

STATEMENT FOR THE RECORD

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How Prudent Infrastructure Investment Can Help Maximize Resource Potential

Good afternoon and thank you for the opportunity to speak with you today. I am here as a representative of Energy Transfer, one of the largest and most diversified investment grade master limited partnerships in the United States. On a consolidated basis, our family of partnerships owns and operates more than 72,000 miles of natural gas, natural gas liquids, refined products, and crude oil pipelines. (Map of the assets)

I am responsible for the commercial and regulatory activities for Energy Transfer's interstate pipelines. (Map of assets). Our "legacy" pipeline systems were built to transport Gulf Coast, Midcontinent, San Juan and Permian supplies to California, the Midwest and Florida and have operated safely and reliably for many years. In addition, we have built several new systems over the last several years to transport the nation's growing natural gas supply from shale basins, which I will discuss here today.

Shale Gas Driving Pipeline Growth

Starting in the mid 2000's, the surge in new gas supply from shale formations exposed the need for new pipeline infrastructure. Without adequate pipeline capacity out of supply areas, shale gas producers cannot economically develop gas supplies and consumers cannot enjoy access to new supplies. Companies such as Energy Transfer have developed and constructed many of these "supply push" systems, which connect new supply to reach virtually any market across the U.S. via the vast interconnectivity of the interstate pipeline grid.

Energy Transfer has developed and put into service three such interstate systems since 2009. Midcontinent Express Pipeline, a joint venture with Kinder Morgan, was built in 2009 to serve Barnett Shale and Midcontinent gas producers. The Fayetteville Express Pipeline (also a joint venture with Kinder Morgan) transports Fayetteville Shale gas out of Arkansas. In addition, Tiger Pipeline serves producers in the Haynesville Shale area around North Louisiana. We are particularly proud of our track record in developing these pipeline projects in compliance with pipeline safety and environmental rules while bringing the projects in-service ahead of schedule and on budget.

Each of these new pipeline systems is supported by long-term firm transportation contracts. The ability to reach markets allowed production to flourish in each of these shale plays. Haynesville Shale gas, for example, grew by nearly 70% the year after the Tiger Pipeline went into service.

Today's Environment

Although new pipeline infrastructure allowed producers in the specific areas to enjoy better market access, the enormity of new shale supply has driven natural gas prices down overall. As a result, producers have shifted their focus to areas where production includes more lucrative natural gas liquids (NGL) or oil associated with the natural gas. Examples which are active today include the Eagle Ford Shale and Permian basin in Texas and the Bakken in North Dakota, where production is sustainable at lower gas prices, but often requires additional midstream infrastructure.

Perhaps the most transformative area of supply growth today is in the Northeast, primarily from the Marcellus and Utica shale formations. Production in the area has been astounding, and now represents nearly a fourth of all U.S. supply. Further, the supply now exceeds the demand for gas in the region, which was historically one of the premier markets in the country.

While the country's demand for natural gas has not kept pace with the growth in supply, there is expected to be a change in coming years. In the industrial sector, low natural gas prices are prompting a resurgence in gas-intensive industries such as steel and petrochemicals. Gas demand for power generation is set to increase due to a shift away from coal use.

Another area where gas demand is increasing is in exports to Mexico. That country is seeing increased demand for natural gas to generate power and to serve industrial growth. In addition, production of gas in Mexico has been in decline for some time. Pipeline shipments from the U.S. will be needed to meet the supply gap.

But the largest demand growth is expected to come from the export of liquefied natural gas (LNG), which could require anywhere between 12 to 14 billion cubic feet (Bcf) of incremental capacity per day, by 2017 to 2019. Multiple liquefaction and export terminals are in various stages of development in North America. Each of these would require large quantities of natural gas for liquefaction.

Most of the demand growth drivers I've mentioned are concentrated on the Gulf Coast. In direct reversal of historical supply and demand patterns, demand is expected to far outpace supply in the region. In Wood Mackenzie's long-term outlook, Gulf Coast demand growth between 2015 and 2022 is more than three times that of supply growth.

These changes are continuing to have an impact on the business and operational nature of the nation's interstate pipelines. Pipelines built years ago to transport Gulf Coast and offshore supply across the country to the Midwest and Northeast are in many cases underutilized, while the lack of pipeline capacity in other regions of the country are depressing gas prices to the point where resource development is impacted.

Responding to Changing Market Conditions:

Companies such as Energy Transfer are adapting to changing supply and demand dynamics. In some cases new infrastructure is being built and in other cases, existing assets are being reconfigured or repurposed.

Energy Transfer has undertaken an extensive buildout of midstream and NGL infrastructure in the Eagle Ford shale. Since 2010, the company has invested over \$3 billion in gas and liquids projects in the region. The company has expanded into crude oil transportation through its acquisition of Sunoco Logistics and subsequent expansions. In addition, an Energy Transfer subsidiary has developed a pipeline to export natural gas to Mexico.

Energy Transfer is also currently developing a liquefaction and export facility at the Trunkline LNG site in Lake Charles, Louisiana to meet the growing demand for abundant U.S. gas supply overseas.

On the interstate pipeline side, we have undertaken various asset reconfigurations. We have consolidated offshore assets, and made system modifications to allow the flow of liquids-rich Eagle Ford shale gas on a portion of the Trunkline Gas Company (Trunkline) system. Further, we are in the process of abandoning a section of Trunkline for conversion to crude oil service.

One of the more pressing issues facing natural gas producers today is relieving bottlenecks out of the Northeast due to Marcellus and Utica supply growth. There are various proposals to move gas out of the area in all directions. Most of the pipelines that previously carried gas from the Gulf Coast to the Northeast are transporting “backhaul” via displacement and are in various stages of modifying facilities to physically flow more. Energy Transfer is offering another solution via its ET Rover Pipeline project.

ET Rover is a new interstate natural gas pipeline system designed to provide access for rapidly growing Marcellus and Utica shale natural gas production to growing markets. The pipeline will receive and transport natural gas directly from Marcellus and Utica production outlets westward to pipeline interconnections near Defiance, Ohio, to interconnections in Michigan, to the Union Gas Dawn Hub in Ontario, Canada and to certain off-system delivery points on Trunkline near Gulf Coast markets. We have already announced commitments for 2.6 Bcf/day of capacity in the new pipeline and can expand up to a 3.2 Bcf/day system depending on shipper commitments. The company is completing an Open Season to finalize the sizing and design of the project. It is proposed to be in service by the 4th Quarter of 2016. (See map). We have already reached out to stakeholders including local and state governments, held ten open houses in the local communities and are participating in the Federal Energy Regulatory Commission’s pre-filing process. Having predictable and timely processes to engage regulators and stakeholders is key to the success of a project such as the ET Rover pipeline.

In summary, Energy Transfer and the interstate pipeline industry are continuing to react to rapidly changing market conditions through investment in modified and new infrastructure. We see tremendous opportunities in the natural gas industry and we believe Energy Transfer is well-positioned to address North America’s need for more natural gas infrastructure.