

What's the Deal? 21st Century Energy

CBIA and CPES

New England States Committee on Electricity

October 8, 2014

NESCOE

New England's Regional State Committee governed by a Board of Managers appointed by each of the New England Governors to represent the collective views of the six New England states on regional electricity matters

- **Focus:** Resource Adequacy, System Planning & Expansion
- **Resources:** 6 full-time staff with diverse disciplines & experience. Consultants, primarily for transmission engineering, economics & independent studies
- **More information:** including filings & comments at www.nescoe.com

Overview

- Regional Challenges: Reliability & Economic Disparity
- New England Governors' Infrastructure Initiative
- Stakeholder interactions to date
- Status of state discussions and feedback requests

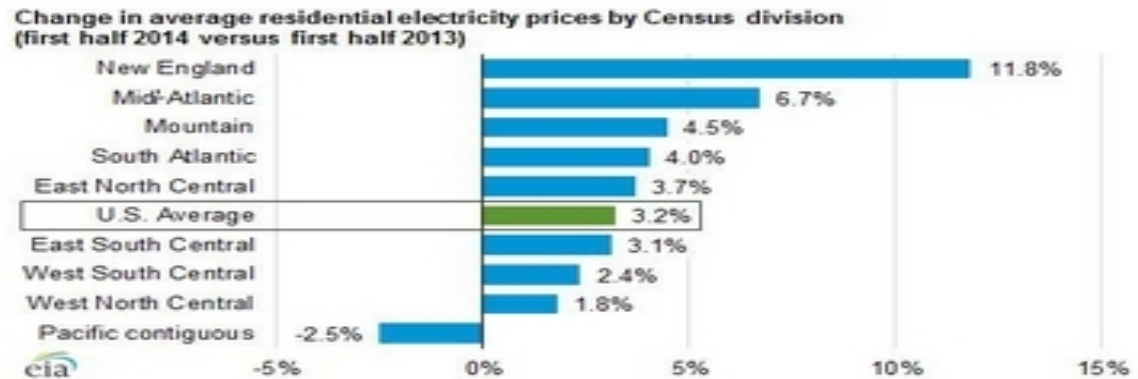
New England requires a reliable, secure, and cost-competitive electric system to sustain and grow its economy

- “The challenges to grid reliability are not a question of if they will arise, but when - and when is now.”

- Gordon van Welie, CEO, ISO-NE, 2014 Regional Electricity Outlook

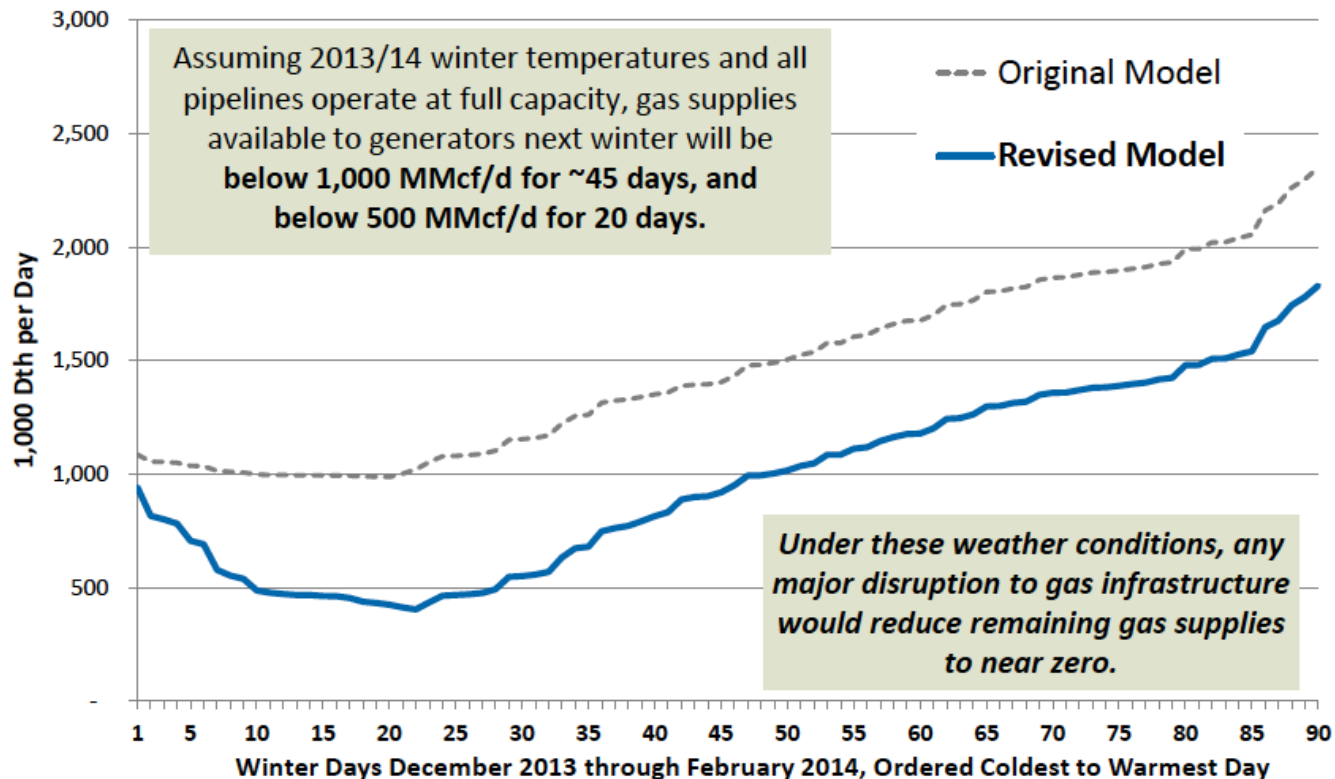
- *Forbes on ISO-NE's 2013/2014 Winter Program:* “The strategy was expensive and dirty, but it was probably the only reason New England avoided rolling blackouts this winter.”

DOE EIA
New England price
increases triple the
national average
increase



Incorporating the Winter 2013/2014 experience into the forecast exacerbates the reliability outlook

Revised Model Results for 2014/15 Winter: Gas Supplies Remaining for Electric Generators



Incorporating the Winter 2013/2014 experience into the forecast exacerbates the reliability outlook

- ICF International’s “revised projections for gas supplies available to electric generation throughout the winter average nearly 500 MMcf/d lower” than previous projections.
- According to ICF, assuming 2013/14 winter temperatures and all pipelines operate at full capacity, gas supplies available to generators for the Winter 2014/2015 will be:
 - below 1,000 MMcf/d for ~45 days and
 - below 500 MMcf/d for 20 days.

These volumes represent approximately 40% and 20%, respectively, of the total gas-fired resources with commitments to provide capacity throughout the winter.

Market-Based Pipeline Solutions Not Meeting New England's Needs

Gas and Electricity Markets' Term Mismatch

- Nationally, the natural gas pipeline industry is based on long-term contractual commitments (i.e., at least 10 years, commonly 15-20 years)
- In New England, the electric industry is based on short-term market price signals (up to seven years for new resources, year-to-year for existing)

Recent pipeline projects in New England have had zero electric power generators subscribe for firm natural gas transportation

Spectra's AIM project was downsized from original design due to lack of subscription from 500 mmcf/day to 342 mmcf/day

Urgent Need for Action

Absent significant change...

- New England's power system will be increasingly vulnerable to electric service disruptions
- Consumers will needlessly pay more for energy than consumers in nearby states and elsewhere
- Our region will remain at an unacceptable economic and competitive disadvantage to neighboring states and regions

After lengthy and robust regional discussions of potential solutions, no other comprehensive long-term solution has emerged to move New England beyond the status quo.

Think *locally*...

The New England states are committed to continued, robust investment in clean energy and energy-alternative resources...

- Energy efficiency
- Distributed Renewable Generation
- Renewable Energy Standards
- Utility-scale development of Renewable Energy

Importantly, many of these investments generate local economic opportunities and create local jobs, while diversifying the regional fuel mix.

...and act *Regionally*

The problem is too big for any one state to solve – our energy system crosses borders, is highly integrated

- A **reliable** bulk electric system is a necessity to local health and safety, and to our shared economy.
- The New England states share common **economic, environmental, and energy goals**.
- New England is **competing** with other regions to attract new businesses and investment opportunities.

The New England Governors' Energy Infrastructure Initiative

The concept: to make strategic, coordinated investments in regional energy infrastructure that would

- **Improve energy system reliability**
- **Diversify** our energy **supply** portfolio
- Strengthen state and regional **economic competitiveness**
- **Meet** common energy and environmental **policy goals**
- **Increase** the **supply** of cleaner, no-to-low carbon generation
- **Mitigate energy price volatility**
- *Achieve what no single state could do on its own.*

Energy Infrastructure Initiative

States have been working on two major energy incremental infrastructure investment strategies

- 1. Expand pipeline capacity** to increase natural gas supply into New England, reducing supply constraints and associated energy price volatility.
- 2. Expand electric transmission** to facilitate utility-scale development and delivery of no-to-low carbon energy resources.

One Possible Means to Expand Natural Gas Capacity

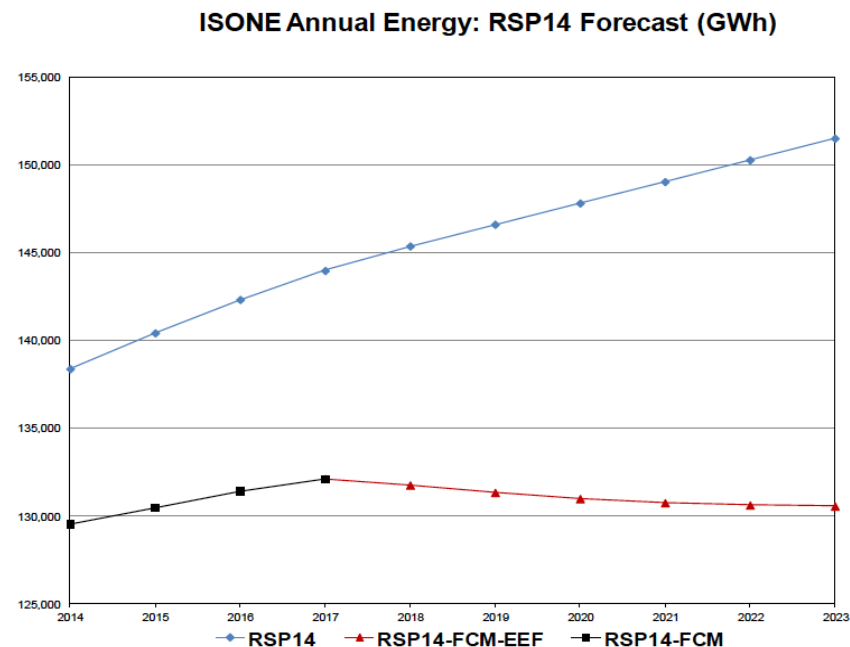
- Drive investment in pipeline infrastructure by allowing for recovery of costs through FERC electric tariffs.
- Costs shared appropriately across the six New England states.
- Ensure any new capacity will be made available in a manner that primarily benefits electricity customers.
- Tariff & cost allocation would have FERC process and require FERC approval.
- Request proposals, through a competitive solicitation, priced in increments of 200 mmcf/day to allow the evaluation of the cost of adding sufficient increments of additional capacity to achieve levels of at least 1bcf above 2013 levels.

Expanding Transmission to Facilitate Clean Energy

- Issue one or more coordinated RFPs to advance the development of transmission and delivery of clean energy into New England.
- Transmission infrastructure costs recovered through ISO-NE tariff or through merchant projects in a manner that ensures costs are shared appropriately among the states.
- Depending on procurement structure, a subset of states (directly or through their utilities) may procure the power to ensure its delivery into the region.

Incremental infrastructure is in addition to, not in lieu of, sustained, aggressive investment in energy efficiency and other clean energy resources

- Four New England states - **Massachusetts, Connecticut, Rhode Island, Vermont** - are in the top ten states nationally for energy efficiency, based on ACEEE rankings. Massachusetts ranks first for the third consecutive year.
- Aggressive investment is reflected regional planning, at states' request:
 - The 2018-2023 ISO-NE EE Forecast shows MA will invest another \$3 billion over the time period for savings of at least 4.5 TWh and 605 MW.
 - The New England states together will invest \$5.7 billion for total savings of 9.1 TWh and 1.2 GW by 2023



Source: ISO New England

Clean energy policies and improving economics driving growth in distributed renewable resources

- To determine the level of solar PV penetration New England is likely to experience in the next ten years, ISO-NE developed, at states' request, a solar PV forecast based on policies with reliable funding sources in each state.
- After discounting for uncertainty and seasonal capability, the region expects almost 500 MW of installed solar by 2018 and up to 632 MW by 2023.

ISO New England Interim Solar Photovoltaic (PV) Forecast

States	Estimated Summer SCC (MW)											Totals
	Through 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
CT	25.8	16.2	13.8	18.5	12.1	12.1	4.6	4.6	4.6	4.6	4.0	120.9
MA	126.6	59.0	41.1	38.7	36.3	34.5	34.5	34.5	11.5	11.5	11.5	439.7
ME	2.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	8.8
NH	2.9	0.9	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.2	0.2	9.4
RI	3.8	2.6	1.9	1.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	12.4
VT	12.6	7.0	4.7	2.4	2.3	2.3	2.3	2.3	2.3	2.3	0.6	41.1
Regional - Annual Summer SCC (MW)	174.5	86.3	62.9	62.3	52.4	50.7	43.1	43.1	20.1	19.6	17.4	632.3
Regional - Cumulative Summer SCC (MW)	174.5	260.8	323.7	386.0	438.4	489.0	532.1	575.2	595.3	614.9	632.3	632.3

Governors' Communications

Six New England Governors' Statement, December 2013

- “To ensure a reliable, affordable and diverse energy system, we need investments in additional energy efficiency, renewable generation, natural gas pipelines, and electric transmission....”
- “...advance a regional energy infrastructure initiative that diversifies our energy supply portfolio while ensuring that the benefits and costs of transmission and pipeline investments are shared appropriately among the New England States”



Request to ISO-NE for technical, related support, January 2014

- Requested assistance to advance the development of transmission infrastructure that would enable delivery of 1200 MW - 3600 MW of no and/or low carbon emissions resources into New England electric system
- Requested assistance to develop and file tariffs with FERC enabling the recovery of the cost of firm natural gas pipeline capacity and infrastructure expansion

Stakeholder Interactions

- Input from New England Gas-Electric Focus Group on gas level
 - Generally advised to procure higher levels than states initially identified
- Constructive informal conversations by and between stakeholders and states
- NEPOOL Participants Committee monthly updates and NEPOOL Transmission Committee presentations on tariff proposals
- Meetings with each NEPOOL Sector
 - Common Issues/Questions
 - Whether supportive or concerned about state action, generally consistent agreement that New England has a problem to solve
 - Nature of the problem: reliability & economic competitiveness
 - Markets vs. other means
 - Role of ISO-NE
- Multiple requests for NEPOOL and New England Gas-Electric Focus Group comments on gas concepts, related issues

Natural Gas Pipeline Development Concept

- On multiple occasions and in several forums, New England states have sought comment on concepts through which to develop incremental gas pipeline for electric power system reliability.
- States heard from about 27 stakeholders by end of July 2014
- Among other items, the states solicited comments on:
 - Amount of natural gas needed for system reliability
 - Characteristics of contracting entity and capacity manager to best serve electric customers and minimize transaction costs
 - Alternative configurations and structural means to minimize market distortions and reduce overall costs
 - Specific proposals offered by stakeholders
 - Specific going-forward market adjustments that would eliminate the need for state action to ensure reliability and economic competitiveness

Snapshot of status through July

- ✓ States presented to NEPOOL a proposal on the tariff approaches for incremental transmission and natural gas pipeline to NEPOOL on June 20th
 - ✓ Looked toward a September NEPOOL vote and FERC filing with stakeholder input process thereafter
- ✓ Issued Request for Further Information on (Pipeline) Capacity Management, Other Concepts and Counterparty Interest
- ✓ Work on RFP draft to be released for public comment
- ✓ Once RFP issued proposals to be evaluated for cost effectiveness
 - ✓ Consumer benefits must outweigh consumer costs
- ✓ States continue to welcome comments, and any other input, at:
RegionalInfrastructure@nescoe.com

Current Status

July 31, 2014: Massachusetts Legislature adjourned without acting on a bill to enable MA to procure levels of no-and/or low- carbon power

August 1, 2014: NESCOE requested from NEPOOL an extension of the schedule for consideration of proposed tariff mechanism to provides Massachusetts state officials time to evaluate options associated with moving forward with other states on regional solutions to the regional energy infrastructure challenges that have significant reliability and economic competitive implications for New England consumers

Current:

- State officials talking with each other to explore ways forward on regional solutions
- Massachusetts conducting a study of Massachusetts state-level solutions in light of state policies

Appendix

Reliability & Economic Challenges

Current Price Projections

Natural Gas Pipeline Projects

Recent Analysis

Regional Challenges: Reliability & Economic Disparity



- FERC's *2012 State of the Market Report* identified New England "as a market particularly at risk for service disruption due to limited pipeline capacity into the region."
- "New England continues to be an area of focus" and constraints will persist.

- *Winter 2013-14 Energy Market Assessment Report to the Commission, Oct. 2013*



- Pipeline infrastructure constraints in New England create potential for gas supply interruption to gas-fired generators and a reliance on "back-up" fuel for reliability.

- *NERC 2013-2014 Winter Reliability Assessment*

Regional Challenges: Reliability & Economic Disparity



- “[P]otential gas unavailability threatens the reliability of the electric system due to the limited-capacity pipelines used to transport gas, potential gas supply interruptions, and the ‘just- in-time’ nature of the resource.”

- ISO-NE, *Strategic Planning Initiative, Addressing Gas Dependence*,
July 2012

- The region’s “dependence on natural gas is poised to increase and our operational options are becoming more limited.”

- Gordon Van Welie,
Testimony Before the House Energy & Commerce Committee,
Subcommittee on Energy, Mar. 19, 2013



- “New England could face significant reliability issues when natural gas-fired power generators are not able to dispatch as a result of the gas pipeline capacity constraints.”

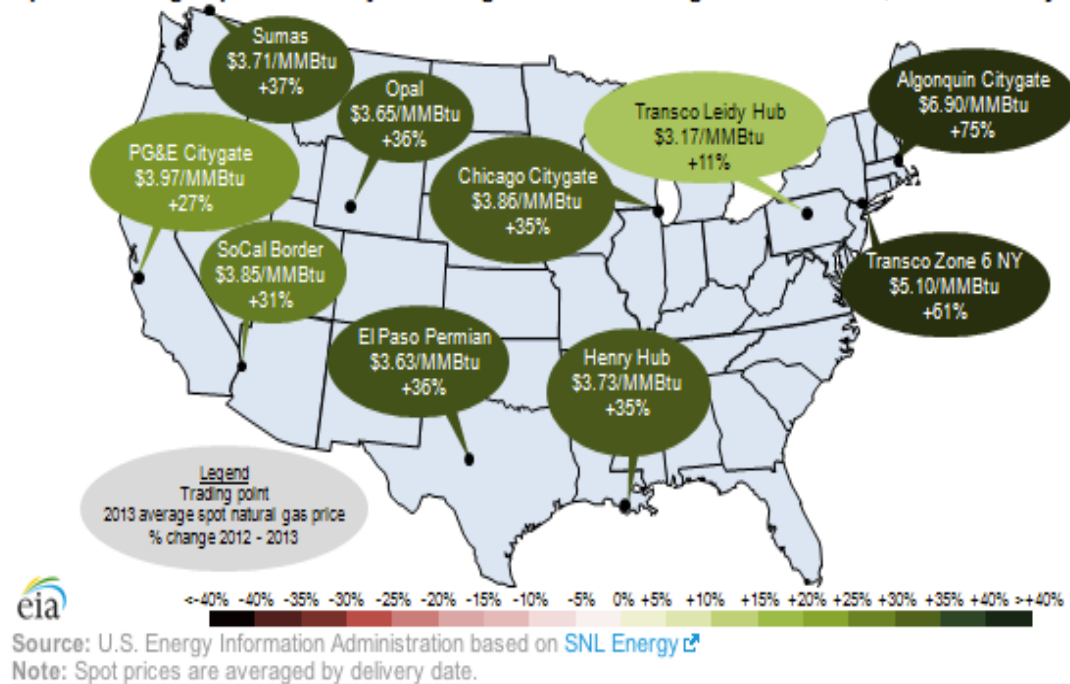
- NESCOE Phase III Study, fall 2013

Retirements of non-gas resources increase the need for greater access to natural gas supply and no/low carbon resources that provide fuel source diversity.

Regional Challenges: Reliability & Economic Disparity

- **New England has the highest natural gas prices in the U.S.**
- Spot price average over 2013 showed an **85%** basis differential – or **\$3.17/MMBtu** – between Algonquin Citygate (\$6.90/MMBtu) and Henry Hub (\$3.73/MMBtu).

Spot natural gas prices at major trading locations through December 31, 2013 delivery date



Regional Challenges: Reliability & Economic Disparity

Futures Prices in New England Soar

Source: Derived from ICE data.

^AJanuary and February 2014

^{*}January and February 2013

^{*}Power Note: Prices in \$/MWh; 2013 shows Peak Fin-swap prices and 2014 shows peak future prices. SP15 peak futures for Jan and Feb 2014 have not traded yet and the price is the average of the last bid and offer.

^{*}Gas Note: Prices in \$/MMBtu. Regional futures natural gas prices are the sum of the Henry Hub futures contract price plus the regional basis futures.

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Location	2014 ^A	2013 [*]
Massachusetts Hub	\$100.00	\$65.65
PJM Western Hub	\$44.35	\$48.00
Northwest (Mid-C)	\$37.37	\$34.58
Southern California (SP-15)	\$43.12	\$42.63
New England (Algonquin)	\$11.75	\$6.59
Mid-Atlantic (Dominion South)	\$3.66	\$3.78
Southern California Border	\$3.95	\$3.88
Henry Hub	\$3.87	\$3.77

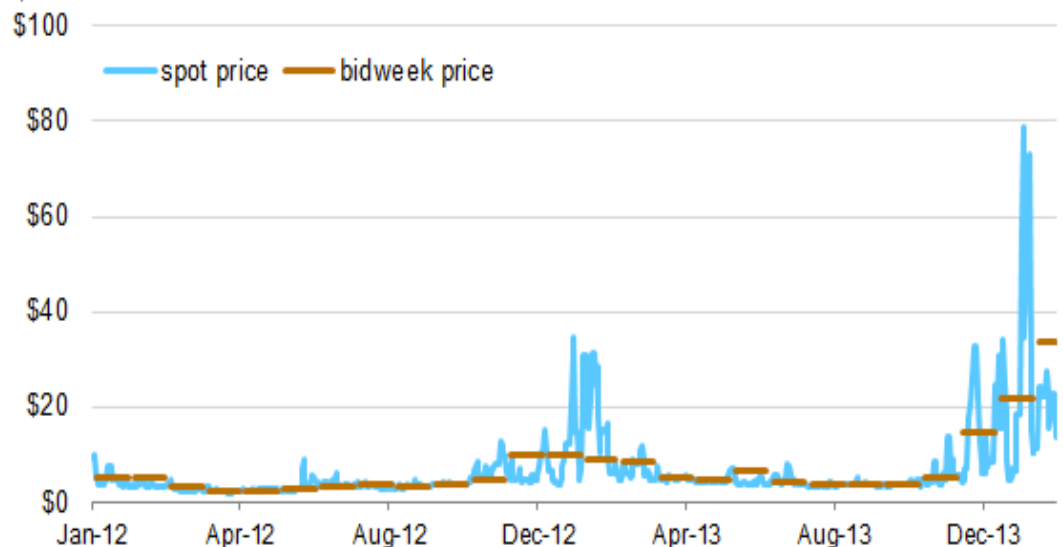
New England power futures for Jan/Feb 2014 were more than 2x higher than the Mid-Atlantic region...

...and natural gas price futures were more than 3x higher.

Regional Challenges: Reliability & Economic Disparity

- Spot price spikes driven to a high of \$34/MMBtu in 2013, with prices in 2014 averaging \$22.53 MMBtu through 2/18/14.
- Spot prices driven to almost \$80/MMBtu as a high point.
- “The high winter prices in New England suggest a natural gas delivery system that is stretched significantly.”
- *EIA, Feb. 7, 2014*
- Record high price since data tracking began in ‘01 and 50% higher than same period in 2013. - *EIA, Feb. 21, 2014*

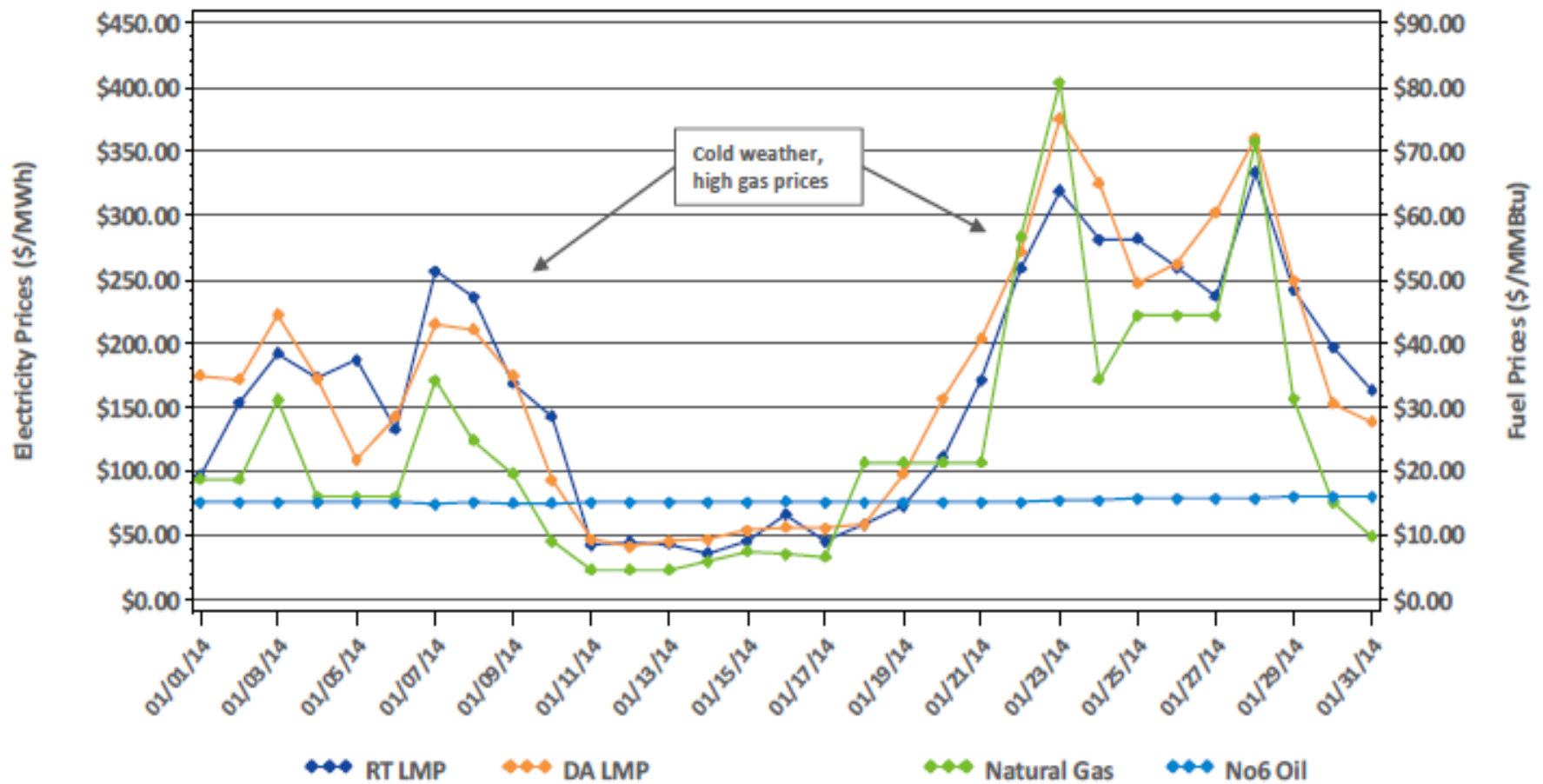
Algonquin Citygate natural gas spot and bidweek prices
(January 1, 2012-February 18, 2014)
\$/MMBtu



Source: IntercontinentalExchange Inc.

Note: Spot prices by trade date. Bidweek prices are determined during the final three trading days of the prior month.

Daily DA and RT ISO-NE Hub Prices and Input Fuel Prices: January 1-31, 2014



Underlying natural gas data furnished by:



Global markets in clear view

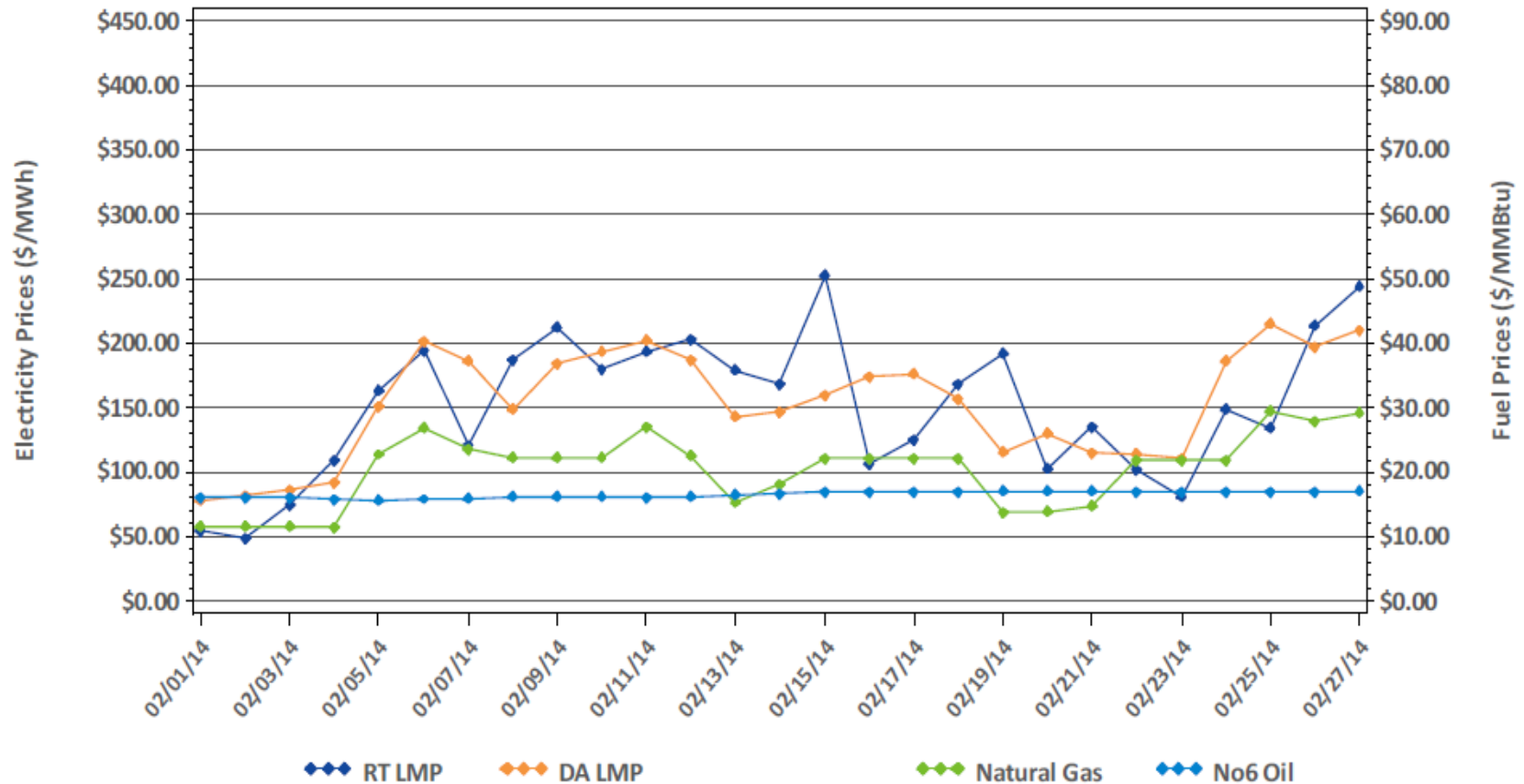
Average price difference over this period (DA-RT): \$5.93

Average price difference over this period ABS(DA-RT): \$25.99

Average percentage difference over this period ABS(DA-RT)/RT Average LMP: 16%

Gas price is average of Massachusetts delivery points; No6 Oil is New York Spot Price from DOE's Energy Information Administration

Daily DA and RT ISO-NE Hub Prices and Input Fuel Prices: February 1-27, 2014



Underlying natural gas data furnished by:



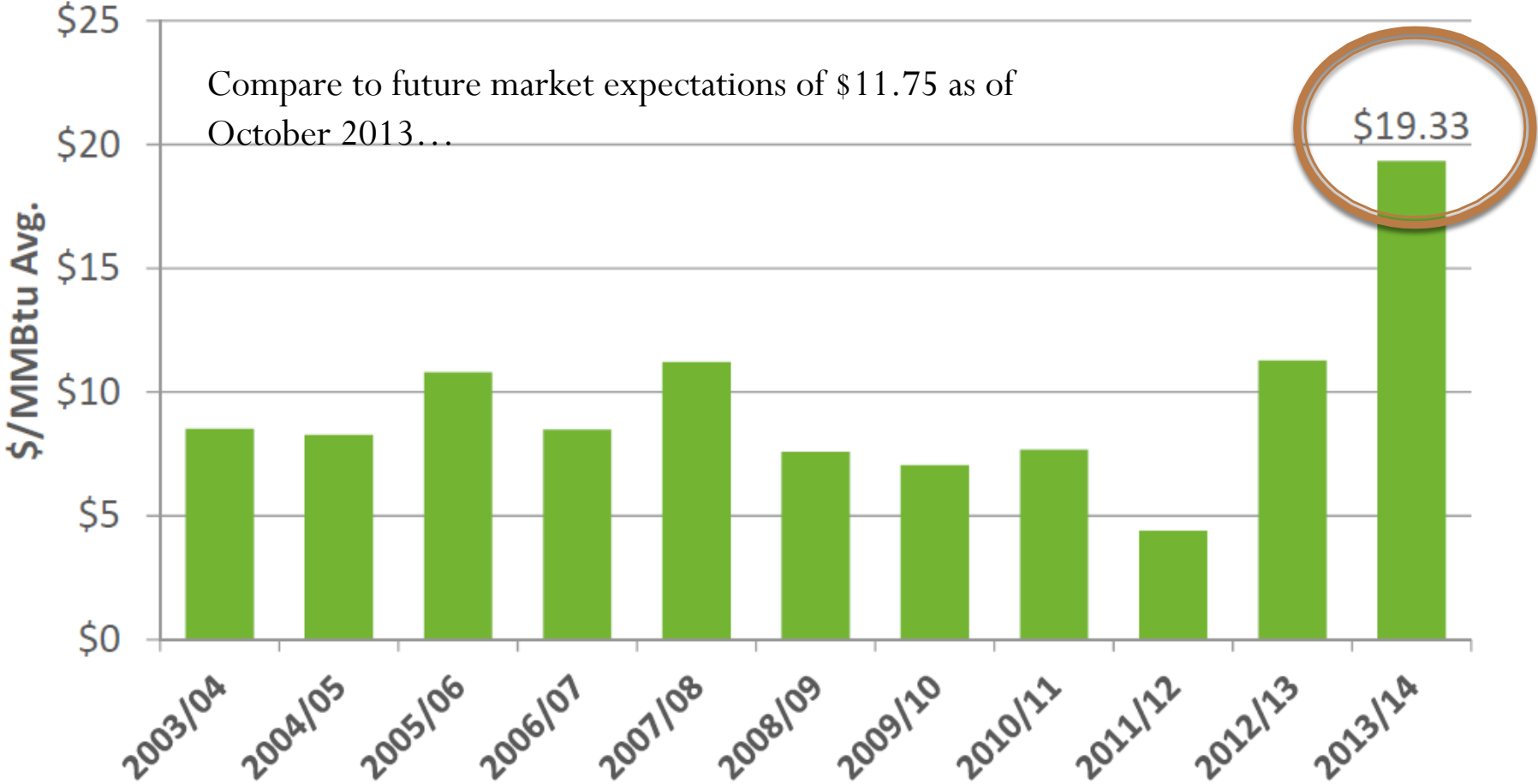
Average price difference over this period (DA-RT): \$1.71

Average price difference over this period ABS(DA-RT): \$33.08

Average percentage difference over this period ABS(DA-RT)/RT Average LMP: 22%

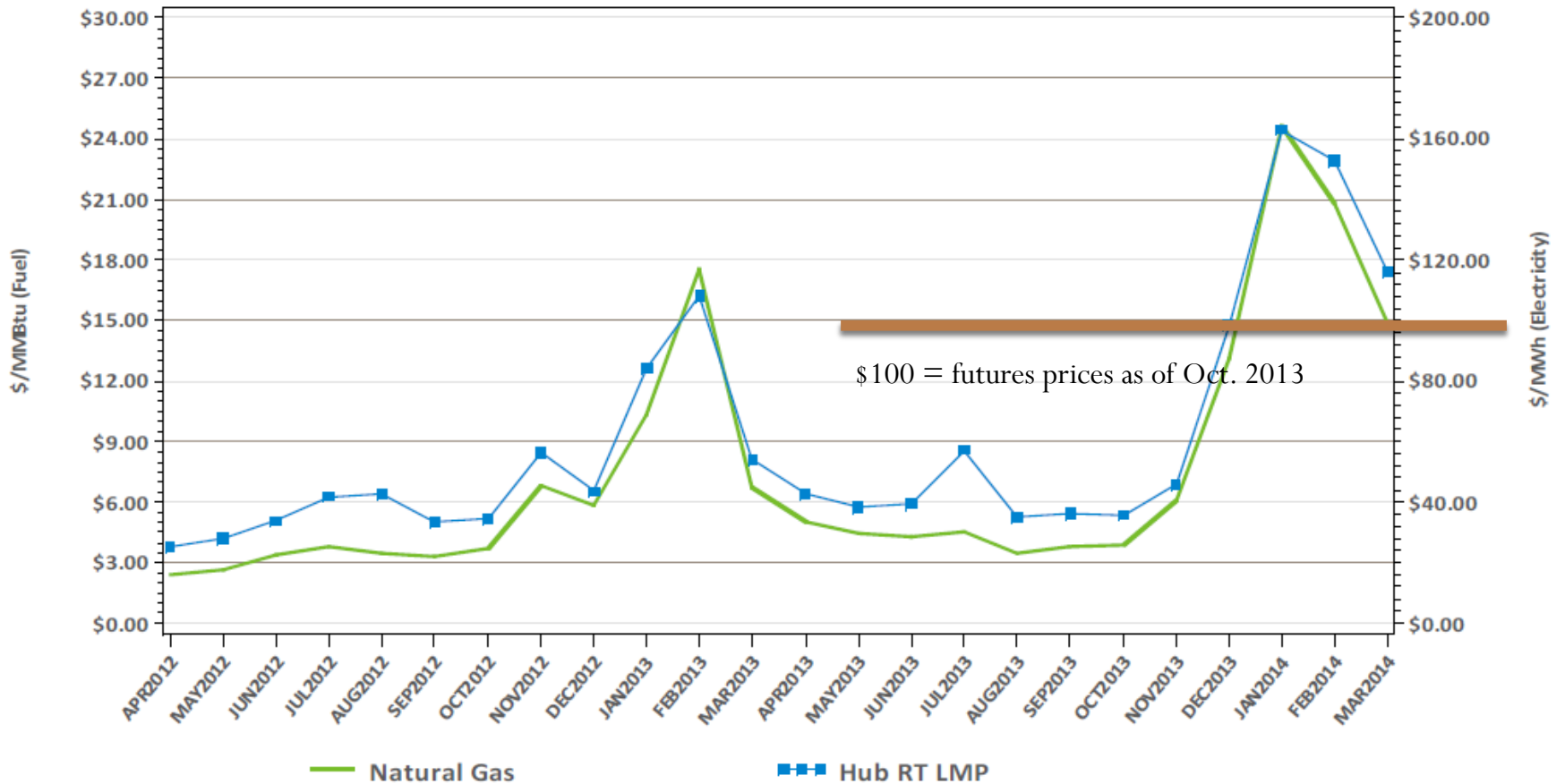
Gas price is average of Massachusetts delivery points; No6 Oil is New York Spot Price from DOE's Energy Information Administration

Winter Gas Prices Nearly Doubled in a Year



* Algonquin Citygate price, December – February average

Electricity Prices Followed Gas Prices: Monthly Average Gas Price and RT Hub LMPs

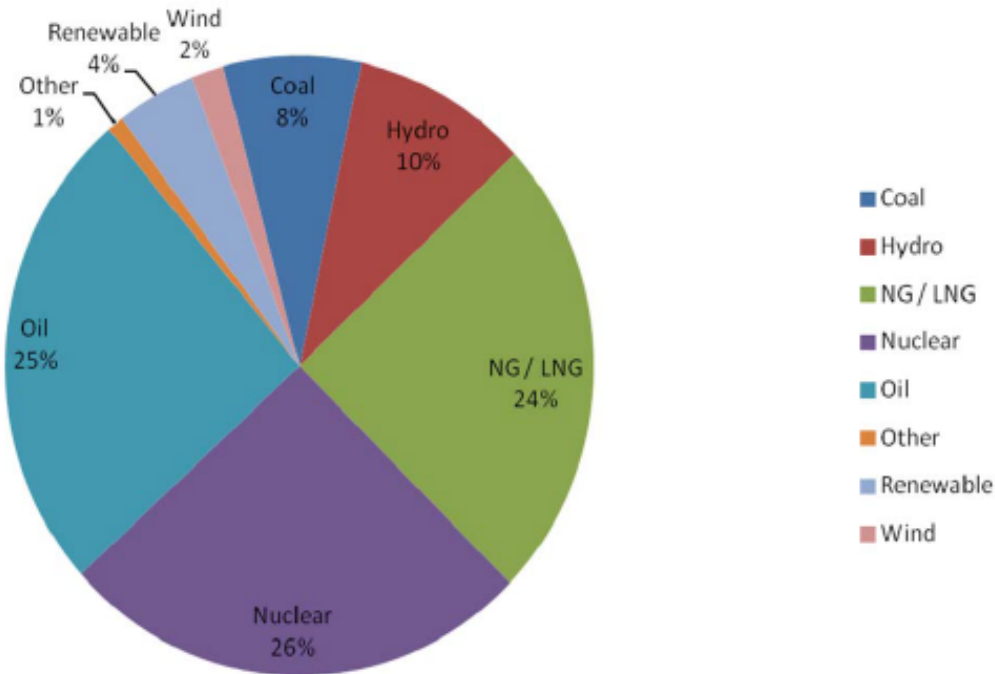


Winter 2013/2014

- Energy market costs exceeded \$5 billion this past winter.
 - Compare to \$5.2 billion...for ALL of 2012.
- 64% of average daily real-time prices were $> \$100$
 - 28% in Winter 2012/13
- For first time in a decade, average daily price exceeded \$250...nine times
- Winter average real time price (Hub) was \$132.10
 - Up 84.4% from Winter 2012/2013 (December through March)

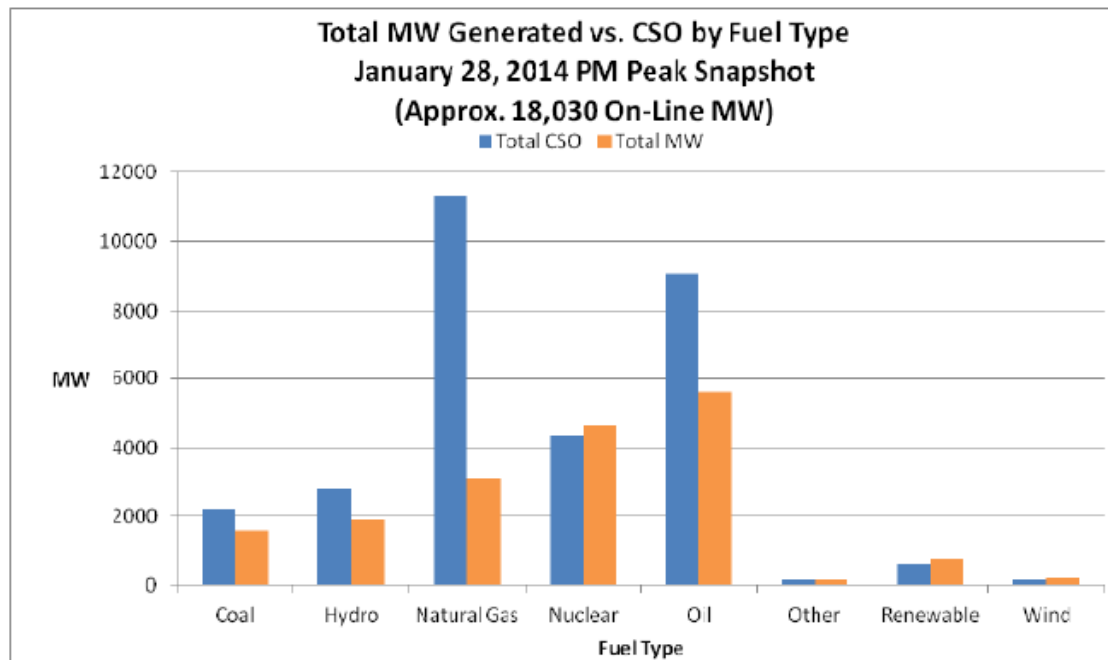
Winter 2013/2014

Average Fuel Use at 1800: 20 Jan-24 Jan 2014



- Natural gas pipeline constraints drove economics and system reliability needs.
- Oil “in the money”
- Gas prices exceeded oil prices 57% of winter days, compared to 18% in Winter 2012/13.

Winter 2013/2014



- While oil produced more energy and other assets approached capacity limits, gas units produced far less than capable.
- i.e. on one cold day, at peak, gas gens produced just 3,000 of 11,000 MW capacity

Others' Observations About New England

Forbes



“The result is an **escalating energy crisis** in New England. Although the northeast has become the largest natural gas producing region in the United States, **New England currently has the nation’s highest natural gas prices.**”

*William Pentland,
December 5, 2013
[emphasis added]*

“We have increasing confidence that the northeast gas basis blow-out vs. Henry Hub this winter will **reoccur in future years...**”

“... we see an argument for **continued higher gas and power prices for the ‘14/’15 winter.** We see the greatest uplift to the thesis as the ‘end of the pipe’ in Boston/New England, where Algonquin prices could further expand...”

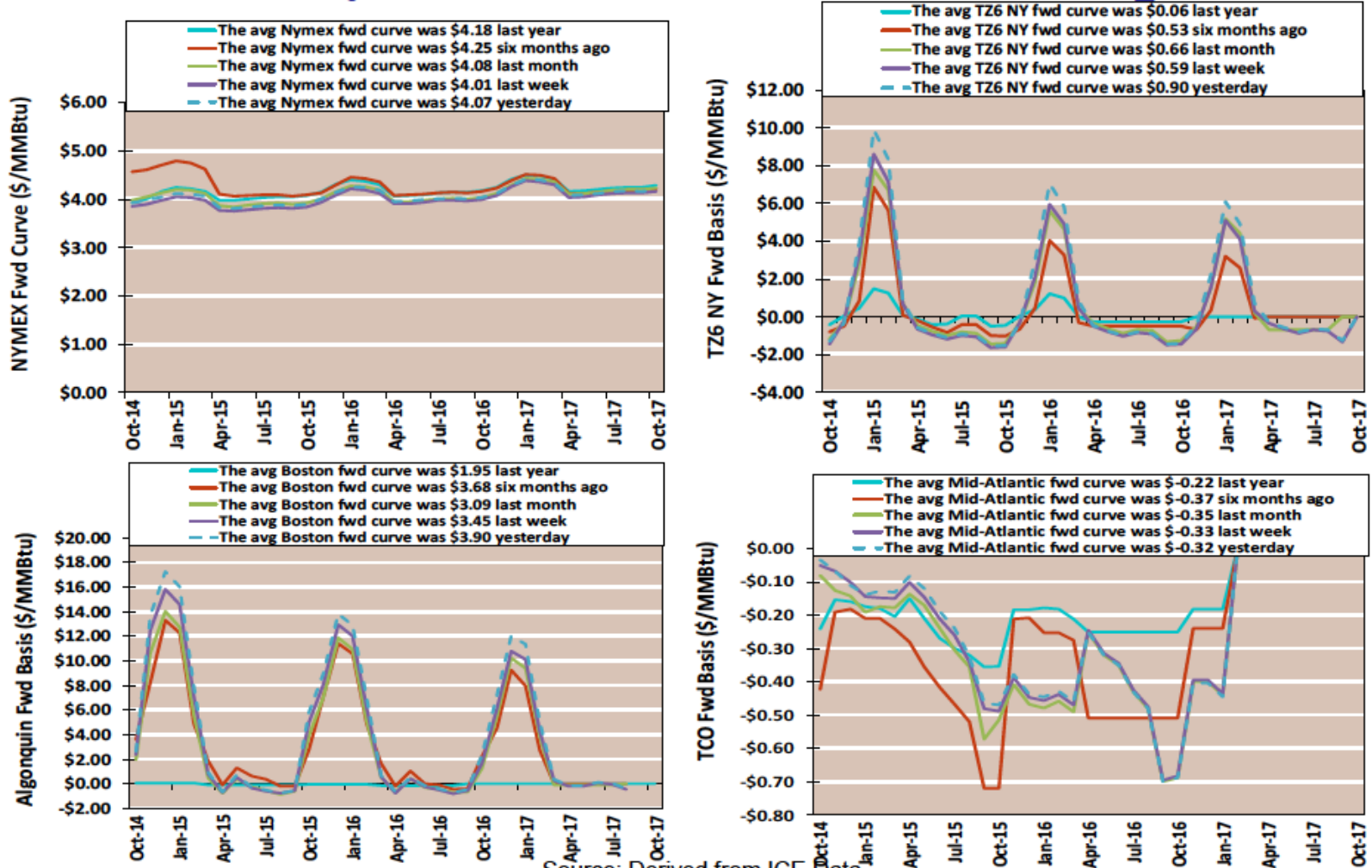
*Global Research, April 2, 2014
[emphasis added]*

Current Price Projections

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Federal Energy Regulatory Commission • Market Oversight • www.ferc.gov/oversight

Nymex and NE Fwd Basis Swaps



Source: Derived from ICE Data

Existing Pipeline Expansion



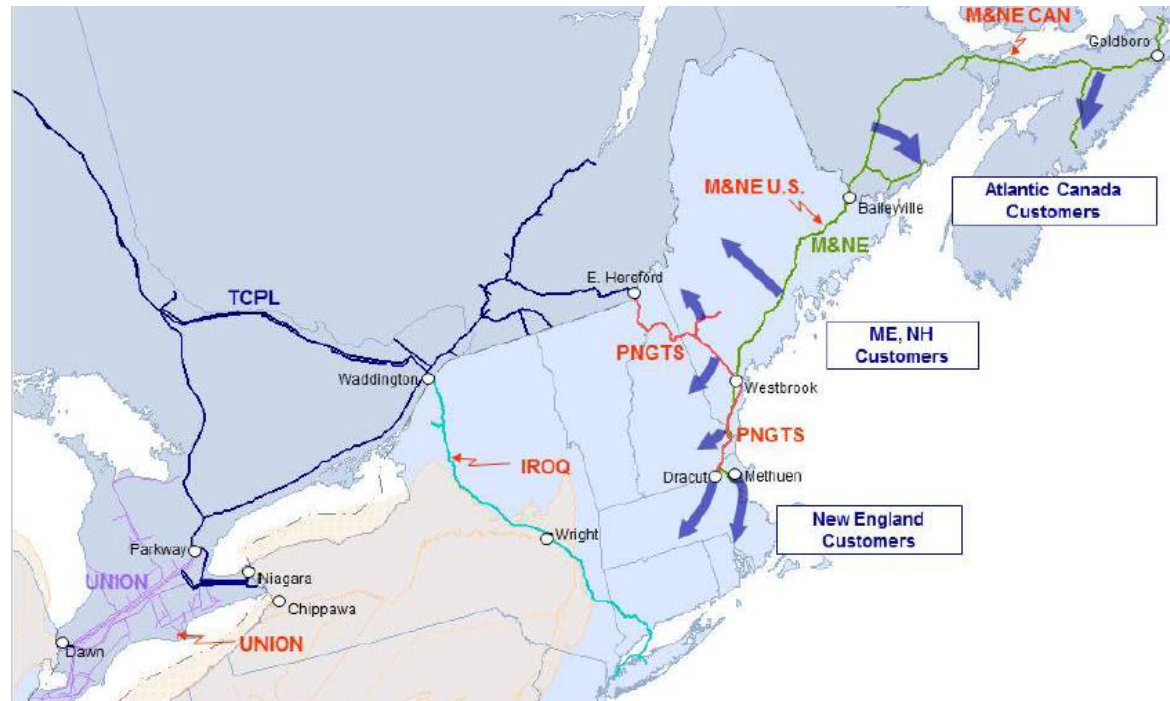
- Spectra Energy's Algonquin and Maritimes & Northeast Pipeline networks have projects in various stages of development with the opportunity for additional expansion:
 - Algonquin Incremental Market (AIM) Project (2016 in service)
 - Atlantic Bridge Project (2017 in service)
 - Access Northeast Project (2018 potentially in service)

Upstream Expansion & Flow Reversals



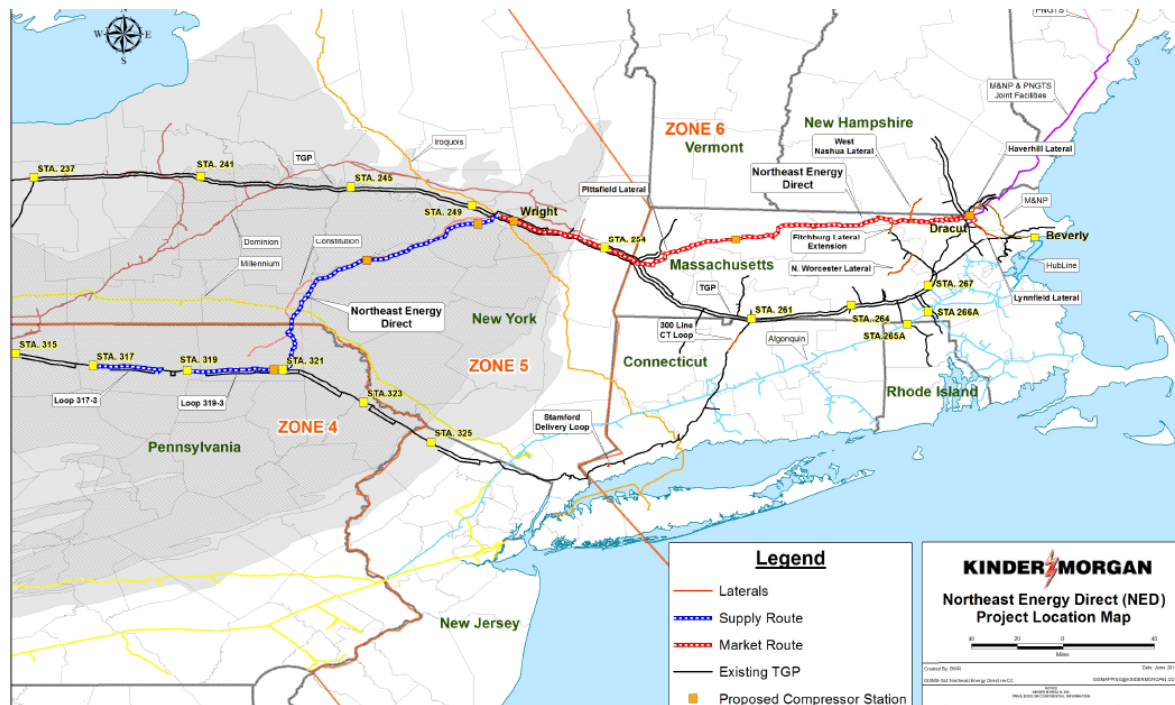
- Iroquois Gas Transmission Systems' (IGTS) Wright Interconnection Project is expected to provide access to additional Marcellus-based supply for the Iroquois network. The project is anticipated to be in service in 2015.
- IGTS' South-to-North Project would reverse the flow on the Iroquois system and thereby provide transportation to the Canadian border. It is proposed to be in service in 2016.

Alternate Supply Routes



- In conjunction with TransCanada Pipelines Limited (TCPL), Portland Natural Gas Transmission's (PNGTS) Continent-to-Coast (C2C) project may provide access to incremental gas supply from a variety of supply basins. The project is anticipated to be in service in 2016.

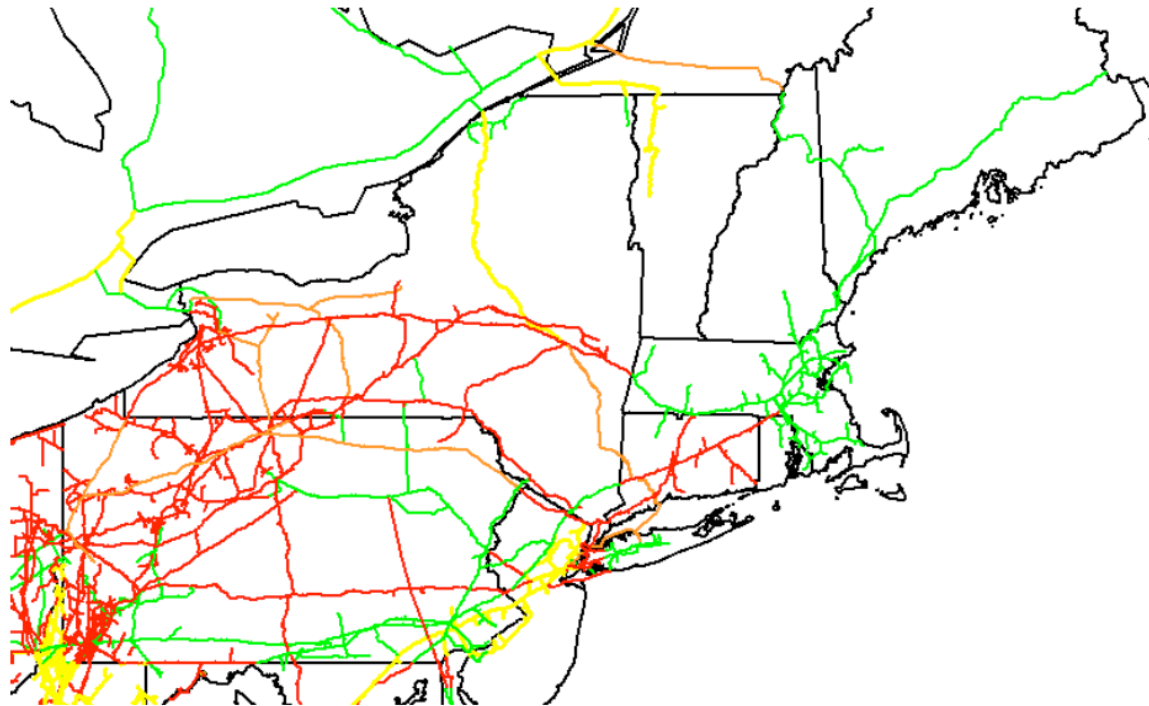
Greenfield Pipeline Development



- Kinder Morgan's Tennessee Gas Pipeline Northeast Energy Direct Project is proposed to be in service in 2018.
- On July 30, 2014, Kinder Morgan announced it has reach agreement with initial anchor shippers, natural gas local distribution companies, with an aggregate demand of 500,000 dekatherms/day.

Recent Analysis – EIPC’s Gas-Electric Study

Figure 51. *RGDS Pipeline Utilization – Winter 2018 – ISO-NE and NYISO*



- According to Levitan & Associates, under the Reference Gas Demand Scenario, “model solutions reveal that deliverability *into* Massachusetts is the bottleneck, as shown in red across New York and Connecticut, reflecting the complete or near complete utilization of primary pipelines linking Marcellus with market centers in NYISO, ISO-NE and IESO.” (emphasis in original)

Source: Eastern Interconnection Planning Collaborative, Gas-Electric Study, Target 2 Draft Report (June 2014)

Recent Analysis – EISPC's Gas-Electric Study

