



**Northeast
Utilities**

nationalgrid



April 22, 2014

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

Re: Gas Capacity Infrastructure Expansion in New England

Dear Heather:

As you know, in December, 2013 the New England Governors issued a joint statement (the *New England Governors' Commitment to Regional Cooperation on Energy Infrastructure Issues*) regarding energy infrastructure diversification. Consistent with this directive, NESCOE has identified an approach to facilitate the development of gas pipeline capacity infrastructure to be funded by a FERC approved tariff. NESCOE has called upon interested parties including the gas and electric utilities in New England to participate in a collaborative process to assist in the development of strategies and projects that would contribute to the expansion of gas pipeline capacity to serve New England. It is widely acknowledged that the market conditions experienced in the winter of 2013/14 underscore the need to take immediate action to relieve pipeline capacity constraints, particularly with the increasing regional reliance on gas-fired electric generation.

In response to this initiative, Northeast Utilities, National Grid and United Illuminating have been in discussions with Ms. Katie Scharf Dykes, Deputy Commissioner Energy, Connecticut Department of Energy and Environmental Protection, and some of your colleagues regarding an approach whereby electric distribution companies would, subject to the necessary cost recovery assurances and remuneration acceptable to them, consider entering into long term contracts with interstate pipeline companies for new firm gas transportation capacity. The capacity associated with these contracts would enable the delivery of adequate gas supplies necessary to fuel the gas-fired electric generation units in the region. We believe that this proposed approach may be both feasible in the near term and fair, to the extent that the result would be that the costs of developing this additional infrastructure will be borne by those who derive the long term benefits from this investment.

The following elaborates on a number of the attributes of this proposed approach, in an effort to assist you and your colleagues at NESCOE to evaluate the desire of the New England States to pursue and facilitate this option.

Need for the Investment

ISO-NE has concluded that both short term and long term actions will be required to ensure the stability and reliability of the New England electric grid. The pipeline capacity restrictions for non-firm natural gas this past winter led to near outage conditions. In fact, ISO-NE has stated that outages were avoided only by the implementation of a winter-reliability program, which mandated that plants capable of firing on oil have specific quantities of oil in inventory at the start of the winter. Due to the cold weather and the limited availability (and resulting price volatility) of non-firm natural gas capacity, a heavy reliance on these plants resulted in these oil supplies being essentially depleted. Clearly, reliance on such stop-gap measures, while essential to maintaining the integrity of the electric grid in the short term, does not contribute to (and may in fact detract from) the necessary long-term infrastructure solution. The imminent retirement of several significant non- gas fueled generating plants in the region will further stress the existing gas pipeline system and emphasizes the need for resource diversification, including the integration of additional renewable energy sources.

Bearing the Cost and Reaping the Benefits of the Investment

The increased reliance on gas-fired generation has brought some significant economic and environmental benefits to New England, but this generation is relying on gas transmission infrastructure that was historically designed to serve the gas-heating needs of New England. This infrastructure is largely dedicated to the customers of the gas utilities under long term contracts, and not for electric generator demand. Clearly, gas service customers should not be responsible for the cost of developing the necessary infrastructure necessary to provide fuel to power plants. Rather, if electric customers receive the primary benefits in the form of increased reliability and stability of the electric grid then it is appropriate for them to be responsible for that cost.

Facilitating the Infrastructure Development

Construction of pipeline capacity to achieve the goal advocated by NESCOE (an overall increase of at least 1,000 MMcf/day of capacity for the region over 2013 capacity levels) will require an extraordinary level of investment by a variety of parties. The pipeline companies who have traditionally constructed these projects require long-term contract commitments with highly creditworthy counterparties to support construction. Provided that their cost recovery is assured, electric distribution companies could play a significant role in providing the creditworthiness necessary for these long-term contract commitments. Additionally, as noted below, some utilities may be in a position to make an equity investment to assist in supporting these projects. A number of New England utilities have participated in the AIM and CT Expansion projects, so have very recently evaluated such projects and negotiated such contracts. Gas utilities contract for and manage large and diverse portfolios of capacity and supply for their customer demand and are highly experienced at managing variable demands of customers. A number of gas utilities provide service to non-firm gas supply service to electric generators both on and off-system, sometimes in conjunction with a third party.

Electric Distribution Company (EDC) Model

As depicted in the attached diagram, the transactions facilitated by the proposed business model involve the EDCs, again, subject to the necessary cost recovery assurances and remuneration acceptable to them, entering into long-term contracts with the interstate pipelines for the gas capacity necessary to serve the electric generators. The EDCs would also arrange for the management of such capacity by a capacity manager(s), who would manage the capacity and allocate the capacity among the electric generators through pre-determined means, (alternative strategies are currently being reviewed and discussed with the states), designed to achieve the intent of the added infrastructure. The EDCs would pay the pipeline charges associated with the capacity and would be credited actual capacity related revenue, net of compensation to the capacity manager. The EDCs would recover the net actual contract costs through an ISO-NE tariff rate approved by the FERC and administered by ISO-NE. Costs would be allocated to New England electric load as agreed to by the New England states and approved by FERC. On an ongoing basis the program's effectiveness and actual results compared to goals will be reviewed in conjunction with the states, specifics to be determined and any appropriate adjustments made, however the EDC's will be assured of collection of the capacity costs by customers.

Capacity Management

At several of our discussions, it was noted that given the magnitude of the capacity involved it would make sense to have a capacity-management function in place to optimize the value of the released capacity rather than having the EDCs manage the capacity release on their own. Some gas utilities already use portfolio-management services to manage pipeline-capacity releases for natural gas customers, so we have experience with this model. The manager could handle a range of capacity transactions (including capacity releases) and would allocate capacity to generators and the market to the degree generators do not need the capacity during certain times of the year. There are a number of considerations that need to be addressed with this approach under FERC regulations. Therefore, we would propose to address these through the FERC-approved tariff or other means as appropriate.

Regulatory Action

In addition to the FERC filings and approvals referenced above, the EDCs would require approval by their respective state regulatory authorities for these contract commitments, and for recovery of associated costs in retail rates. We acknowledge that additional effort will be required to identify all necessary regulatory filings and approvals, and to develop appropriate strategies for obtaining FERC approvals. We appreciate the potentially extensive and somewhat unique nature of the approvals required for this project, and that some states may not be prepared to immediately participate in this activity. It should be noted that the proposed solution outlined in this letter is scalable, to enable EDC participation beyond the undersigned parties, should a state agency desire participation at a later date.

Rate Recovery

As noted above, the EDCs would recover the FERC-approved tariff rate on a non-bypassable basis from electric retail customers in New England. The EDCs would need to be appropriately compensated for entering into these long-term contract commitments and for lending financial stability in the form of balance sheet and credit-rating qualifications. This compensation could be in the form of equity participation in the capacity expansion project and/or other compensation for lending credit quality, depending on the size of the contract commitments and the equity participation opportunity.

Additional Considerations

We acknowledge that, in addition to the construction of new pipeline capacity, solutions that include increased availability of LNG supplies (independently or coupled with additional pipeline capacity), gas storage and no-notice pipeline services should be explored. Through an open and competitive process, we are confident that a variety of solutions will be offered and deserve to be explored.

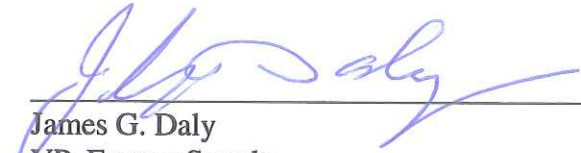
Timeline

In order to accommodate the goal articulated by the Governors and NESCOE (for new capacity to be available by the winter of 2017/2018), we have developed the attached schedule. Please note that this schedule calls for a request for proposals for infrastructure solutions to be issued in June 2014, with preliminary agreements to be signed by October 2014. This aggressive schedule requires a decision by NESCOE and the participating state agencies to pursue the option described in this letter by May 1, 2014, and the issuance by the state agencies to the EDCs of the corresponding directive to proceed by that date, so that we may develop the RFP materials and engage the market. Although we understand this schedule is aggressive, we are committed to devoting the necessary time and resources to accomplishing the necessary activities.

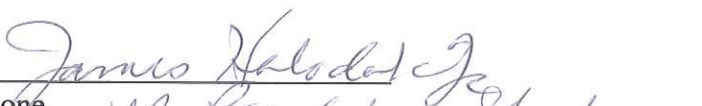
Given the complexity and scope of a project like this, we are in the early stages of our due diligence processes, including legal and regulatory review. As such, any commitments would of course be subject to each utility's or their parents' board approvals and would be contingent on regulatory and legislative approvals on the state or federal level as required. However, based on the preliminary work we have conducted, we believe this may be a workable and preferred option for delivering increased gas capacity and supply to generation in New England.

We look forward to further discussions with you at the earliest convenient date.

Sincerely,




James G. Daly
VP, Energy Supply
Northeast Utilities



James Stanzione
Director, Gas
NationalGrid

*VP Regulatory Strategies
National Grid USA*



Anthony Marone
Sr. VP, Customer & Business Services
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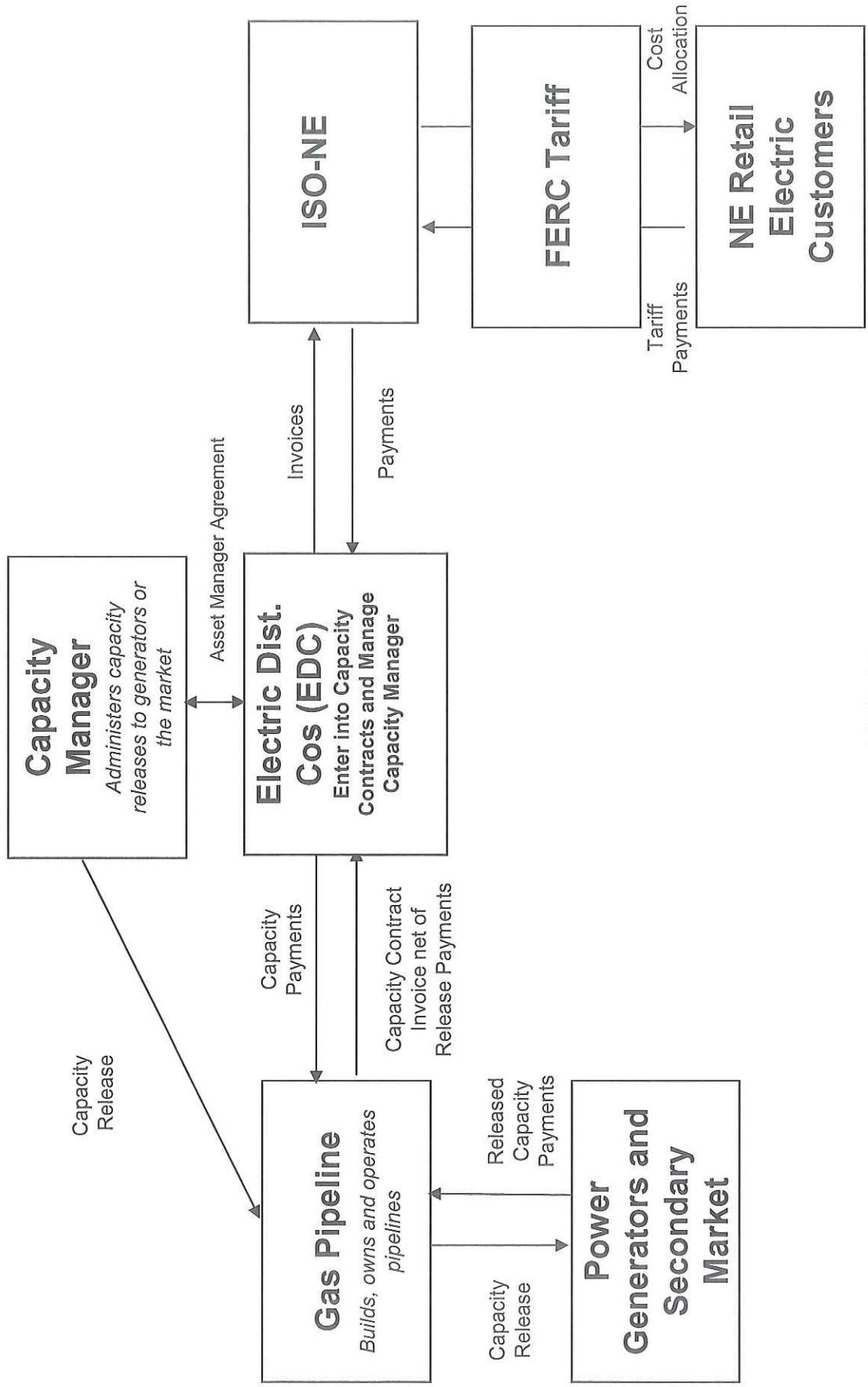
Attachments:

Business Model Flow Diagram
Proposed Timeline

CC:

Katie Scharf Dykes
Deputy Commissioner – Energy
Connecticut Department of Energy
and Environmental Protection
79 Elm Street
Hartford, CT 06106-5127

EDC Model



Timeline Proposed to NESCOE

NESCOE Gas Pipeline Timeline		ISO Tariff Schedule Timeline	NESCOE Clean Power Supply/Transmission RFP Timeline	
Determine Parties Contracting (EDC/LDC/Other)	April 2014	Stake Holder Process	Determine Parties Contracting	April – May 2014
Determine Target Pipeline Capacity MDQ's	May 2014		RFP and Contract Development	
Release RFP and/or participate in Open Season Begin Negotiations with Pipelines Precedent Agreements Rate Issues Terms and Conditions Services Regulatory Out	June – September 2014	Tariff Development	RFP Release Date	June 2014
Evaluate Receipt and Delivery Points/Quantities	June/July 2014		Bidders Conference	June 2014
Determine Receipt and Delivery Points/Quantities	July/August 2014	NEPOOL Vote Tariff Filing at FERC	Bid Proposals Due	July 2014
			Short List	August 2014
Sign Precedent Agreements	October 2014		Contracts Signed	October 2014
File for State Regulatory Approvals as Required	October 2014			
			State Filings	November 2014
Regulatory Approval/Out	December 2014	FERC Approval		
FERC Pre-File FERC 7C Application	December 2014 December 2015		State Approvals	April 2015
Receive Certificate	December 2016			
Projects In-Service	November 1, 2017/18/19		Projects In-Service	2017/18/19