June 13, 2014

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

Dear Ms. Hunt:

The New England States Committee on Electricity ("NESCOE") has requested input, in letters dated April 30, 2014, May 15, 2014 and June 11, 2014, on an incremental gas pipeline development concept under consideration by the New England states. NRG Energy, Inc. ("NRG") is pleased to provide these comments in response. Those requests also sought input relative to:

- a proposal from several electric distribution companies;
- any alternative structures to accomplish the Governors' objectives;
- market adjustments that, going forward, will eliminate the need for the states to act to ensure that the region has adequate energy infrastructure to serve consumers reliably and at a cost that does not leave the region at an economic competitive disadvantage; and
- other structures that would increase natural gas infrastructure in New England in a way that delivers the highest value to electric consumers.

NRG agrees the natural gas delivery system is stressed in New England. There are almost certainly steps that can be taken to ease the peak demand on the pipeline infrastructure, such as additional dual fuel capability or liquefied natural gas ("LNG"), but it is also clear that new infrastructure will be needed to satisfy projected and anticipated growth in demand for gas as well as to ensure the economic vitality of the New England region. NRG also sees natural gas as a critical part of the energy system for at least the next several decades. Natural gas will be the primary fuel for electric generation, supplemented by oil and coal for their reliability and diversity benefits. Flexible gas-fired generators will provide an operational complement to renewables as they continue to gain penetration into New England. Natural gas will also provide a source of clean energy delivery directly to customers to help power the decentralized grid of the future.

The Governors' infrastructure initiative described by NESCOE indicates that New England is wrestling with one of its greatest tests in the two decades since the region collectively agreed to use competitive market principles and structures as the basis for pricing electric energy and stimulating private investment in energy infrastructure. The discovery and development of substantial natural gas deposits in the Marcellus and Utica shale formations has fundamentally altered the economics of this clean and powerful fuel. Consumers and policy-makers in New England are understandably interested in accessing this shale gas, for its economic as well as environmental benefits for the region. The challenge is whether the region will allow that access to be accomplished through independent commercial actions by sellers and consumers of energy in the region, or whether the state governments will intervene. Any such interventions will necessarily have distorting and unintended impacts on the region's energy economy, and should be avoided as much as possible.

NESCOE's letters describe a centralized approach to the gas infrastructure challenges, which would create a new 'Contract Entity' to enter into long-term firm capacity contracts for incremental pipeline capacity, in exchange for the right to tariff-based revenues to cover the Contract Entity's costs. There would also be a 'Capacity Manager' that would be responsible for administering the release to the market of the pipeline capacity held by the Contract Entity. Contrary to NESCOE's stated intentions, this approach is likely to *maximize* harmful market impacts, by creating an entirely new quasi-governmental entity that will have an on-going presence in the market, and by not using market discipline to limit the amount of new capacity built to only what is needed.

NRG is committed to competitive markets as the appropriate foundation for building and operating the nation's energy systems, and to empowering consumers to make energy choices consistent with their own economic interests and other values. From this perspective, NRG sees clearly the potential for the states' proposal to result in an inefficiently large expansion of natural gas capacity that saddles the region's consumers with unnecessary cost obligations, in the form of non-bypassable charges on their electric bills and under-utilized infrastructure, and a new set of quasi-governmental institutions (the Contract Entity and the Capacity Manager) with the associated overhead costs and bureaucracy. All of these outcomes would have a chilling effect on consumer choice and the efficiency of the region's economy.

NRG proposes that the states consider a more market-oriented approach to the natural gas infrastructure challenges, and the region's broader energy challenges.

First, several pipelines are actively developing and marketing projects to make incremental capacity available to New England customers. Local gas distribution companies ("LDC") and electric generators are evaluating these opportunities, and signing up where doing so makes commercial sense for their own economic interests. However, if the states simply cannot wait for individual pipeline users to identify profitable opportunities to support pipeline expansion, NRG recommends a less intrusive approach that would represent the minimal intervention in the market needed to overcome the economics or risk that is keeping private investors from making the long-term commitments necessary to finance new pipeline expansion. Rather than creating a new centralized entity, the states should offer support, through existing or new state mechanisms, to existing commercial entities that are interested in obtaining long-term pipeline capacity, but who cannot justify the full cost on their own. This approach would put the emphasis on individual commercial entities to work with the pipeline companies to identify the most advantageous incremental capacity projects, and could be structured to prefer projects that require lower levels of state support. Several states have implemented 'green bank' or similar financing vehicles, and these or similar structures could be used to provide the back-stop revenue certainty to enable gas generators or other parties to sign up for long-term incremental pipeline capacity. In addition, any state support agreements should include a 'shared profit' structure that would incent the holder of the pipeline capacity rights to maximize the usage and value of those rights, with upside shared between the rights holder and the state, to further defray the cost of the support.

Fundamentally, NRG recommends not using the New England Independent System Operator ("ISO-NE") electric tariff for back-stopping the recovery of pipeline expansion costs. Any costs recovered under the ISO-NE tariff would create further non-bypassable charges on the region's electric consumers, which have a harmful effect on consumer choice. Since consumer choice is the cornerstone of competitive energy markets and is fundamental to supporting the future of distributed generation, the states should avoid creating additional barriers to consumers exercising that choice.

In the context of pursuing additional natural gas infrastructure, the states should also not lose sight of the broader goal of energy self-sufficiency, which will be powered in large part by distributed renewables and micro-generation or micro-combined-heat-and-power ("CHP") applications. These measures will ultimately lower the need for centralized and large-scale electric generation, and that trend should be factored in to considerations of how much new gas infrastructure will be needed in the long term.

NRG recognizes that there are still a number of legal and policy questions to be resolved in light of the novelty of the proposed approach. Perhaps chief among them is the question of state activity that impacts price-setting in the federally-regulated wholesale electric markets. By focusing on state-backed financing vehicles to back-stop pipeline expansion in support of beneficial policy objectives and ensuring full market valuation of incremental pipeline capacity rights, these legal and policy issues are likely to be far more tractable.

NRG looks forward to continued dialog regarding the future energy system in New England and further development and evaluation of the investment opportunity presented by the NESCOE proposal as a means to enhance the energy infrastructure in New England.

Sincerely,

William Lee Davis

William Lee Davis
Executive Vice President and President, East Region
NRG Energy, Inc.