



191 Post Road West
Suite 93
Westport, Connecticut 06880
203-221-2652

May 30, 2014

Via Electronic Mail
Ms. Heather Hunt
Executive Director
New England States Committee on Electricity
655 Longmeadow Street
Longmeadow, MA 01106
RegionalInfrastructure@nescoe.com

Re: Comments on Governors' Infrastructure Initiative – Incremental Gas for Electric Reliability
("IGER") Concept

Dear Ms. Hunt:

Cavus Energy LLC ("Cavus") appreciates the opportunity to submit comments to the New England States Committee on Electricity ("NESCOE") regarding the IGER Concept as NESCOE requested in its letter to NEPOOL on April 30, 2014.

Cavus is an asset development company whose executives have a history of delivering assets to answer the needs of the markets it serves. Our principals' track records include NGS Energy, LP (which developed Tres Palacios Gas Storage in Texas, and Leaf River Energy Center in Mississippi), as well as Energy Center Investments LLC (which created Pine Prairie Energy Center in Louisiana and Blue Water Gas Storage in Michigan). Cavus brings a history of both asset development, operations and an understanding of the needs and workings of the gas markets and the needs and requirements of the end user market. Cavus is working together with Apollo Investment Consulting LLC, an affiliate of Apollo Global Management, LLC ("Apollo") to identify opportunities in the liquid and gas storage industries in which certain investment funds affiliated with Apollo may potentially invest.

Since its founding in 1990, Apollo has grown to become one of the most active and successful global alternative asset managers, with assets under management of approximately \$159 billion as of March 31, 2014. From its inception in 1990 through September 2013, private equity investment funds managed by Apollo have invested approximately \$40 billion of equity capital. Apollo's most recent

flagship private equity fund, Fund VIII, has received total fund commitments of approximately \$18 billion. Unlike the public markets, Apollo's capital is long-term and is committed and available regardless of market and economic conditions. Apollo is fundamentally focused on the long-term value of its affiliated funds' investments, and as a result has deployed as much capital during economic downturns as it has during periods of strong economic growth. Apollo has extensive experience in the energy sector, and Apollo funds' oil and gas investments include EP Energy, Parallel Petroleum, Athlon Energy, Double Eagle Energy, Talos Energy, Apex Energy and Caelus Energy Alaska.

Due to gas infrastructure constraints, New England consumers of both natural gas and electricity have been exposed to some of the most volatile gas prices in the country. The need for additional infrastructure is clear. Cavus is very supportive of NESCOE's efforts to advance and promote infrastructure development and appreciates the Electric Distribution Companies' ("EDC") willingness to aid in these efforts. Cavus has studied New England's historical gas and electric market and the Black & Veatch reports prepared for NESCOE and agree that there is a need for more delivered natural gas capacity into New England.

Cavus believes a mix of infrastructure assets that follows the natural gas distribution company model is more appropriate than a pipeline only solution. Natural gas distribution companies own or contract for a portfolio of assets to respond to their varying load. These portfolios contain a mix of long haul transport, storage and peaking assets – each component is used to handle a different portion of the daily demand. Transport serves for the baseload supply, storage for the fluctuations resulting from weather and intra-day load and finally, peaking for the extreme demand days and hours. This model has been proven from both economic and operational perspectives by natural gas distribution companies across the country for decades.

New England's growth in demand is not solely growth in baseload but also growth from electric generation that could result in potentially large hourly swings. Peak storage better answers power generation hourly needs and does not require a massive asset overbuild to do so. For deliverability that is needed for an extensive period of time, transport is the optimal addition. However, the portion of growth from the volatile peaking slice does not need to pay for a 365 day solution. A mix of transportation and peaking storage would most economically and operationally serve the needs of New England customers.

Cavus would like NESCOE to note the following when considering how to proceed with infrastructure development:

- 1. Excess transport exists for much of the year.**

The Black & Veatch report shows most regions, including the critical Eastern Massachusetts, typically have 200 to 300 days of excess capacity. Storage would use this excess capacity for latter use during peak needs. Additional storage development would lead to a higher utilization of these valuable assets.

2. Most transport proposals source gas from markets that are equally constrained on a peak day.

Proposal for transportation capacity additions from locations such as Wright or Ramapo could become equally unreliable on peak days. For example, on January 3rd 2014, prices for Iroquois (Wright) traded \$32-\$34 per dekatherm, with NJ/NY (Ramapo) prices around \$18-\$20, and New England prices \$29-\$32. January 7th 2014 was even more extreme with prices at Iroquois between \$33-\$39, NJ/NY between \$43-\$56, and New England \$34-\$35.

Security of supply on peak days via transportation alone could require costly new paths that originate in the Marcellus supply region as current upstream capacity from the Marcellus area is fully subscribed.

3. The natural gas distribution portfolio model works.

Natural gas fired generation has and is growing significantly in New England. Replicating a cost effective model is logical and prudent. The Black & Veatch report assesses the likelihood of daily capacity constraints above a threshold where the market has indicated stress from the daily pricing. If the gas market was broken down into its hourly components we believe the case for peak storage would be even more compelling. Similar to its use by many gas distribution companies, local peak storage would be more optimal at matching intra-day or hourly dispatch than other gas infrastructure assets.

Finally, Cavus believes EDC's proposal can be altered to utilize the peaking storage model and will be very important in helping New England find the optimal economic and operational solution. We look forward to working with NESCOE and EDC with regard to these efforts. We appreciate the opportunity to provide this feedback and welcome any questions you may have.

Regards,

A handwritten signature in dark ink, appearing to read 'Geof Storey', with a long horizontal line extending to the right.

Geof Storey
Principal, Cavus Energy LLC