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Hon. Kevin Brady
301 Cannon House Office Building
Washington, DC 20515

Hon. Mike Thompson
231 Cannon House Office Building
Washington, DC 20515

Re: Comments to Energy Working Group

Dear Representatives Brady and Thompson:

Spectra Energy appreciates the opportunity to submit comments to the Ways and Means Committee Energy Tax Working Group, as you explore the current tax system and consider possible pro-growth, comprehensive reforms.

Spectra Energy Overview

Spectra Energy's perspective is drawn from our role as one of North America's premier pipeline and midstream companies. Based in Houston, Texas, our operations -- across 30 states and 7 Canadian provinces -- 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, as well as natural gas gathering and processing, and a local distribution company serving 1.4 million customers. Spectra Energy also has a 50 percent ownership in DCP Midstream, the largest producer of natural gas liquids and one of the largest natural gas gatherers and processors in the United States. Spectra Energy has served customers and communities for more than a century, and the company's longstanding values are recognized through our inclusion in the Dow Jones Sustainability World and North America Indexes as well as the Carbon Disclosure Project's Global 500 and S&P 500 Carbon Disclosure Leadership Indexes.

Pipeline and Midstream Infrastructure Investment

Since 2007, and throughout the economic downturn, Spectra Energy has invested approximately $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 close to 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 supplies of natural gas, natural gas liquids and crude oil in the U.S. and Canada, with new and existing markets for these critical energy and feedstock sources that help to fuel our economy.

Given a robust supply outlook and market growth, necessary investments in pipeline and midstream infrastructure are anticipated to be significant over the next two decades. A 2011 Interstate Natural Gas

Association of America (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 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 U.S. 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.

At Spectra Energy, we're pursuing $25 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 the economy.

<u>Current Tax System, Reform and Implications for Pipelines</u>

Spectra Energy agrees with the growing consensus among policymakers, academics, the business community and other stakeholders that the current U.S. tax system is outmoded, overly complex and in need of thoughtful overhaul. We believe fundamental goals of comprehensive tax reform should be a simpler, pro-growth, globally-competitive system which drives towards a single layer of taxation.

As noted above, pipeline and midstream infrastructure investments are capital-intensive and long-lived, requiring long-term financing commitments, anchored by long-term service agreements with customers (i.e. producers, power plants, gas utilities, etc) generally approved by regulators. Shifts in tax policy can have a significant impact on a pipeline's ability to adequately recover costs from previous and ongoing investments, while also impacting the cost of capital for future projects and ultimately the delivered cost of energy, borne by consumers and the broader economy. For example, and as noted in comments from the American Gas Association, maintaining current tax treatment on dividend income (recently made permanent law by Congress) and capital gains is critical to ongoing investment in energy infrastructure.

As the Energy Working Group, the Committee and Congress continue to explore the current tax system and consider possible pro-growth reforms below are some noteworthy elements for companies like Spectra Energy that are investing significantly in the energy infrastructure so critical to our economic recovery and sustainability:

Cost of Capital Considerations with Interest Deductibility and Depreciation

Given the capital intensive and long-lived nature of pipeline and midstream infrastructure investments, current depreciation schedules along with the deductibility of interest expenses associated with debt financing are key elements in project economics. Any change to the deductibility of interest expenses or tax depreciation schedules would not just impact capital and delivered energy costs going forward, but could also upset cost recovery associated with previously negotiated long-term contracts. Should changes be made in these areas of the tax code, thoughtful transitional rules will be needed.

Importance of Midstream Energy Infrastructure MLPs

Much of the investment in pipeline and midstream infrastructure in the U.S. in recent years has been pursued or supported by publicly- traded master limited partnerships (MLP). MLPs are pass-through entities which operate under section 7704 of the tax code -- in effect since 1987. Under law, 100% of an MLP's taxable income is allocated to investors, who then pay income taxes based on individual tax rates. MLPs typically distribute their operating cash flow each quarter to investors (majority of MLP investors are individuals over 50 years old). The MLP structure is enabling the timely and efficient capital formation

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

needed to pursue critical energy infrastructure projects across the U.S., ultimately helping to lower the delivered cost of energy to consumers.

Modernizing International Provisions of U.S. Tax System

Outside the U.S., Spectra Energy operates only in Canada, our nation's largest energy trading partner. Unfortunately, U.S. international tax laws have put companies like Spectra Energy, seeking to create and maintain U.S. jobs, while developing the North American infrastructure so vital to meeting our energy needs, at a competitive disadvantage. The current U.S. "worldwide" system is antiquated and effectively subjects any income associated with our Canadian operations to double-taxation. These current U.S. rules increase our cost of owning and operating these facilities, putting our company at a disadvantage to foreign competitors and placing the U.S. jobs that support our Canadian operations at risk. This overhang also creates a significant disincentive for companies like ours to 1) repatriate foreign earnings to the U.S. for additional U.S. investment and 2) to continue investing in or owning Canadian infrastructure to deliver energy supplies to and from U.S. markets.

Every G8 nation except the U.S. has modernized its international tax laws to make them more competitive and attractive to investment. The U.S. should move towards a territorial type tax system -- similar to the proposal outlined by Chairman Camp – that would require U.S. multinationals to pay taxes on income earned in host countries, while not subjecting companies like Spectra Energy to double taxation on foreign-sourced income that chills investment in the U.S. and tilts the playing field towards our foreign competitors.

Conclusion

Spectra Energy and other capital-intensive pipeline and midstream companies have been actively investing in maintaining and expanding our systems. Given the robust supply outlook in the U.S. for natural gas, natural gas liquids and crude oil, hundreds of billions in additional infrastructure will be required in the next two decades. This investment can have a tremendous ripple effect throughout the economy. As the Working Group and the Committee continues to explore elements of the current tax code and considers pro-growth reforms, it is critical to understand the cost of capital implications of tax policy changes to the pipeline and midstream industry, and ultimately the delivered cost of energy to consumers.

[redacted]

Sincerely,

Steven M. Sobell
Vice President,
Tax and Insurance

cc: Mr. Peter V. Sheffield
Vice President,
Energy Policy and Gov. Affairs