



May 13, 2014

Via Electronic Mail

Ms. Heather Hunt
Executive Director
New England States Committee on Electricity
655 Longmeadow Street
Longmeadow, MA 01106
RegionalInfrastructure@nescoe.com

RE: Comments on Governors' Infrastructure Initiative – Incremental Gas for Electric Reliability (“IGER”) Concept.

Dear Heather:

EquiPower Resources Corp. (“*EquiPower*”) is pleased to submit the following comments to the New England States Committee on Electricity (“*NESCOE*”) regarding the IGER Concept as requested in NESCOE’s April 30, 2014 Letter to NEPOOL and the New England Gas-Electric Focus Group (“*April 30th Letter*”).

EquiPower owns and/or operates a generation fleet of 7,750 MWs, including approximately 5,500 MWs of natural gas-fueled generation, located in New England, New York, PJM, and the Southeastern United States. We have played an active role in ISO-NE to help develop a set of market rules and to advance other initiatives that would incent generators to invest in pipeline capacity to support the overall reliability of the generation system. As such, we know well the obstacles that to date have prevented competitive generators from making long term commitments for new gas pipelines; the most notable of which is the fact that there continue to be issues with energy price formation in ISO-NE where out of merit generation, including block loaded peaking units and units committed for reliability that are operating at minimum loading levels, is not allowed to send price signals, and generation with multi-faceted attributes that are critical to the well functioning of the electric system (e.g., short start-up and minimum run times, dual fuel capability, quick ramping, and low forced outage rates, etc.) are not properly compensated.

Until market rules are implemented that provide for proper energy price formation and reward generators for their reliability-based attributes there will continue to be insufficient revenue streams to allow gas generators to take on expensive and risky long term pipeline capacity contracts. Therefore, we must resort to out of market initiatives that place risk on captive ratepayers such as the one that is the subject of this submission. We clearly would prefer changes to the energy market allowing for market-based solutions and would expect these changes would garner the support from NESCOE and the States. However, since such energy formation rules are not currently in place in ISO-NE and we believe we

need to address the gas pipeline capacity and electric reliability issue, EquiPower is supportive of the efforts of the New England States, led by their respective Governors, to add natural gas pipeline capacity in New England financed through the ISO-NE transmission tariff, and offset in whole or in part by the sale of such capacity to generators. It should be noted that favorable changes to energy price formation and proper rewarding of reliability-based attributes, as discussed above, will enhance the value for pipeline capacity ultimately paid by gas generators for the capacity procured under the NESCOE initiative, thus limiting the costs that will end up being paid through the transmission tariff.

We include below an outline of EquiPower's comments on NESCOE's IGER concept based largely on the flowchart provided with the April 30th letter. We believe it is very constructive that the initiative appropriately positions electric system reliability as the primary basis for the effort and believe the reliability focused approach should facilitate broader support and also result in proper sizing of the investment.

EquiPower's comments:

- Amount of pipeline:
 - We recommend that ISO-NE expeditiously conduct a study, building on the recent work of ICF International as presented to the Planning Advisory Committee, to determine the appropriate amount of incremental pipeline needed to support reliable grid operations. This evaluation should include projections of current pipeline expansions already expected to occur (e.g., projects that have completed their open seasons, begun the permitting process, and have signed contracts for the expanded capacity), expected LDC load growth, changes to the generation supply stack (e.g., new renewables, conversions to dual fuel capability, new natural gas power plants projected to be built, etc.). We believe the forecast should extend over at least a 10 year period given the long term nature of pipeline investments. It is our strongly held view that the amount of pipeline capacity procured should be limited to the amount needed for electric system reliability based on this ISO-NE study. If the actual capacity needed to address reliability issues deviates from the projections and additional new pipeline capacity is required in order to support electric system reliability, an additional procurement initiative could be implemented at a later time if ISO-NE rules have not been changed to properly send price signals and reward generator attributes. We suggest that ISO-NE update this study annually and report on the status of electric system reliability as it relates to gas pipeline capacity.

- Which pipeline project(s)?:
 - In our view, increasing the capacity of the Iroquois pipeline would have a minimal impact on electric system reliability since there are very few generators on this pipeline. In addition, Iroquois is not currently constrained and we believe will likely not be constrained over the forecast horizon.
 - Both Spectra's AGT Atlantic Bridge (600– 900 mmcf/day) and Tennessee Gas' (TGP) Northeast Expansion (600-1,200 mmcf/day) expansion projects could be of sufficient volume to meet any reasonable requirements determined by ISO-NE's study. The Atlantic Bridge project is expected to be completed within existing rights of way (looping, compression, and some re-piping). The Northeast Expansion project is proposed as new pipeline in a new right of way, presenting challenges to implementation and timing but with the States' and Governors' support these challenges should be overcome. Splitting desired volumes between the two projects, thereby not relying on a single pipeline's operation for all incremental volumes, and a phase-in over time is a prudent means of optimizing cost and value while minimizing implementation / timing risk and future operational risk.

- Contract Entity:
 - The counterparty committing to the new pipeline should be a creditworthy entity (preferably investment grade) to reduce or avoid the need for costly credit support. The counterparty should be an entity that is eligible under existing regulations to recover incurred costs through the transmission tariff. The counterparty should be an entity that can be compelled, if necessary, to enter into the pipeline contracts. In addition, we agree with NESCOE that since the initiative is predominantly for electric reliability, it is appropriate that the costs be paid through a FERC regulated tariff mechanism. Given these considerations, the logical choice for the contract counterparty would be the Transmission Owners (TOs). Additionally, since there are only a limited number of TOs, the complexity of structuring this option would be manageable. We believe that in this role the TOs would not earn a return on equity as no equity would be deployed. In many ways this commitment to execute contracts and collect revenues through the new ISO-NE tariff are

similar to way that the TO fuel clause mechanisms worked when these entities owned, and in some cases still own, rate base generation. However, TOs should be permitted to recover direct costs associated with administering the program. The contracting process should be fairly straightforward, as contracts such as those contemplated here are typically based on FERC approved tariffs and do not involve negotiated terms.

- Capacity Manager:
 - It appears from the April 30th letter that NESCOE may be leaning toward hiring an existing gas marketer selected through an RFP based on cost and qualifications to be the manager of the pipeline capacity. An existing gas marketer would have the advantage of having existing infrastructure, including necessary credit arrangements to purchase and flow gas, and experience in the region. We agree that this could be a viable option.

However, we believe conflicts could exist between the gas marketer's existing business and management of the new pipeline capacity. Therefore, controls would need to be put in place to address these potential conflicts. Also, an existing gas marketer might be reluctant to provide the States with transparency into its other marketing activities or provide the detailed information that will likely be needed to ensure that the goals of this effort are being met. For this reason, we believe that it might be best for the States to establish a new special purpose "gas marketing" entity to manage this new pipeline capacity. Creating a new special purpose entity to serve in this role may be slightly more expensive than retaining an existing gas marketer, but it would avoid conflict concerns and would allow for the States' unfettered access to operations and information that we believe will ensure proper implementation and oversight of the program (i.e. the same as they have with regulated utilities). In this proposed structure, the TOs would need to provide financial guarantees to the new special purpose entity as credit assurance to purchase, flow, and sell gas. The TOs should be willing to provide these guarantees since any financial obligations arising from the guarantees would be wholly offset by revenues received under the tariff.

Regardless of whether the role is filled by an existing marketer or a new entity, most of the core tenets of the program should be the same.

The entity should:

- Be staffed 24 hours/day and 7 days/week with transaction and scheduling capability;
- Offer individual days of any multi-day strip (e.g., weekend);
- Pursue enablement with all New England gas generators according to prepared credit packages, such as weekly settlements with an ISO receivables mechanism; and
- Be staffed by individuals with requisite commercial and operational gas expertise who also have an understanding of the power generation business.

Compensation of the gas marketing entity should include recovery of actual costs (to be bid by suppliers in the case of the RFP for existing gas marketers) and should include an incentive fee calculated as a prescribed percentage of any value capture above and beyond what would have been realized if the pipeline position had been used solely to capture daily spreads on the relevant indices. This incentive mechanism is important because it will encourage the gas marketer to maximize the value of the pipeline capacity and minimize the need for cost recovery under the transmission tariff. The incentive mechanism would be an important element of the gas marketing entity's compensation structure because some form of competitive, market-based compensation mechanism will be needed to attract and retain the appropriate talent in either a third party or in-house marketing structure.

- Operation of the Capacity Manager:
 - The Capacity Manager should be required to run annual RFPs for term sales of the remaining open pipeline transport (1, 3, 5, and 10 gas year(s)). Participation in these term RFPs should be limited to New England gas generators to ensure that the primary purpose of fueling power generation is met. Decisions to enter into term contracts with generators should be subject to TO oversight on both tenor and pricing. Any remaining transport capacity that is not under term contract with a gas generator can then be optimized daily with any gas market participant.

It appears from the flowchart that NESCOE envisions that the Capacity Manager would release the capacity back to the pipeline which would then release it to the gas generators. We suggest a different approach. We believe that it would be

better if the Capacity Manager released the capacity directly to the gas generators as part of any term deals. Any volumes not contracted through term deals with gas generators would not be released but rather would be utilized daily to flow gas into the region to be sold to any gas market participant.

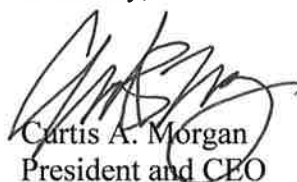
This is necessary in order to ensure that maximum value is captured from the pipeline capacity (and to offset capacity charges paid through the proposed tariff mechanism) and to prevent unintended consequences or gaming (e.g., a generator trips and has to resell the gas, generators buying solely to re-sell to non-generators, etc.). The value associated with the optimization of the transport capacity that exists after payment of the gas marketing entity's costs and incentive fees, would be paid to the TOs based on the amount of transport contracted for by each TO. The calculation of the recovery mechanism under the ISO-NE transmission tariff by the TOs would consist of the following components:

- Costs of the firm demand charges under the new transportation agreements, plus
- Costs of gas marketing entity, plus
- Incentive fees paid to gas marketing entity, plus
- Costs incurred by TOs to administer their portion of the program, minus
- Revenues associated with term sales to gas generators, minus
- Value of daily optimization of transport not sold on a term basis to gas generators.

We appreciate the opportunity to provide our comments on the Governors' IGER initiative. While we hope that our comments are self explanatory, we believe that it would be useful to have a dialogue on the matter and are available to have a more detailed discussion of how such a concept can be implemented.

Please contact me if you have questions or if you wish to schedule a meeting.

Sincerely,



Curtis A. Morgan
President and CEO
EquiPower Resources Corp.