Observations on New England Power Generators Association's
Advice to New England Electricity Consumers and View of Status Quo

November 14, 2014 - The New England Power Generators Association (NEPGA) offered its view of the path forward to preserving power system reliability and competitive price outcomes for New England consumers in light of natural gas constraints in an October 27, 2014 paper, "New England Energy Industry: A Point of Inflection."

NEPGA in effect urges policymakers to maintain the status quo in connection with infrastructure constraints identified years ago as a risk to electric consumers and thus to put aside efforts to address ISO New England's operational and reliability concerns about the precarious position of the New England power grid and associated costs, as well as efforts to address the increasing electricity price disparity between New England and neighboring regions. For context, NEPGA is a trade association that represents the interests of New England electric power generators. Higher natural gas prices result in higher clearing prices for all electric power generators, whether they use natural gas or not.

In the important multi-year conversation about resolving New England's infrastructure challenges, facts and results matter. To that end, a number of NEPGA's observations require examination and clarification.

With regard to the price increases facing New England consumers, NEPGA encourages New England consumers to contact competitive retail energy suppliers, inquire of electric distribution companies about the potential to spread payments out over time, or access federally funded low-income support programs.

None of these promise real relief to those New England families or businesses facing double digit supply-related price increases that are generally considered to be a result of infrastructure constraints. In the State of Maine, for example, a medium-sized business should expect to see the electricity supply portion of their bill increase from $870 per month in September 2014 to over $2,000 per month in January 2015. Indeed, even *before* the most recent supply-related price increases across New England, the U.S. Energy Information Administration reported that prices in New England grew three times the national average when comparing rates in the first half of 2014 to the first half of 2013. With respect to calling competitive retail electric suppliers, the U.S. Energy Information Administration also reported that New England customers of both full-service utilities and restructured retail suppliers have generally experienced similar rate increases so far this year. NEPGA's suggestion that consumers seek out federal low-income programs is offensive in light of the known limits of those programs and the choice that many New England

consumers must make between heat and other necessities. NEPGA's suggested near-term actions will not deliver New England consumers real relief and its statement that prices will likely return to the levels in previous winters and throughout the rest of the year is not accompanied by any suggestion as to why and how that would occur without addressing the current gas pipeline and electric transmission infrastructure constraints.

NESCOE supports, in the strongest terms, a preference for competitive markets and processes to deliver economically sustainable results for New England consumers. However, NEPGA's suggestion that a status quo approach will resolve New England's current power system operations and consumer cost challenges describes an ideal, but unfortunately unlikely future.

The majority of proposed electric power generators in New England are to be fueled by natural gas. However, to date, New England's electricity markets have not resulted in infrastructure to meet current gas-fired generators' needs. For example, there is no evidence that any electric power generator in New England has signed a long-term firm contract with a natural gas pipeline based on the current or expected market rules. Indeed, Spectra Energy Corp had to downsize its proposed Algonquin Incremental Market project from the size it initially proposed because only local gas distribution companies - and no merchant electric power generators - signed up for service.

NEPGA pointed to proposed natural gas pipelines as a reason for policymakers to allow the status quo to persist with respect to the electric power system. It is true that local gas distribution companies have agreed to invest in new natural gas pipelines to serve their heating customers. But their investment is required by law to be sized to heating customers' winter needs, and not more. Moreover, these investments are backed by regulated gas ratepayer commitments, not the merchant activity that is implied by NEPGA's description.

NEPGA also asserted that natural gas infrastructure bought by local gas companies on behalf of their gas customers will be available on a going forward basis to power generators during the time of year it is most needed by heating customers. There is no reasonable basis for that statement. NEPGA speculates that current pipeline proposals in New England will move forward without state support. For example, however, Spectra and Northeast Utilities' Access Northeast project contemplates some type of state support to enable investment beyond that by local gas distribution companies. As of this date, material in connection with that proposed project has not stated that it would or could move forward independently.

Finally, NEPGA encourages policymakers to rely exclusively on wholesale electricity market (high) price signals and reforms to provide consumers relief. Despite many years of conversation about reforming market mechanisms to address infrastructure inadequacies, not one has been proposed that is expected to solve the region's natural gas constraints. According to ISO-New England's consultant, the latest capacity market reforms approved by the Federal Energy Regulatory Commission, referred to as Pay-for-Performance, are likely to result in greater use of fuel oil as a back-up fuel source when they are in place a few years from now. At least currently, fuel oil costs about five times what natural gas costs. Fuel oil also has a dirtier emissions profile: its increase use will reverse progress on New England's environmental objectives.

Indeed, for the second consecutive winter in the context of an emergency program, ISO-New England is investing consumer dollars predominantly in stand-by oil to make sure power generators can operate when needed, even when they cannot access natural gas. The strategy has emissions implications and requires consumers to pay above and beyond market prices, but it may be only a short-term way to help maintain power system stability.