addition to the CEQ regulations, FERC has issued its own regulations that govern its NEPA process.[9]

Specifically, FERC has promulgated regulations, including many activities conducted by interstate natural gas companies pursuant to authority granted by FERC under blanket certificates and the installation of certain facilities located completely within existing rights-of-way.[10] For larger-scale section 7(c) infrastructure construction and for LNG terminal construction under section 3(e), further NEPA review is required, often culminating in an Environmental Assessment (EA) or an Environmental Impact Statement (EIS). Under FERC's regulations, if a project type is not categorically excluded from an EIS-type of in-depth environmental review, a project proponent is required to submit 13 resource reports[11] with its application that provide environmental data and describe the anticipated impact of the proposed project, in order to

[7] 15 U.S.C. § 717f(c).
[8] *Id*. § 717n(b).
[9] 18 C.F.R. Part 380.
[10] 18 C.F.R. § 380.4.
[11] Note that because Resource Report 13 applies only to LNG projects, the practical result is that natural gas interstate pipeline infrastructure projects only file 12 resource reports.

support preparation of the NEPA analysis.[12] FERC also requires the project proponent to consult with appropriate federal, regional, state, and local agencies during the planning stages of the proposed action to ensure that all potential environmental impacts are identified.[13] A project proponent can also choose, or in instances involving LNG facilities, is required, to use FERC's pre-filing process, which serves to begin the NEPA analysis by involving relevant agencies and stakeholders and by allowing FERC staff to determine the scope of the NEPA review and to provide feedback on the resource reports, all before the project proponent files a formal application. The pre-filing process, when used, can help facilitate agency coordination and identification of cooperating agencies for purposes of NEPA review.

EPAct 2005 designated FERC as the lead agency for coordinating all applicable federal authorizations for interstate natural gas infrastructure development.[14] This provision is vital due to the significant coordination necessary between FERC and other agencies, including, but not limited to, the Army Corps of Engineers, the Bureau of Land Management, the U.S. Fish and Wildlife Service (USFWS), the U.S. Forest Service, the Bureau of Reclamation, the National Park Service, the Advisory Council on Historic Preservation, the Bureau of Indian Affairs, State Historic Preservation Officers, and numerous state departments of environmental quality/natural resources. The involvement of different agencies in the NEPA process, and sometimes numerous offices within the same agency, is challenging and frequently results in delay when those agencies do not act in concert. Spectra Energy believes that the FERC has done a good job facilitating agency coordination, within the limits of its authority.

However, as implemented today, the NEPA review process can become mired in unnecessary delay that can hinder timely infrastructure development. This issue has been

[12] 18 C.F.R. § 380.12.
[13] 18 C.F.R. § 380.3(b)(3). *See also* 18 C.F.R. § 157.21.
[14] 15 U.S.C. § 717n(b).

recognized by many including the last two administrations which, through Executive Orders, have attempted to bring greater efficiency to the permitting process for energy projects. Most recently, on March 22, 2012, the President issued an executive order with the goal of significantly reducing the aggregate time required to make decisions in the permitting and review of infrastructure projects by the Federal Government, while improving environmental and community outcomes. Similarly, a number of federal agencies have entered into memorandums of understanding (MOU) to coordinate cooperative agency procedures. For example, FERC and the U.S. Army Corps of Engineers entered into an MOU to "streamline regulatory processes through early coordination to identify project purposes, needs and alternatives that each agency can use in carrying out its respective regulatory responsibilities."[15]

The efficient development of necessary infrastructure projects requires established and predictable timelines for conducting NEPA reviews. This requires an environmental review process that avoids delay and duplication, sets clear timelines, and promotes concurrent, not sequential, actions by cooperating and coordinating agencies.

**Conclusion**

Mr. Chairman, in conclusion, natural gas holds tremendous, sustainable economic and energy security promise for this region, our nation and all of North America. If society is to realize the long and lasting benefits from ample domestic natural gas resources, pipeline operators must be committed to delivering needed energy and infrastructure safely, reliably and cost-effectively. Also true, for the natural gas opportunity to endure, it must be built upon a foundation of sound public policy and a predictable regulatory structure. Thank you for holding

[15] *See* FERC, "U.S. Army Corps of Engineers sign MOU on agency roles in authorizing gas projects," News Release: July 13, 2005.

this hearing and for inviting me to participate on behalf of Spectra Energy. I'll look forward to answering any questions the Committee may have.