

**July 3, 2014**

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

**Re: Incremental Gas for Electric Reliability (IGER) in New England**

Dear Ms. Heather Hunt:

The New England States Committee on Energy (NESCOE), in a letter dated June 11, 2014, has requested further input on issues associated with the Capacity Manager to be selected as part of the Committee's Incremental Gas for Electric Reliability (IGER) proposal and on other structures that could increase the natural gas infrastructure. America's Natural Gas Alliance (ANGA) appreciates this opportunity to offer comments in response to the request for information and we offer below our views on capacity management, efforts to enhance infrastructure in the region, and the importance of natural gas generation. ANGA is an advocacy and educational organization comprised of America's leading independent natural gas exploration and production companies. The collective natural gas output of ANGA's members is approximately 8.0 trillion cubic feet per year, which represents 33 percent of the total annual U.S. natural gas production.

ANGA appreciates the Governors' work to create the IGER structure as a means to secure additional investment in pipeline infrastructure for the New England region. The Governors' initiative recognizes that a secure supply of natural gas to serve existing generation in New England with affordable, clean natural gas serves the public interest. Representing producers of domestic natural gas, ANGA strongly supports initiatives that will enable infrastructure investment to allow the region to fully realize the advantages of natural gas for power generation.

As a matter of general principle, relying on electricity market design to find the best generation and fuel supply capacity mix can drive necessary infrastructure investment where electricity markets are deregulated. However, even with the recent changes made by ISO-NE, the market as designed is not likely to send sufficient price signals to drive the needed infrastructure investment in New England.

ANGA supports the Governors' multi-state approach to this regional challenge. The states themselves are acting as a market participant of sorts, by directing the level of investment they deem appropriate on behalf of the customers they represent. Although the socialization of that cost

through ISO-NE charged to each state's utilities runs counter to a market approach, there are opportunities to emphasize the application of market principles in designing the mechanism for allocating the additional pipeline capacity brought to the region. Under such an approach, the costs are paid by those who benefit directly from that capacity.

The states have requested further information on capacity management. An ideal outcome is one in which generators seek and use the capacity through market-based mechanisms. This would keep the flow-through residual cost spread among utilities as small as possible, and integration with the other services offered directly by pipeline companies smooth. ANGA sees two major areas that will need to be addressed:

1. **Structure of Capacity Management:** The proposal would have the Capacity Manager use FERC capacity-release rules to get the capacity to individual generators. Auction processes must be developed, probably faster and more sophisticated than what has been used previously, for competitive awarding of released capacity. The need for any revisions to or waivers from FERC capacity-release rules should be evaluated very early in the process.
  - a. Both monthly and short-term (daily or even hourly) release auctions should be formulated.
  - b. The auction process should be nondiscriminatory, meaning local distribution companies and other end-users, marketers, or producers may bid as well—that should make no difference in the program's effectiveness, since capacity is capacity, and bottlenecks will be relieved no matter who takes the space.
  
2. **Treatment of Interruptible:** Once this capacity is built, assuming that it includes expansions of incumbent pipelines such as Tennessee Gas or Algonquin, any firm capacity not being used at any time will, as required by FERC rules, be immediately available as interruptible (IT). Thus it is possible there will be very large interruptible use of this capacity, usually undifferentiated from the interruptible use of pre-existing capacity. This raises two issues we should note for resolution:
  - a. Relationship between IT availability and capacity release: Can the capacity release program be structured to be market-responsive enough and fast enough to provide a viable incentive for generators or their marketers to out-bid IT in order to gain firm access? This is an additional issue that could justify periodically revisiting the program to make adjustments.
  - b. Disposition of IT Revenue: Because New England consumers will directly pay for these expansions through their rates, there is a strong argument that most or all regional IT revenues should be flowed back to defray those rates. This could require some integration with existing pipeline rate structures, a subject that should be addressed collaboratively with pipeline companies at the time projects are formulated.

This brings us to the criticism leveled in comments by various proponents of efficiency programs, wind, solar, etc., claiming that New England is already overly reliant on natural gas and suggesting that New England consumers should not invest in pipeline capacity to serve gas-fired generation. We strongly disagree with the premise of the criticism. New England is not overly reliant on

natural gas-fired generation. It is overly reliant on inadequately piped natural gas-fired generation. The pipeline expansions sought through the IGER program are designed to remedy these infrastructure constraints to make the existing fleet more reliable and less economically volatile, enabling the region to take advantage of the abundant, economically stable natural gas supplies only a few hundred miles away.

We submit that the current mismatch of pipeline capacities with the energy needs of the generation fleet is an impediment to New England's ability to capitalize on two major assets: A large gas-fired generation fleet already in service, and an enormous and growing natural gas supply for that fleet in unprecedented proximity to the region. Our members are committed to the safe and continued responsible development of America's natural gas resource. Time is of the essence, and arguments that New England's reliability and ability to take advantage of abundant, clean, and economically attractive natural gas should be ignored in favor of more studies, should be disregarded.

ANGA sees the potential, through a well-managed capacity program, for pipeline IT service to work normally and more reliably, for generators to upgrade their service through released firm capacity, and for a combination of the two to provide enough revenue that the residual cost backstopped by all New England electric consumers would be minimized. However, this is clearly a work in progress, and we look forward to continuing dialogue as to how it would operate. ANGA reiterates its gratitude to the Governors for having the courage and foresight to address this important issue.

If you have any questions, please contact Amy Farrell at [afarrell@anga.us](mailto:afarrell@anga.us).

Sincerely,

A handwritten signature in black ink, appearing to read 'Amy Farrell', written in a cursive style.

Amy Farrell  
Vice President, Market Development  
America's Natural Gas Alliance