

Restructuring Roundtable

November 15, 2013

Natural Gas & Electricity Interface Challenges in New England

New England States Committee on Electricity

New England States Committee on Electricity

New England's Regional State Committee governed by a Board of Managers appointed by each of the New England Governors to represent the collective views of the six New England states on regional electricity matters

- **Focus:** Resource Adequacy, System Planning & Expansion
- **Resources:** 6 full-time staff with diverse disciplines & experience. Consultants, enabling independent analysis & studies
- **More information:** including all filings & comments at www.nescoe.com

Overview

- **Gas-Electric Study Phase III Report**
 - Phase III Study Report, detailed back-up slides, & Notice of Issuance at www.nescoc.com

- **Hydro-related analysis**
 - NESCOE *Hydro Imports Whitepaper*
 - Hydro Imports Analysis

- **New England Gas-Electric Focus Group**
 - Purpose
 - Preview of Report Approach to Solution Discussion

Black & Veatch Gas-Electric Study – Purpose, Limits

Study Period: 2014 - 2029

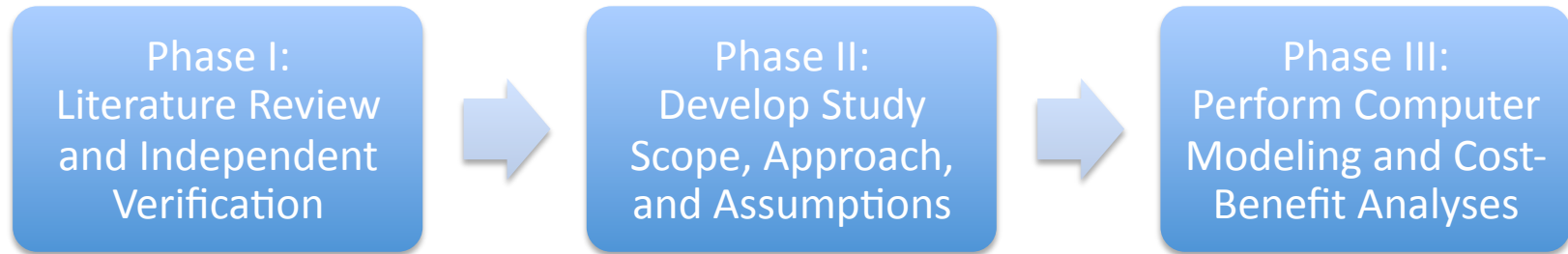
Purpose

- Assess sufficiency of gas infrastructure to support power generation
- Identify cost-benefit of solutions that could alleviate gas constraint

Limitations

The study is **not a plan**. It is based on hypothetical assumptions, any one or more of which history may prove wrong. Study **results are directional** and indicative. Studies are **not predictions of costs** that would emerge in a competitive solicitation, as the result of a negotiation, or that could be identified when a project becomes operational. The study does not pretend to have perfect foresight. It assumes policymakers will apply their judgment to the assumptions in each of the hypothetical scenarios studied, and their relation to policymakers' beliefs about of the future. The study should be viewed accordingly, and critically.

Gas-Electric Three Phase Study Overview



Phase I: Black & Veatch concluded that the **New England natural gas infrastructure will be increasingly under pressure from demand growth from the power sector** and that other previous efforts to study the issue had significant information gaps

In **Phase II**, Black & Veatch:

- Concluded that for the 14 New England sub-regions analyzed, 11 will exceed the constraint capacity level by more than 30 days/year under current infrastructure; and
- In consultation with the states, **identified scenarios and sensitivities** for analysis

In **Phase III**, Black & Veatch:

- Refined cost estimates associated with potential solutions; and
- Performed computer simulations to **estimate benefits of potential solutions**, the market price effects of extreme cold weather, and **customer cost savings associated with various levels of gas and electricity demand**

Gas-Electric Study: Three Possible Futures & Solutions

Base Case

Future with higher gas demand, reduced availability of other power sources

Future with low growth in demand for power & gas



Base Case Scenario 5 Solutions Studied (2, 3, 4a, 4b, 5)	High Demand Scenario 3 Solutions Studied (7, 8, 9)	Low Demand Scenario 3 Solutions Studied (12, 13, 14)
1. No New Infrastructure	6. No New Infrastructure	11. No New Infrastructure
2. Pipeline	7. Pipeline	12. LNG Peak Shaving
3. LNG Import	8. LNG Import	13. Imported Firm Canadian
4. Imported Canadian: a.) Economic* & b.) Firm	9. Imported Firm Canadian	14. Dual Fuel and Demand Response
5. Dual Fuel and Demand Response	10. Weather (Design Day)	15. Negative Demand Growth

*Amount of Canadian imports varies with market prices (economic), rather than a set amount of imports equal to the maximum capacity of infrastructure (firm)

Major Assumptions: Electric Power

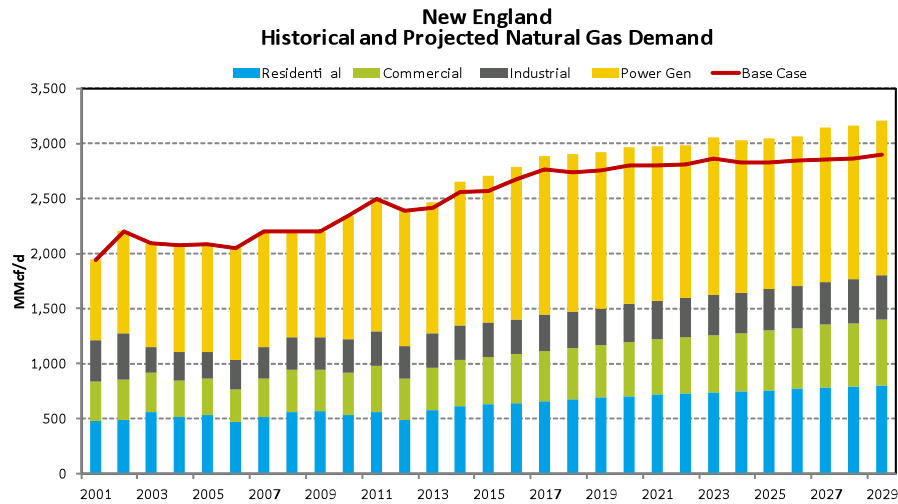
Assumption	Base Case	High Demand	Low Demand
Load Growth	Same as the 2013 ISO-NE Capacity, Energy, Loads and Transmission 2013 – 2022 (CELT)	Same as Base Case	Limited demand growth
Energy Efficiency	As projected by the 2013 ISO-NE CELT	Energy Efficiency declines slightly from the Base Case, leading to slightly higher load growth	Completely offsets load growth
Renewable Portfolio Standards (RPS)	Each New England state meets 100% of its RPS target No stricter regulations on hydraulic fracturing; Federal GHG emissions program in 2020	Each New England state meets 75% of its RPS target	Same as Base Case
Environmental Policy	No stricter regulations on hydraulic fracturing; Fed. GHG emissions program in 2020	Same as Base Case	Same as Base Case
Generation Capacity	Nuclear deactivation occurs between 2032-2035; Later period capacity additions	Nuclear deactivation occurs between 2027-2030	Same as Base Case

Major Assumptions: Natural Gas

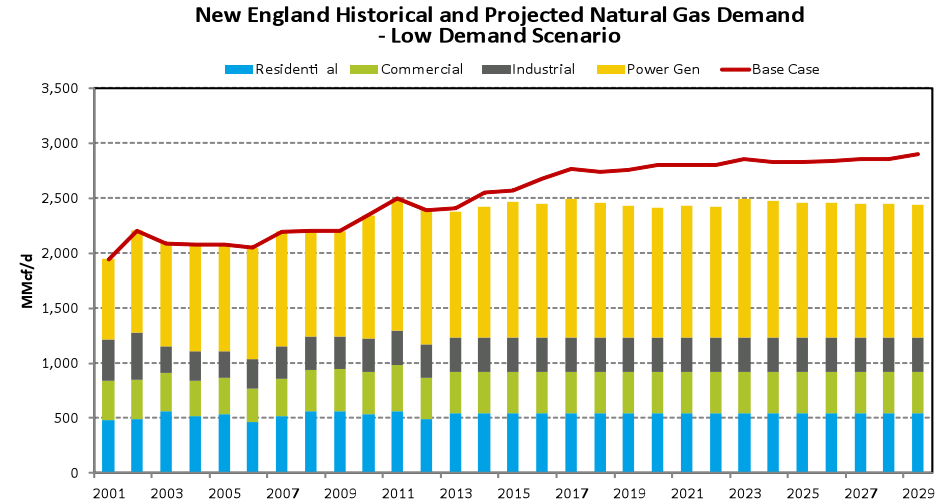
Assumption	Base Case	High Demand	Low Demand
Demand Growth	Residential, Commercial and Industrial (R-C-I) demand growth of 1.6% per year	High R-C-I demand growth, at 2.2%, with policy incentives	No demand growth
LNG Exports and Imports	Exports from Gulf Coast and West Coast; Imports - Everett MA (Distrigas) supplies will sharply decline relative to 2011 but gradually increase starting in 2019; Saint John NB Canada (Canaport) supplies will decline after firm supply contract expires in Oct 2013	Additional 4 Bcf/d of export from the Gulf Coast and West Coast; Imports Same as Base Case	Same as Base Case
Pipeline Infrastructure	Algonquin Incremental Market (AIM) expansion in-service by 2016	AIM in-service by 2016 Maritimes & Northeast Pipeline (M&NP) can reverse flow on an economic basis to meet demand growth from Maine and Maritimes	Same as Base Case
Natural Gas Supply	Marcellus grows at 6% per year; Eastern Canadian production increases sharply in 2014 to >350 MMcf/d and then gradually declines through 2020	Same as Base Case	Same as Base Case

Scenario Analysis: High and Low Gas Demand Forecasts

High Demand Scenario



Low Demand Scenario



Black & Veatch Findings

- In the **absence of infrastructure or demand reduction solutions**, New England will experience capacity constraints that will result in **high natural gas & electric prices**
- Gas-supply requirements driven by episodes of extremely cold weather can be very costly & create significant reliability risks
- **Short- & long-term solutions are needed** to relieve the natural gas market constraints under the **Base Case & High Demand Scenarios**
- **No long-term infrastructure solutions are necessary** under the **Low Demand Scenario**; The costs of measures that could bring about the Low Demand Scenario, an additional alternative, would require study
- In the **absence of demand reduction solutions**, a Cross-Regional Natural Gas **Pipeline solution**, after construction and operational costs, presents **higher net economic benefits** to New England consumers than do **alternative long-term solutions** studied

Some State Observations

- A new natural gas pipeline currently in process toward operation provides significant economic benefits to electricity customers under all scenarios studied.
- An *additional* hypothetical pipeline provides the most substantial economic net benefits to electricity consumers of all solutions studied under the Base Case & High Demand Case.
- The actual cost to consumers for incremental hydroelectric power is currently unknown. Study assumes cost of service based pricing.
- Reducing consumers' demand for electricity & natural gas to the extent assumed in the Low Demand Case eliminates the need for consumers to invest in infrastructure. Further analysis would be required to determine whether policies that would result in a Low Demand Scenario are cost-competitive with infrastructure investments.

Hydro Solution Analysis in the Gas-Electric Study

Economic Based Imports

Firm Imports

Both assume cost of a new 1200 MW line

- Assumes import levels determined by energy needs & price differentials in New England & other markets
- Assumes firm import levels by contract (24/7/365)
- *Assumes additional cost of new dam at cost of service*
- Enables imports even during Canadian winter peak

Both reduce natural gas demand in New England
Both lower regional electric prices in New England

- Greater reduction in gas demand during winter peaks
- Greater reduction in electric prices

Hydro Analysis

Hydro Whitepaper

- Context for policymakers
- Overview of New England's competitive energy markets, New England & Eastern Canadian Provinces' generation resource mixes
- Power system synergies between Eastern Canadian Provinces & New England
- Potential benefits & risks associated with increasing hydro imports, need for resource tracking system
- Options for increasing hydro imports & implications for further consideration

Hydro Imports Analysis

- High level view of economic & environmental impacts of incremental hydro imports
- Assumes imports via 3 new *hypothetical* 1200 MW lines from different points in Canada into different areas in New England
 1. New Brunswick to MA
 2. Quebec through NY to CT
 3. Quebec to VT
- Assumes 2 hydro supply outlooks
 1. Base Supply Case: existing, under construction
 2. Alternative Supply Case: Base Case + 5000 MW (permitted and proposed)
- Cost of Service basis. Does *not* reflect prices that would emerge in an RFP or via negotiations

NESCOE Hydro Imports Whitepaper Observation: Need to Validate Import Source To Confirm Carbon Benefits

- Increased imports of Canadian power have potential to help New England states achieve carbon reduction requirements or goals
- To satisfy statutory mandates and objectives, imports must be from low-carbon resource generating units and validated as such
same way New England validates clean energy attributes

Unit specific hydro validation requires

- ✓ New England to make system changes
- ✓ Eastern Canadian provinces to create & implement tracking & reporting systems

New England Gas-Electric Focus Group

Purpose and Scope

- ✓ Bridge communication gaps between electric industry, gas industry, states
- ✓ Identify & evaluate challenges based on informed input from all interested stakeholders
- ✓ Analyze, discuss & exchange viewpoints and facts regarding challenges and their solutions
- ✓ **Issue a Report – Forthcoming**

✓ Any recommendations in the Report will be in the form of **advisory recommendations for consideration** by entities with responsibility/authority for implementing such solutions

✓ **Focus Group to act by consensus and disclose views of participants who do not support consensus recommendations (if there are opposing views)**

Report Approach Preview – Solution Discussion

1. **Describe agreed-upon challenges** that emerged in Focus Group
2. **List electric market-related solutions** ISO-NE is **on course to implement**
3. **List gas system and/or gas market-related solutions** the gas industry is **on course to implement**
4. **Identify potential solutions** that may have **appeal to some** stakeholders and/or states **but that require further analysis** before implications can be fully understood and judgments can be formed. Identify the appropriate entity able and/or willing to develop such analysis to inform future decisions.
5. **Identify those potential solutions** about which market participants and states broadly believe there is **adequate information available** and about which there is ***no consensus***
6. **Identify those potential solutions** about which there is **adequate information** available for decision-making and about which there is ***consensus***. Include information about next steps, authority to implement, forward-looking process.

Thanks.

More information at www.nescoe.com