

New England States Committee on Electricity

To: NEPOOL, New England Gas-Electric Focus Group
From: NESCOE
Date: April 30, 2014
Subject: Governors' Infrastructure Initiative – Comments Welcome on
Approach to Increasing Natural Gas Infrastructure

Over the last several months, the six New England states, acting through NESCOE, have welcomed feedback on the Governors' infrastructure initiative and the concepts put forward to advance the Governors' objectives relative to system reliability and economic competitiveness. The New England states have received constructive responses from a cross-section of the gas and electric industries, including, for example, through discussions with NEPOOL sectors, comments from Gas-Electric Focus Group members, and other conversations.¹ The states appreciate the continued interest in the Governors' initiative and the productive discussions around potential solutions.

Means to Increase Natural Gas Supply For the Benefit of Electric Distribution

Company Customers: In addition to talking with interested stakeholders, the states have spent considerable time in deliberation about potential solutions. A concept the six New England states consider to be worth further exploration is outlined in the attached flowchart, referred to here as the Incremental Gas for Electric Reliability (IGER) concept. The states understand the concept is just that, and requires details to be discussed by stakeholders, including through NEPOOL, and ultimately considered by the Federal Energy Regulatory Commission (FERC).

The states, ISO-NE and many stakeholders with whom the states have spoken consider maintaining ISO-NE's neutral role in the marketplace, both in fact and in appearance, to be critical. The IGER approach appears to satisfy that objective by limiting ISO-NE's activities to issuing invoices and payments pursuant to a tariff approved by (FERC).

To inform further consideration, the states welcome feedback on the IGER approach generally and are particularly interested in feedback on the characteristics of the contracting entity and capacity manager in order to best serve electric customers and minimize costs, including but not limited to transaction costs. For example, the states might consider an appropriate capacity manager to be an entity with 1) deep natural gas management experience and 2) demonstrated ability to comply strictly with detailed tariff obligations. The states might consider an appropriate contract entity to be 1) creditworthy, with 2) demonstrated ability to conduct business transparently and 3) accountability, as the states will ensure the investment delivers the expected benefits.

¹ A high level summary of the meetings between NEPOOL Sectors and the states has been circulated to NEPOOL and is available at www.nescoe.com under Infrastructure Initiative. Comments from members of the Gas-Electric Focus Group are available at www.nescoe.com under Gas-Electric Exchange.

The ability to minimize transaction costs would be an important factor for both a capacity manager and a contract entity. Finally, because the New England states are seeking to invest in infrastructure needed for reliability and economic competitiveness in the context of the competitive markets, which have not satisfied these fundamental needs, the states also welcome comment on any structural means by which IGER could minimize market distortion.

Several New England utilities recently responded to the states' general requests for ideas to advance the Governors' objectives in the form of a proposed approach to facilitate the construction of incremental gas pipeline capacity (EDC proposal).² The EDC proposal includes electric distribution companies entering into long-term contracts with interstate pipeline companies as a means to provide creditworthy counterparties as a backstop to funding through the ISO-NE tariff. The proposal includes a number of features and details to move the region toward increased natural gas capacity in order to enhance reliable electric system operations, including capacity management and rate recovery.

The New England states appreciate the effort to advance solutions on an expeditious timetable given the acute challenges in our region. Therefore, in addition to inviting comment on the IGER, the states also welcome any feedback on the EDC proposed model, as well as any alternative proposals to the IGER or the EDC proposal. The EDC proposal indicates the utilities' desire to serve as the contract entity. Any parties that are interested in serving in that function, or any other proposed function, are certainly free to make such expressions of interest. Serious consideration of any proposals to serve in any particular function, however, would be premature until the states have considered feedback and finalized the IGER concept.

Going Forward Market Adjustments: In discussions with NEPOOL sectors, many market participants asked whether the states considered market-based changes as a means to implement the Governors' objectives. As discussed, the reliability and economic competitive challenge has long been the subject of regional debate and no market-based solution has been adopted that resolves it. The states would strongly prefer that New England not be in a circumstance that requires state action, but do not believe that there are any market adjustments, either under implementation or currently proposed, that could reasonably be expected to provide a solution to the region's infrastructure constraints within the desired timeframe. The states welcome specific suggestions about adjustments to New England's competitive wholesale markets that would, on a going forward basis, eliminate the need for government to support additional infrastructure investments in the future to ensure reliability and economic competitiveness.

Timing: The states presently intend to advance a proposal to NEPOOL through NESCOE for discussion in June 2014, with consideration by the Participants Committee in September. With time of the essence, the states seek feedback on the above, or alternative proposals, as soon as possible.³ Comments should be sent to

² The letter is available at:

http://www.nescoe.com/uploads/EDCLetter_RegionalInfrastructure_22April2014.pdf.

³ Consistent with past practice, NESCOE expects to post on its website any responses or proposals received. Respondents should *not* submit any information that they believe to be

RegionalInfrastructure@nescoe.com. NESCOE will post all comments received at www.nescoe.com as well as on the Gas-Electric Focus Group information exchange consistent with prior practice.

confidential or commercially sensitive and should *not* expect NESCOE to treat any information provided as confidential or commercially sensitive.