



Sequent Energy Management™

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July 3, 2014

Heather Hunt
Executive Director
New England State Committee on Electricity
655 Longmeadow Street
Longmeadow, MA 01106

Re: Additional Comments on Capacity Management and Preliminary Interest to Serve as Capacity Manager

Dear Ms. Hunt:

In response to the request for further guidance contained in the *Summary of Stakeholder Input and Request for Further Information on Capacity Management, Other Concepts and Expressions of Interest in Acting as a Counterparty* issued on June 11, 2014 by the New England States Committee on Electricity (“NESCOE”), Sequent Energy Management, L.P. (“Sequent”) respectfully submits these additional comments on the pipeline capacity management criteria and expresses its preliminary interest to serve as capacity manager for the contracted pipeline capacity under this program.

I. Background

On March 28, 2014, Sequent submitted its initial comments in support to NESCOE on the pipeline capacity management proposals. In those comments, Sequent expressed agreement with NESCOE that the criteria for selecting a capacity manager should be identified early in the selection process. Specifically, Sequent suggested any capacity manager should be thoroughly vetted with respect to their experience in pipeline capacity management, creditworthiness, systems capabilities, transparency and accountability.

II. About Sequent

Sequent was formed in 2000 to provide transportation management and optimization, producer and peaking services, and wholesale supply of natural gas to utilities, municipalities, industrials, producers and power generators in North America. Sequent utilizes a portfolio gas pipeline and storage capacity, liquefied natural gas, and supply from all of the major producing regions to provide these

services to its customers at competitive prices. Under capacity or asset management agreements, Sequent also provides its customers the opportunity to capture the value from their idle or underutilized pipeline capacity assets. Sequent markets approximately 7.3 billion cubic feet of natural gas daily on more than 80 different pipelines and was recently ranked the 6th largest wholesale natural gas marketer in Northern America by Platt's Gas Daily.

Sequent is a wholly-owned subsidiary of AGL Resources Inc. ("AGLR"), a natural gas holding company founded in 1856. AGLR is a publically-traded company (NYSE: GAS) with strong investment grade credits ratings (S&P BBB+ and Moody's Baa1). AGLR owns seven local gas distribution companies that provide gas service to 4.5 million retail customers in Georgia, Illinois, New Jersey, Virginia, Tennessee, Florida and Maryland. The retail operations segment of AGLR provides natural gas commodity service to 620,000 customers and home appliance warranty and energy efficiency services to an additional 1.1 million households. AGLR, through subsidiaries, also owns and operates high-deliverability underground natural gas storage assets in Texas, Louisiana and California. More information on AGLR can be found at www.aglresources.com.

III. Further Guidance on Capacity Management Model

Sequent proposes a capacity management arrangement where the capacity manager would optimize underutilized transportation capacity to create value to offset any fixed demand charge costs associated with the pipeline investment. This can be accomplished through revenue sharing, fixed-fee, or some combination thereof. Since the contracted entities are providing capital for the critical infrastructure, it is appropriate for the program to be structured to provide a reasonable return for this investment.

Additionally, an effectively structured capacity management program can include an optimizing incentive for the capacity manager where the underutilized pipeline capacity can be marketed to create incremental value for the program participants. The additional revenue can be refunded to the program participants through a refunding mechanism under the applicable tariff provisions, such as through a Purchased Gas Adjustment-like tariff provision, or directly to retail customers through state programs such as a Universal Service Fund. Sequent has similar arrangements in place under which more than \$200 million dollars in value has been contributed to rate-payers to date. Any capacity manager should be required to evidently demonstrate the value it has provided to its customers while acting as asset manager under long-term arrangements.

NESCOE should also consider alternatives where the anticipated fuel supply is acquired and delivered to the power generators via the contracted pipeline capacity with that revenue offsetting the pipeline capacity costs. In this scenario, capacity would be released to the secondary market only after the primary supply obligations to the power generators having been met with any oversupply being

remarketed. This will ensure the generators have steady access to supply with relative price certainty and will increase the opportunity for incremental refund value to stakeholders. Any capacity manager under consideration should be required to demonstrate extensive experience in contracting supply from diverse resources on upstream pipelines.

Finally, the most important attribute to such an arrangement is a strong customer service-based organization. It should be expected that the counterparties will be in near continuous communications. It is important that the selected capacity manager is a company that has a demonstrated history of serving customers under similar arrangements. This can be accomplished through a thorough investigation of any potential capacity manager's customer references.

Sequent invites further discussion on the various options under typical capacity management arrangements.

IV. Addressing Conflicts of Interest

Based on its substantial experience in managing pipeline capacity assets for multiple utilities, industrials and power generators, Sequent continues to express that conflicts of interest can be addressed through concise contracting, transparent operating system capabilities, reporting and recordkeeping, and contract audit rights. Since its inception, Sequent has continually advanced its systems development in response to customer needs. These system investments have resulted in the most auditable and reporting-capable systems in the industry. Sequent can provide the following assurances with respect to our systems:

- End-to-end system able to track and capture the following elements: Contract, Credit, Confirmations, Scheduling, Transportation, Storage, Price, Volume, Location, Risk, Invoicing, Actualization, Reporting, Recordkeeping and Real-Time Positions.
- SOX compliant and subject to independent annual auditing (PWC).
- Operations and management reporting and recordkeeping capabilities that detail all transactions under any contract arrangement.
- Availability to segregate all transactional data in customer's own separate book structure (both systems and accounting).
- Integrated security procedures designed to limit who can view, enter or modify transactions.
- Systems interface capabilities, where systems can be modified to interface or coordinate with other systems (counterparty, pipeline, regulatory, etc.).

Sequent has successfully acted as capacity manager for multiple entities for more than 14 years and has successfully addressed customer and regulatory concerns related to conflicts of interest. Sequent welcomes the opportunity to

provide further specific detail to alleviate any concerns related to conflicts of interest.

V. A Government Entity Capacity Manager is Inefficient and Sub-Optimal

Several commenting parties have suggested the creation of a new government entity to act as capacity manager. Experienced capacity managers exist in the marketplace and are best suited to manage pipeline capacity. A capacity manager with a diverse portfolio of pipeline capacity and supply resources will provide increased deliverability benefits. A single-purpose capacity manager may be limited from commercial standpoint. In addition, an experienced capacity manager will have the contractual arrangements in place to transact in the marketplace and has already invested in the infrastructure necessary to manage a portfolio of assets.

VI. Conclusion

Sequent appreciates the opportunity to provide additional guidance on pipeline capacity management options. A careful approach as such will ensure prudent management of the incremental pipeline capacity in the region and result in additional reliability and other benefits for consumers. Paramount to this effort will be retaining a verifiably experienced capacity manager with the experience and the systems in place to support auditing, account segregation, reporting and recordkeeping, which will address conflicts of interest and provide the means for performance evaluation against established contract benchmarks.

Sequent again expresses its preliminary interest to serve as capacity manager for the contracted capacity in this program and invites NESCOE to further discuss managing the pipeline capacity assets in the region.

If you have any additional questions, please do not hesitate to contact me at 832-397-1770 or mlang@sequentenergy.com.

Respectfully Submitted,

Marshall Lang

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