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May 30, 2014

Ms. Heather Hunt
Executive Director
New England States Committee on Electricity
655 Longmeadow St.
Longmeadow, MA 01105

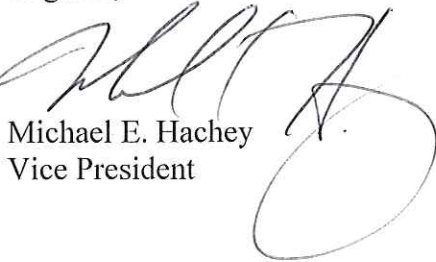
VIA ELECTRONIC MAIL AND OVERNIGHT DELIVERY

Re: Governors' Infrastructure Initiative – Incremental Gas for Electric Reliability

Dear Ms. Hunt,

Please find attached TransCanada Power Marketing Ltd.'s comments regarding the Governors' Infrastructure Initiative – Incremental Gas for Electric Reliability.

Regards,



Michael E. Hachey
Vice President

Brief Comments on Governor's Initiative – Natural Gas Infrastructure

NESCOE has proposed, on behalf of the New England states' governors, to undertake an expansion of natural gas infrastructure into New England. Concerns have arisen over cost of the proposal, its non-market nature, its legality, and so on. Further complexity has, or will, arise over who the gas manager will be, how it will conduct itself, which pipelines will be supported, and so on. The primary need for a non-market based pipeline expansion is that the states value construction of additional pipeline capacity more than the general marketplace does. Conceptually, the funding required from the general public to construct new pipeline capacity should be limited to the difference between its cost of construction and the highest value determined by market participants.

As discussed at the NEPOOL Participants' Committee meeting on May 2, 2014, a model for public sector pipeline construction already exists – the Big Inch and Little Big Inch pipelines from the 1940's¹. During World War II, oil tankers in the Gulf of Mexico came under attack. The problem was mitigated by federal construction of two 1,200 mile oil pipelines from producing to refining areas. Pipelines were constructed at a cost of \$146 Million, and subsequently auctioned after the war for \$143 Million to a new company – Texas Eastern Transmission Company.

This model can be applied to the New England situation. In this instance, a Tariff would support the pipeline cost, but the pipeline capacity would immediately be auctioned to the highest credit-worthy bidders². An example would illustrate this proposal:

Pipeline capacity to be constructed – 1 Bcf
Cost of capacity - \$2/Mcf
Contract Term (required by Pipeline Company) – 20 years

Buyer A – merchant generator – Bids \$1 for 0.2 Bcf

Buyer B – gas marketer – Bids \$0.75 for 0.15 Bcf

Buyer C – distribution company – Bids \$0.50 for 0.05 Bcf

Buyer D – gas producer – Bids \$0.80 for 0.5 Bcf

....and so on.

The Tariff funding would be limited to the financial shortfall between the amounts bid by the Buyers who value the pipeline capacity the highest and the cost of the pipeline.

There would be no need for a new "fuel manager" under this design, as the pipeline capacity would be in the hands of Buyers that are already experienced fuel managers and, as demonstrated by their high

¹ Credits to Bill Short

² The Buyer would actually execute the agreement with the Pipeline Company

bids, are the highest value owners of the pipeline capacity. The Tariff funding is minimized since the overall cost is reduced by funding from the Buyers that place the highest value on the capacity.

This design is fully consistent with the proposal put forward by the distribution utilities on April 22. In effect, the bid that their proposal reduces to is: \$2 plus additional unstated remuneration. While that bid may change under the competitive construct proposed herein, it actually illustrates the need for a more market based design that has the potential to reduce the magnitude of Tariff funding.

Auction design is actually a complex and specialized discipline, and there is substantial expertise available to develop a design that minimizes consumer cost of the Tariff and distributes pipeline capacity to the most efficient users of that capacity.

One issue that may arise is back-end discounting of pipeline capacity value due to the inherent risk in long term commitments. The auction design could incorporate a mechanism that forces a capacity re-auction to the extent back-end bids fall below a pre-determined threshold. This re-auction process could substantially reduce the Tariff impact on consumers and greatly improve the overall efficiency of the auction.

Finally, the auction could be useful in determining which pipeline proposal, and what capacity, is of most value to the market, and consequently achieve greatest efficiency for the consumer ultimately paying the Tariff. A preliminary RFI could be used to sort out various pipeline options to best focus the final auction.