UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

ISO New England Inc.	)	Docket Nos. AD13-7-000
	)	AD14-8-000
	)	

COMMENTS OF THE NEW ENGLAND STATES COMMITTEE ON ELECTRICITY

Pursuant to the February 20, 2015 Notice Allowing Public Comment issued by the Federal Energy Regulatory Commission ("FERC" or "Commission") in the above-captioned dockets (the "Notice"), the New England States Committee on Electricity ("NESCOE") hereby files these comments. The Notice was preceded by a November 20, 2014 order issued by the Commission that directed independent system operators and regional transmission organizations ("ISOs/RTOs") to file status reports about efforts to address fuel assurance issues (the "November 20 Order").[1] In response to the November 20 Order, ISO New England Inc. ("ISO-NE") filed a Fuel Assurance Status Report on February 18, 2015 (the "ISO-NE Status Report").[2]

I. DESCRIPTION OF THE COMMENTER

NESCOE is the Regional State Committee for New England. It is governed by a board of managers appointed by the Governors of the six New England states. NESCOE's mission is to represent the interests of the citizens of the region by advancing policies designed to provide electricity at the lowest possible price over the long term, consistent with maintaining reliable

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[1] *Order on Technical Conferences*, 149 FERC ¶ 61,145 at P 20 (2014). The November 20 Order describes fuel assurance as "a broad concept that includes a range of generator-specific and system-wide issues, including the overall ability of an RTO's/ISO's portfolio of resources to access sufficient fuel to meet system needs and maintain reliability." *Id.* at P 7.

[2] The ISO-NE Status Report can be accessed at www.iso-ne.com/static-assets/documents/2015/02/Final_for_Filing__Fuel_Assurance_Report.pdf.

service and environmental quality. NESCOE seeks to accomplish its objectives in the context of a competitive wholesale electricity market, and it strives to advance its mission through collaborative work with ISO-NE, the New England Power Pool (NEPOOL), and other regional stakeholders.

II. BRIEF BACKGROUND: NOVEMBER 20 ORDER AND ISO-NE STATUS REPORT

The November 20 Order arose from discussion of fuel assurance issues in various venues, including the Commission's September 25, 2013 technical conference on centralized capacity markets and the Commission's April 1, 2014 technical conference on winter 2013/2014 operations and market performance.[3] The November 20 Order reflected the Commission's view that a failure to address fuel assurance issues could have critical implications for system reliability and the volatile and high prices paid by consumers.[4] Given the "potential risks to reliability and just and reasonable rates," the Commission indicated that it was the appropriate time "to initiate a review of how each ISO/RTO is addressing fuel assurance."[5] The Commission provided guidance in the November 20 Order to assist ISOs/RTOs in efforts to address fuel assurance issues, and it recognized that trade-offs are inherent in different approaches to addressing fuel assurance, including consequences for consumer costs.[6]

The ISO-NE Status Report catalogued the various and ongoing efforts in the region to address reliability concerns in connection with fuel assurance issues. Many of the market changes referenced in the ISO-NE Status Report—*e.g.*, Pay for Performance ("PFP"), an

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[3] November 20 Order at P 1.

[4] *See, e.g., id.* ("Failure to address this issue can potentially lead to volatile and often high fuel prices or costly RTO/ISO actions to ensure reliability") and at P 8 ("Fuel assurance is a key to ensuring generator performance, which directly contributes to the overall reliability of the grid and just and reasonable rates").

[5] *Id.* at P 1.

[6] *Id.* at P 16.

increase in the Reserve Constraint Penalty Factors, energy market offer flexibility—were discussed in the November 20 Order.[7] The November 20 Order highlighted PFP, which ISO-NE expects to result in better generator responsiveness, as one possible mechanism other ISOs/RTOs could consider to incentivize firmer fuel arrangements.[8] However, the PFP construct, like the Forward Capacity Market more broadly, is not designed to resolve New England's fundamental natural gas infrastructure constraints.[9]

The ISO-NE Status Report briefly referenced pricing implications related to fuel supply availability in New England, noting that "due to natural gas transportation constraints, what gas is available can be extremely expensive, raising electricity prices" and that "high natural gas prices drove wholesale electricity prices to record levels in the past two winters (2012-2013 and 2013-2014)."[10] ISO-NE did not provide further pricing information, such as the impact on electric rates and consumers in New England. NESCOE provides that general information in this filing to give the Commission a fuller perspective of New England's challenges.

III. COMMENTS

NESCOE's comments below are intended to build-on the ISO-NE Status Report, which focused primarily on efforts to address reliability risks arising from fuel assurance issues. The November 20 Order identified reliability as a pressing risk and described the causal connection between fuel assurance issues and just and reasonable rates. The comments here seek to provide the Commission with additional information on consumer cost implications in New England, as well as environmental considerations related to New England states' laws and policy objectives.

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7 *See id.* at PP 10-12.

8 *Id.* at P 15.

9 *See, e.g.,* ISO-NE Status Report at 4.

10 *Id.* at 3.

NESCOE also provides the Commission with information regarding current New England Governors' collaborative efforts to address infrastructure challenges in the region, including enhancing access to fuel supplies and to clean power resources. The Governors are currently discussing approaches to achieve cost-effective infrastructure solutions in the nearest possible term.

A. Fuel Assurance Issues are Having Profound Price Impacts and Significant Environmental Implications for New England Consumers

The Commission is well aware that fuel assurance issues have been particularly acute in New England. In our region, constrained natural gas pipelines are a driver for soaring electricity prices. Over the past three winters, "natural gas prices have risen steeply, showing the effects of increasing pipeline constraints."[11] Last winter, natural gas spot market prices "spiked to historically high levels" in the Northeast.[12] From December 2013 through February 2014, prices rose above $20/MMBtu on approximately 30 separate days at the Algonquin Citygate ("Algonquin"), the common reference point for gas prices in the region.[13] On January 1, 2014, "the spot price for natural gas in New England was nearly $20 higher than the price paid in most of the country."[14] At its peak, 2014 spot prices at Algonquin reached $78/MMBtu, double the peak spot price in 2013 of $38/MMBtu.[15]

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[11] Gordon Van Welie, ISO-NE, *State of the Grid: Managing a System in Transition*, Presentation and Remarks, Jan. 21, 2015 ("State of the Grid"), at 27, *available at* www.iso-ne.com/static-assets/documents/2015/01/stateofgrid_ppt_remarks_01212015.pdf.

[12] Mark Babula (ISO-NE) and Kevin Petak (ICF International), *The Cold Truth: Managing Gas-Electric Integration: The ISO New England Experience*, IEEE Power and Energy Magazine, Nov./Dec. 2014, at 24.

[13] *Id.*

[14] State of the Grid at 27.

[15] *Id. See also* U.S. Energy Information Administration ("U.S. EIA"), Today in Energy, *Wholesale power prices increase across the country in 2014*, Jan. 12, 2015 ("1/12/15 Today in Energy"), *available at* www.eia.gov/todayinenergy/detail.cfm?id=19531; U.S. EIA, Today in Energy, *New England and New York have largest natural gas price increases in 2013*, Jan. 7, 2014 ("1/7/14 Today in Energy"), *available at* www.eia.gov/todayinenergy/detail.cfm?id=14491.

Even on an average annual basis, New England spot gas prices have been significantly higher than those in the rest of the country. In 2013, when the average monthly spot price in New England was $6.90/MMBtu, the average monthly spot price at Henry Hub was $3.73/MMBtu, while the average monthly spot price at Transco Leidy (in Pennsylvania close to the Marcellus shale play) was $3.17.[16] Thus, 2013 average spot prices in New England reflected a significant basis differential, with serious cost implications for New England residential and business consumers. The price disparities between New England and other states, including neighboring states, harms New England residents, and places New England businesses at an unacceptable competitive disadvantage.

With wholesale electricity prices tracking natural gas prices, gas supply constraints caused "record high power prices and soaring energy market costs" in New England.[17] The U.S. EIA, citing to "natural gas pipelines filled to capacity" on cold days, reported a peak hourly spot electricity price of $467/MWh in New England in January 2014.[18] By comparison, the annual average real-time price in New England was $75.65/MWh in 2014, $56.06/MWh in 2013 and $36.09/MWh in 2012.[19] As ISO-NE has reported, wholesale electricity costs have risen in each of the last three winters, from $1.2 billion in 2011/2012 to $5.1 billion in 2013/2014.[20]

New England's experience with volatile and high natural gas prices due to capacity constraints has translated into dramatic increases in the costs consumers are paying for

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16 *See* 1/7/14 Today in Energy (listing, in addition to the Henry Hub and Transco Leidy prices, average spot prices for New York City (Transco Zone 6 NY) at $5.10/MMBtu).

17 State of the Grid at 28.

18 1/12/15 Today in Energy.

19 *Id.*; ISO-NE, Internal Market Monitor, 2013 Annual Markets Report, May 6, 2014, at 12-13, *available at* www.iso-ne.com/static-assets/documents/markets/mkt_anlys_rpts/annl_mkt_rpts/2013/2013_amr_final_050614.pdf.

20 State of the Grid at 28.

electricity. Before the onset of the current winter season, FERC staff compared the future prices of gas and electric power from October 2013 and October 2014 and found that "[t]he impact of higher natural gas futures prices is most apparent in New England, where winter electricity futures prices have increased by 84% to $184/MWh."[21] FERC staff further observed that "higher electricity prices reflect the increased cost of natural gas in New England this winter and are consistent with the historical relationship between the pricing of gas and power within the region."[22] With wholesale power costs the primary driver of retail rate increases, natural gas constraints have, in turn, resulted in surging residential electric costs across most of New England. As the winter began, most New England residents had to find ways to shoulder electric retail supply increases that were expected to exceed 50%, with some experiencing expected increases as high as 85%-100%.[23]

Moreover, these recent increases are on top of substantial price hikes from the prior year. According to data from the U.S. EIA, average residential price increases in New England tripled the national average increase when comparing the first half of 2014 to first half of 2013.[24] In that period, New England residents faced an average increase of 11.8% while the U.S. average increase was 3.2%.[25]

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21 FERC, Winter 2014-15 Energy Market Assessment, Oct. 16, 2014, at 13, *available at* www.ferc.gov/market-oversight/reports-analyses/mkt-views/2014/10-16-14-A-3.pdf. Futures for natural gas in the region were "82% higher than last October, averaging around $21/MMBtu." *Id.*

22 *Id.*

23 *See* James Daly, Vice President, Energy Supply, Northeast Utilities, Restructuring Roundtable: New England Electric Rates and Market Drivers, Nov. 21, 2014, at Slide 4, *available at* www.raabassociates.org/main/roundtable.asp?sel=131.

24 *See* U.S. EIA, Today in Energy, *Residential electricity prices are rising*, Sept. 2, 2014, *available at* www.eia.gov/todayinenergy/detail.cfm?id=17791.

25 *Id.*

New England businesses are also adversely affected by the cost of supply-constrained natural gas. In Maine, for example, a medium-sized business was expected to see the electricity supply portion of its bill increase from $870 per month in September 2014 to over $2,000 per month in January 2015.[26]

Some entities—without a responsibility for consumer cost consequences—have argued that the *status quo* is working.[27] While it appears to date that wholesale electric prices for the current winter have not risen to the staggering levels experienced last year, this winter's prices are not a benchmark for success when the comparison is to a prior year that saw record-high prices for natural gas and associated historic wholesale electric prices. Nor is it rational, when consumer impacts are considered, to urge complacency rather than solutions to the fundamental gas supply constraints that have caused price volatility in the market and contributed to the steady wholesale power price increases over the last several years. This root problem persists, with no indication of letting up. According to the U.S. EIA, recent natural gas prices in the northeast during an especially cold stretch were more than five times the nearby Marcellus-area gas prices and the Henry Hub national benchmark.[28] Another analysis, comparing gas prices at Algonquin in 2013 and 2014 over the same week of February, showed year-over-year price increases despite "more favorable . . . supply-demand balance."[29] Just this year, ISO-NE

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[26] *See State Energy Officials Encourage Businesses to Prepare for Winter and High Prices: Nearly Unprecedented Regional Spike in Electricity this Winter*, Press Release, Oct. 6, 2014, *available at* www.maine.gov/tools/whatsnew/index.php?topic=puc-pressreleases&id=629128&v=article08.

[27] *See, e.g.,* New England Power Generators Association, Testimony on Senate Bill 1078 and House Bill 6985 Before the Connecticut General Assembly's Joint Comm. on Energy and Technology, Mar. 17, 2015, *available at* www.cga.ct.gov/2015/etdata/tmy/2015HB-06985-R000317-Dolan,%20Dan%20-%20New%20England%20Power%20Generators%20Association-TMY.PDF.

[28] *See* U.S. EIA, Natural Gas Weekly Update, Feb. 19, 2015, *available at* www.eia.gov/naturalgas/weekly/archive/2015/02_19/index.cfm.

[29] Everett Wheeler, SNL Energy, *Arctic shot: New England natural gas prices higher YOY in spite of increased supply*, Feb. 20, 2015, *available at* www.snl.com/InteractiveX/Article.aspx?cdid=A-31249179-10801.

continued to identify natural gas pipeline constraints as a sustained risk both to reliable operations and further escalating consumer costs[30] and has stressed the need for a "timely solution to this serious problem."[31]

The November 20 Order dedicated discussion to forthcoming changes in the New England capacity market designed to improve generator performance, primarily in the form of PFP. While PFP is expected to influence generator performance and responsiveness, it is not expected to solve the root cause of New England's fundamental energy infrastructure problem and associated exorbitant price increases.[32] Indeed, despite over a decade of conversation in New England about gas and electric markets and the potential development of market mechanisms to address infrastructure inadequacies, not one has been proposed that is expected to solve the problems caused by the region's natural gas constraints in a cost-effective way.

In addition, while NESCOE appreciates actions that ISO-NE has taken to address reliability risks associated with fuel assurances issues, there are important environmental considerations and consequences associated with these efforts. Both of ISO-NE's winter reliability programs relied primarily on "financial incentives to generators to maintain on-site oil inventories."[33] Generators participating in the first winter reliability program in 2013-2014 secured over 3 million barrels of oil and burned through 88% of that supply.[34] This year, over a three-week period in February, oil-fired generation "exceed[ed] the oil burn in New England for

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30 State of the Grid at 35 ("Reliabilty will be threatened, and prices will spike, until the effects of the natural gas pipeline constraints are alleviated with additional investments in fuel infrastructure[.]").

31 ISO-NE Status Report at 4.

32 *See, e.g., id.*

33 *Id.* at 7.

34 ISO New England Inc., Winter 2014-15 Reliability Program (Part 1 of 2), Docket No. ER14-2407-000 (filed July 11, 2014), at 5. *See also* ISO-NE Status Report at 7 ("The region relied heavily on oil-fired generators [in the 2013-2014 winter], burning through 1.6 million of the 1.9 million megawatt-hours of oil procured through the program.").

all of 2012 and 2013 combined."[35] This uptick in the use of fuel oil to produce electricity contributes further to what ISO-NE has already observed: escalating emissions caused by greater production of oil- and coal- fired generation that is directly correlated with natural gas supply constraints.[36] And over the long-term, PFP is expected to provide "strong incentives for the installation and operation of oil-firing capability,"[37] but insufficient revenue to incent natural gas-fired generators to enter into long-term firm fuel arrangements.[38] While discussions of the region's resource mix must, of course, focus on reliability and economic considerations, a trend of increased use of fuel oil has serious environmental implications and may inhibit the New England states' individual and collective ability to meet important clean energy and greenhouse gas reduction goals.

B. Continued Regional Effort to Address an Acute Regional Issue

NESCOE appreciates the Commission's attention to and close engagement on this critical issue acutely affecting New England. Against the backdrop of the facts provided above and in the ISO-NE Status Report, NESCOE emphatically supports the Commission's guidance to ISOs/RTOs that resource adequacy constructs must meet *both* reliability objectives and result in

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35 Argus, *Analysis: New England oil burn surges in February*, Mar. 2, 2015, *available at* www.argusmedia.com/News/Article?id=1000990.

36 ISO-NE, *New England Power Grid 2014–2015 Profile: A rapid transformation of the region's electric power resource mix is underway*, at 1, *available at* www.iso-ne.com/static-assets/documents/2015/02/2015-powergridprofile-final.pdf.

37 ISO-NE Status Report at 4.

38 *See id.*; *See also Filings of Market Rule Changes To Implement Pay For Performance in the Forward Capacity Market*, Docket Nos. ER14-1050-000, -001 (Jan. 17, 2014), Affidavit of Todd Schatzki on behalf of the ISO and Impact Assessment by Analysis Group, Inc., at Attachment B, The Analysis Group, Inc., *Assessment of the Impact of ISO-NE's Proposed Forward Capacity Market Performance Incentives*, Sept. 2013, at 19, *available at* www.iso-ne.com/static-assets/documents/regulatory/ferc/filings/2014/jan/er14_1050_000_1_17_14_pay_for_performace_part_1.pdf at 519-520.

just and reasonable wholesale rates. Over multiple years of stakeholder discussions, NESCOE has expressed its continued and strong interest in exploring market mechanisms that could cost-effectively solve the root cause of New England's gas-electric power system challenges. Any particular solution to fuel assurance issues must be cost-effective and, as underscored by the Commission in the November 20 Order, result in just and reasonable rates for New England consumers.

New England, which in other areas offers residents and businesses advantages such as an unmatched quality of life and a world-class workforce, needs both improved generator performance and cost-effective incremental energy infrastructure. Given the lack of movement on meaningful, cost-effective market changes to address New England's power system challenges including high winter energy prices, the New England Governors are currently discussing collaborative approaches to regional solutions.[39]

[39] Three New England states recently issued for public comment a joint draft Request for Proposals ("RFP") for clean power resources in furtherance of state energy and environmental policy objectives. The RFP and associated documents can be accessed at http://cleanenergyrfp.com.

IV. CONCLUSION

NESCOE appreciates the opportunity to provide its perspective on fuel assistance issues and respectfully requests that the Commission consider these comments in the above-captioned dockets.

Respectfully submitted,

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