Need for Incremental Pipeline Capacity
Tennessee Gas Pipeline Company[1] 300 Line Project

FERC Determination of Public Convenience and Necessity

Under Section 1(b) of the Natural Gas Act ("NGA"), 15 U.S.C. § 717, the Federal Energy Regulatory Commission ("FERC") was granted jurisdiction over the transportation of natural gas in interstate commerce and the natural gas companies which provide that transportation. The FERC, pursuant to Section 7(c) of the NGA, 15 U.S.C. § 717h, must issue a certificate of public convenience and necessity prior to a natural gas company constructing facilities for transportation for interstate natural gas transportation.[2]

The FERC follows the guidance set forth in its Certification of New Interstate Natural Gas Pipeline Facilities Policy Statement ("Policy Statement")[3] when evaluating proposals for certificating new interstate natural gas pipeline construction. The Policy Statement established criteria for the FERC to use for determining whether there is a need for a proposed pipeline project and whether the proposed project will serve the public interest. As explained in the Policy Statement, in deciding whether to authorize the construction of new pipeline facilities, the FERC balances the public benefits against the potential adverse consequences. The Commission's goal in evaluating new pipeline construction is to give appropriate consideration to the enhancement of competitive transportation alternatives, the possibility of overbuilding, subsidization by existing customers, the applicant's responsibility for unsubscribed capacity, the avoidance of unnecessary disruptions of the environment, and the unneeded exercise of eminent domain.

The Need for Pipeline Capacity into New Jersey and the Northeast

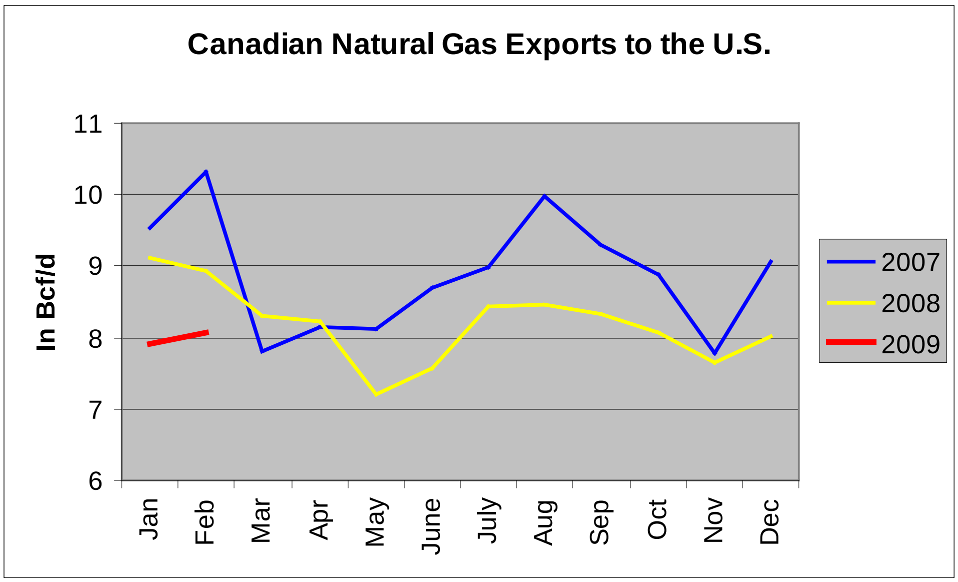
There are five factors demonstrating the need for incremental pipeline capacity into New Jersey and the Northeast:

- The decline of gas supplies available from Canada for export to the U.S.
- The national priority to reduce reliance on foreign energy imports including oil and liquefied natural gas ("LNG") in favor of domestic production.
- The need to reduce pipeline capacity constraints that currently restrict new domestic natural gas supplies in the western portion of the northeastern U.S. from accessing the high consumption areas along the Atlantic Coast.
- Growth in the major market centers of the Northeast U.S. which have significantly higher natural gas demand growth rates than the western sectors of that region.
- Consistency with the New Jersey State Energy Master Plan which addresses the importance of clean, reliable natural gas supplies to the economic vitality of the State.

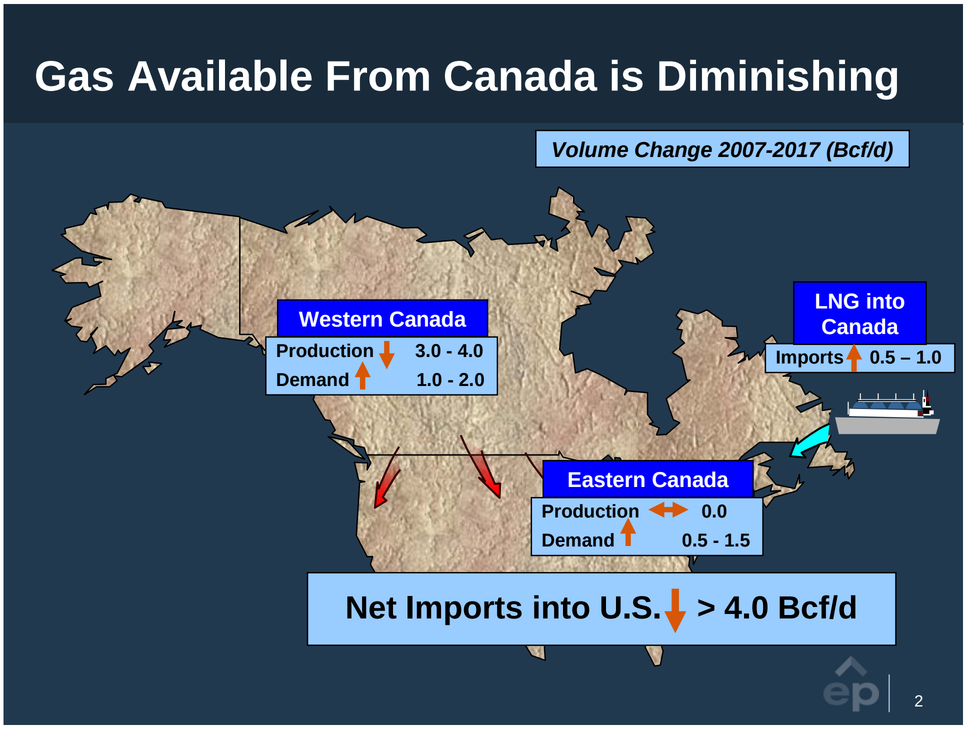
[1] Tennessee Gas Pipeline Company is a wholly owned subsidiary of El Paso Corporation.
[2] As part of its responsibility for regulating the siting and construction of natural gas pipeline facilities, the FERC is the lead agency for environmental reviews under the National Environmental Policy Act, 42 U.S.C. § 4321, for the construction of such pipelines. Also, in its application review, the Commission ensures that the pipeline applicant has certified that it will comply with Department of Transportation safety standards.
[3] 88 FERC ¶ 61,227 (1999); clarified, 90 FERC ¶ 61,128 (2000); further clarified, 92 FERC ¶ 61,094 (2000).

Canadian Exports

Canadian exports to the U.S. have been declining for the last several years due to reduced production in the Western Canadian Sedimentary Basin and increased local consumption, predominantly in the oil sands producing region of Alberta. The chart below shows that over the past 3 years Canadian exports to the U.S. have been reduced from a peak of just over 10 Bcf/d in 2007 to 8 Bcf/d in 2009, a drop of 20% in two years.

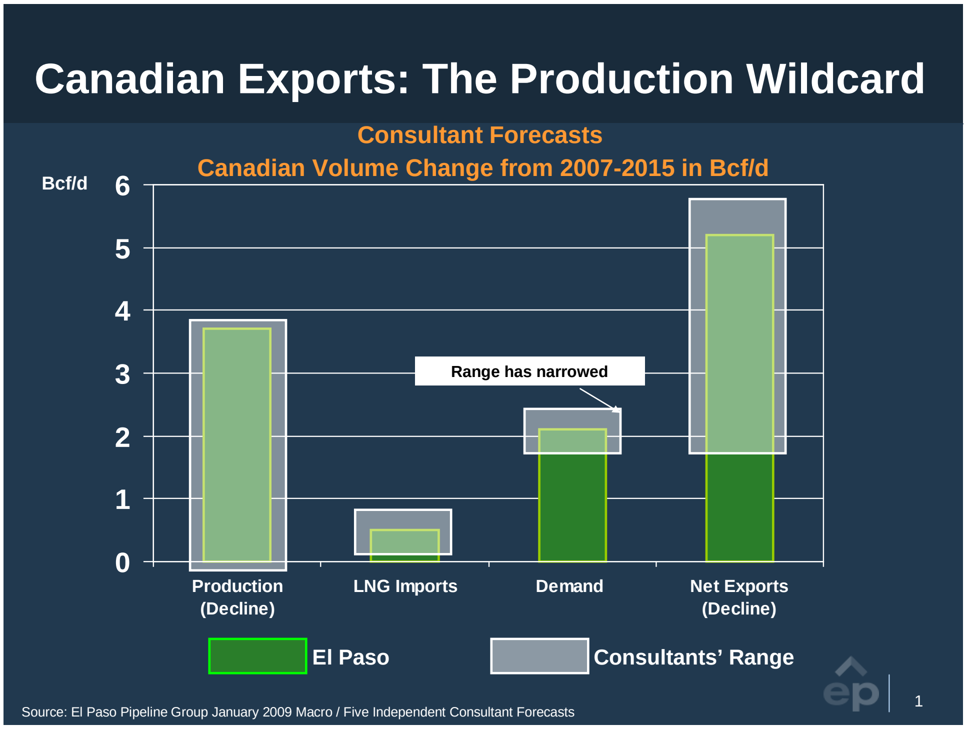


The expectation is that Canadian exports will continue to fall as a result of the two factors cited above as well as the mandated conversion from coal fired power generation to clean burning and environmentally friendly natural gas fired powered generation in Ontario. The following chart shows El Paso Corporation's ("El Paso") expectations for the change in exports with the arrows showing the anticipated reduction from 2007 to 2017 in Bcf/d of more than 4 Billion cubic feet per day ("Bcf/d"). Of this, El Paso estimates the impact on imports in the Northeast U.S. could be as much as 1.9 Bcf/d.



The reduction in Canadian exports to the U.S. is widely agreed upon by analysts and there will thus be a need to re-supply New Jersey and the Northeastern states from other sources. Access to new Appalachian supplies, as well as Gulf Coast area shale supplies and Rockies supply (via Rockies Express Pipeline -Tennessee Gas Pipeline Company ("Tennessee") interconnect in Ohio), of natural gas via Tennessee's 300 Line will help to offset the loss of supply from Canadian exports.

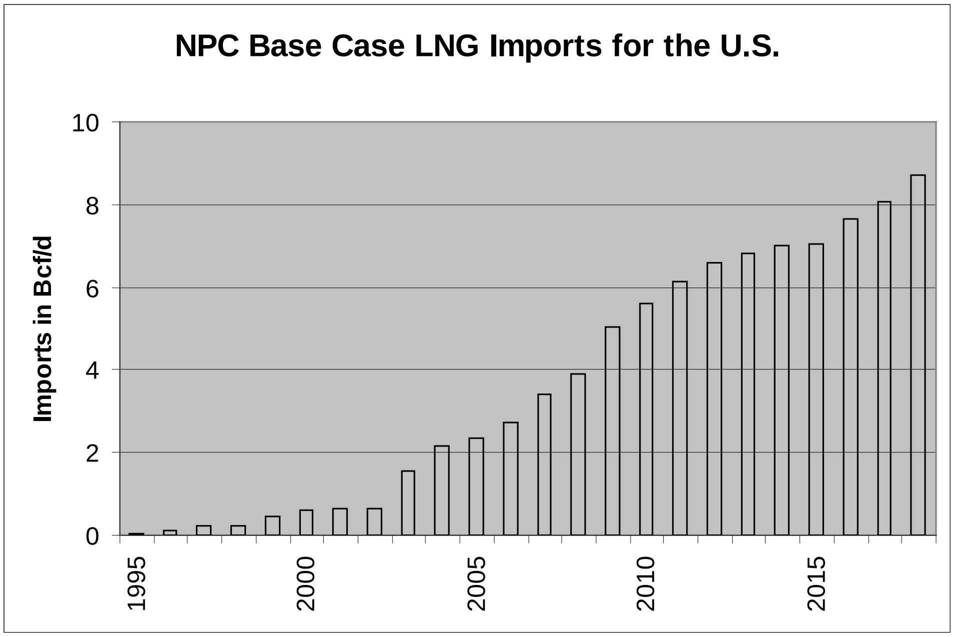
El Paso's views on falling Canadian natural gas exports to the U.S. are mirrored by a number of energy consultants. The chart below shows El Paso's forecasts in the green columns and directly compares those figures with the range of values established by five consultants indicated by the gray rectangles. The highest degree of uncertainty is on the amount of production, where projections range from a small increase to a 3.7 Bcf/d decrease. Still, in every case exports are predicted to decline significantly by 2015.



Additional capacity on Tennessee's 300 Line is an excellent opportunity to prepare for the ongoing loss of Canadian volumes into the Northeast.

Reduction of Foreign Purchases of Liquefied Natural Gas (LNG)

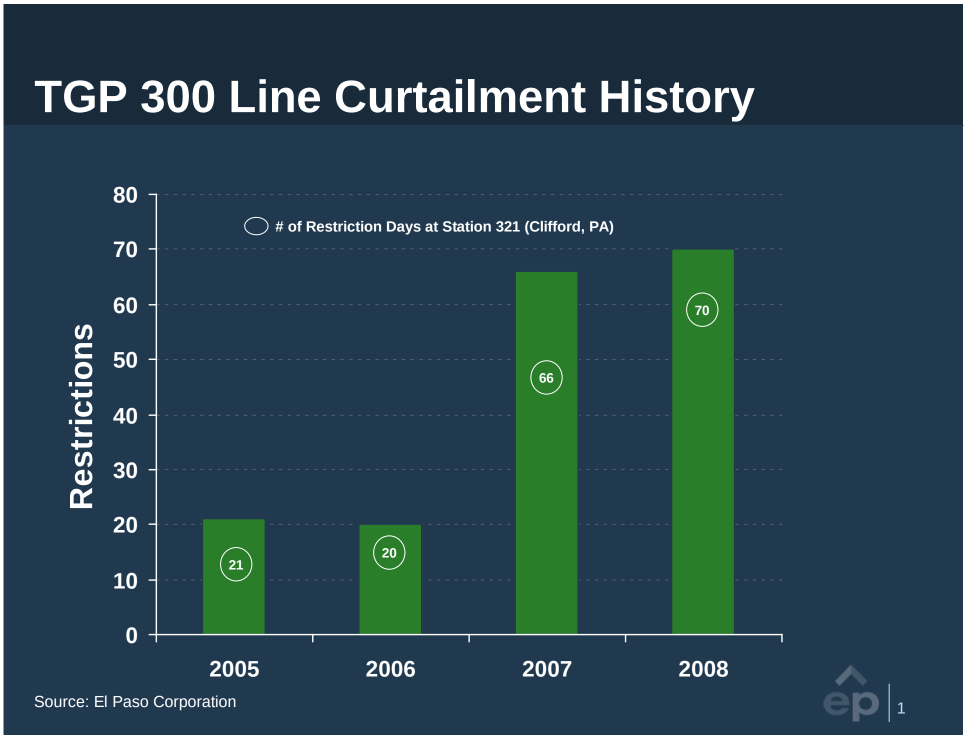
In 2003 the National Petroleum Council ("NPC") predicted that over 8 Bcf/d of LNG would be imported into the United States by 2018 (see graph below). This was repeated in the 2008 Annual Energy Outlook ("AEO") produced by the Energy Information Administration ("EIA") where LNG imports were again stated to reach 8 Bcf/d in 2018. However, the recent increase in domestic production has markedly changed views on the need for these LNG imports. Recent forecasts have U.S. LNG imports shown at much lower volumes. The 2009 AEO, for instance, now predicts only 4.1 Bcf/d of LNG will enter the U.S. in 2018, almost 50% less than the projection made in the prior year. To achieve this benefit of reduced reliance on imported gas, domestic supplies must have a way to reach the demand centers, and incremental pipeline capacity is required to accomplish this transportation of gas supplies. Tennessee's 300 Line Project is consistent with this objective.



The marked reduction in LNG imports will favorably impact the U.S. balance of payments. As an example, the 4 Bcf/d of reduced volumes identified by the EIA at a natural gas price of $6 per million cubic feet would have U.S. consumers spending almost $25,000,000 per day domestically versus sending it to an overseas company.

<u>Reduction of Pipeline Constraints into the Northeast</u>

Currently, there is approximately 7 Bcf/d of pipeline capacity on four interstate pipelines, including Tennessee, to transport gas through Pennsylvania from upstream out of state sources into New Jersey. All four pipelines are currently fully subscribed in this region during the peak heating season. The chart below quantifies the impact of the constrained capacity by plotting the number of days shipper volume restrictions were in place, including volume increase limitations, along the path of where Tennessee proposes to build its 300 Line Project. On those days, natural gas shippers wanted to ship more gas through the 300 Line than there was capacity available to handle it. As the chart shows, over the past 4 years the number of restriction days increased by over 233%.



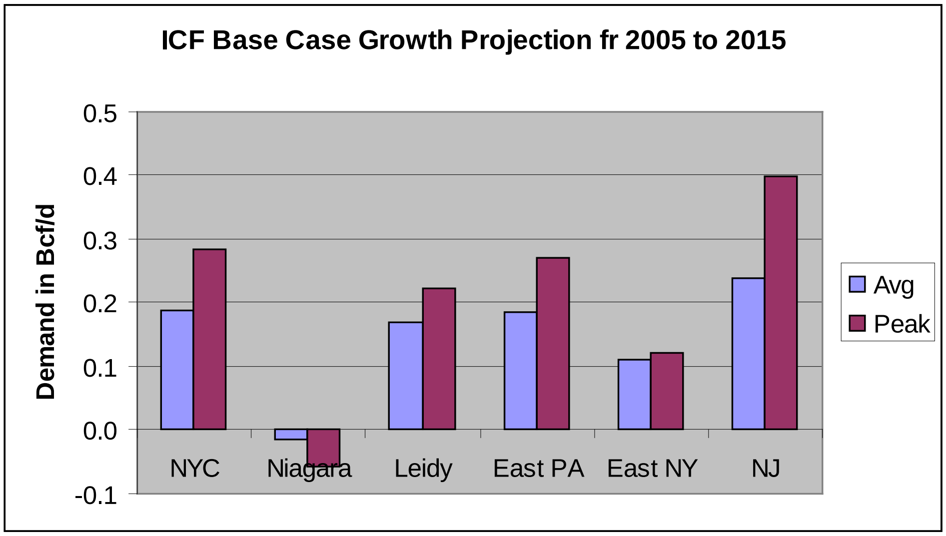
As more general evidence of constraints in pipeline capacity to the Northeast, Bentek Energy LLC ("Bentek"), a private consulting company, completed Part 1 of the Northeast Study called 'Catch the Wave' in late 2008. This study showed four major constraint barriers or 'waves' as gas proceeded from the western regions of the Northeast to the eastern sections of the Northeast. One of Bentek's conclusions was "the ability to move gas from the constrained area around Lebanon, OH…to higher-value markets to the East will be a valuable asset for capacity holders". Tennessee's 300 Line Project will create new capacity across several of the "constraint waves" identified in the Bentek study to help reduce the capacity constraints.

Figure 1 – BENTEK's *Catch the Wave*™ Model

Additionally, in late 2009, the Rockies Express pipeline is scheduled to tie into pipeline systems serving the Northeast with the potential to add 1.8 Bcf/d of new supply from the Rocky Mountain producing areas seeking capacity on the constrained pipelines. The increased regional demand coupled with the current constrained pipeline capacity and the inherent geological conditions in New England, New Jersey and the eastern portions of New York and Pennsylvania preventing underground storage of natural gas volumes locally will only combine to further constrain pipeline capacity in the Northeast. Even when underground storage in northwestern Pennsylvania and New York is used to meet peak day requirements for the Northeast region, pipeline capacity must be used to reach the market, and further development of underground storage fields will also require more pipeline capacity to meet current and projected future demand. Construction of the 300 Line Project will help alleviate this situation by increasing pipeline capacity to these high-demand markets and allow these markets access to gas currently on the other side of the constraints as well as improving the reliability of transportation of the gas supplies.

Market Growth

The New Jersey and East Coast markets are predicted to have substantial increases in average day and peak day natural gas demand that will require additional delivery capacity. The chart below shows results from the most recent base case model from ICF International, an independent consulting company. Their analysis shows an average day growth of 240 MMcf/d or 1.3% per year for New Jersey from 2005 to 2015. This level, which is expected in areas other the New Jersey Highlands area, exceeds that of other major market centers on the East Coast, including New York City. Peak growth for New Jersey, at 400 MMcf/d is also the largest displayed for the eastern markets. Tennessee's 300 Line Project will help provide a means for supplying the growing New Jersey demand.



Upon completion, the Project will increase natural gas delivery capacity to the northeast region of the United States by approximately 300,000 dekatherms per day ("Dth/d") and, with the proposed general system upgrades that are part of the project, also will improve system reliability. Tennessee has executed a binding precedent agreement with one shipper, Equitable Energy LLC, for all of the firm transportation capacity resulting from the Project's facilities, which demonstrates that the additional firm transportation capacity will be immediately utilized, and the need for it is commercially justified. The Project will also assist with the FERC's goal of providing more natural gas to markets. The 300 Line Project provides access to diversified natural gas supplies from other major supply basins accessed by Tennessee with deliveries to points located across Tennessee's mainline system, to various interconnections with other pipelines in Mahwah and River Vale, New Jersey, as well as deliveries into jointly-owned local distribution company facilities at an interconnect located in White Plains, New York. The White Plains delivery point is an existing interconnect with Consolidated Edison of New York and is one of the delivery points selected by Equitable for a small portion of the gas volume covered under the binding precedent agreement for this Project.

Consistency with the New Jersey State Energy Master Plan

The goals of New Jersey's Energy Master Plan ("EMP") require long-term actions, as well as immediate investments "that will help to ease energy costs in the short term, create jobs, grow energy businesses, and establish the clean energy industry as a cornerstone of the State's economy." The EMP focuses on actions that will result in a future of reliable and competitively priced supplies of electricity and heating fuels that also meet the State's environmental needs. Tennessee's 300 Line Project is consistent with the goals and actions directed of the EMP. The Project will provide increased reliability, diversified natural gas supply sources, and increased price competition, which benefits New Jersey's utilities and their consumers. As recognized in the EMP, over 50 percent of existing power plants are 30 years old or older and are like to retire as they continue to age. The EMP noted that those plants tend to be "less reliable, less efficient, more expensive to run, and have greater greenhouse gas emission rates than newer plants." The Project will provide additional natural gas supply in the northeast region to meet the growing demand for natural-gas fueled power plants predicted to be constructed in response to the effort to lower greenhouse gas emissions, and therefore reducing reliance on coal-based electricity and imports of out-of-state dirty electricity.

Summary

For the reasons described above, Tennessee's 300 Line Project is clearly in the public convenience and necessity. It provides necessary capacity to transport supplies of clean burning natural gas to Northeast markets requiring new supplies to offset declining supplies from Canada, and supporting growth requirements in those markets. Additionally the Project supports the country's objective of reducing reliance on foreign imports by transporting domestic supplies that would displace oil and LNG imports. Utilities and consumers will benefit from increased competition, improved security and reliability as a result of the system upgrades. The Project supports the objectives of the New Jersey State Energy Master Plan which addresses the importance of clean, reliable natural gas supplies to the economic vitality of the State.