COMMENTS OF THE NEW ENGLAND NATURAL GAS INDUSTRY

Pursuant to the public notice issued January 23, 2014, in the above-captioned proceedings, the New England Natural Gas Industry hereby submits its comments regarding the two competing filings submitted in these dockets. These filings, made by the New England Power Pool (“NEPOOL”) and ISO-New England, Inc. (“ISO-NE”) pursuant to the Jump Ball provisions of Section 11.1.5 of the Participants Agreement, are intended to address concerns regarding electric system reliability in the New England region (“Jump Ball Filing”).

I. BACKGROUND

The New England region has been struggling to address issues regarding electric system reliability for several years. Many of the challenges faced in New England relate to the region’s electric system becoming increasingly reliant on natural gas-fired generation facilities without contracting for pipeline capacity on a firm basis. Currently, over 50% of electricity in New England is produced using natural gas. However, natural gas isn’t

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1 The members of the New England Natural Gas Industry are Algonquin Gas Transmission, LLC, Iroquois Gas Transmission System, L.P., Maritimes & Northeast Pipeline, L.L.C., Portland Natural Gas Transmission System, and Tennessee Gas Pipeline Company, L.L.C.; National Grid; Northeast Gas Association; New England Local Distribution Companies (Bay State Gas Company, d/b/a Columbia Gas of Massachusetts; The Berkshire Gas Company; EnergyNorth Natural Gas, Inc., d/b/a Liberty Utilities; Connecticut Natural Gas Corporation; Fitchburg Gas and Electric Light Company; City of Holyoke, Massachusetts Gas and Electric Department; Northern Utilities, Inc.; The Southern Connecticut Gas Company; and Westfield Gas & Electric Department); Repsol Energy North America, and GDF Suez Gas North America. The members of the New England Natural Gas Industry will submit individual motions to intervene in the above-captioned dockets.
currently produced or sufficiently stored in the region, and New England’s interstate natural
gas pipeline infrastructure is currently fully subscribed on a firm basis and thus cannot
guarantee interruptible service to the electric industry. Interruptible capacity for the electric
industry is often unavailable, especially during periods of higher demand when firm capacity
holders are fully utilizing their capacity.

A. Description of Jump Ball Filing

To address these reliability concerns, NEPOOL and ISO-NE have made competing
proposals, which the Commission must now evaluate under the “jump ball” provisions of
ISO-NE’s tariff. ISO-NE has described its proposal as a “Pay for Performance” concept.
Generators accepting capacity obligations pursuant to ISO-NE’s Forward Capacity Market
(“FCM”) will, under the Pay for Performance model, be strictly required to perform in [times
of scarcity.] If a generator fails to perform for any reason, the generator will receive reduced
compensation through the FCM. In contrast, a generator that performs well will receive
increased compensation through the FCM. ISO-NE describes its Pay for Performance
proposal as revenue neutral. That is, total revenue received through the FCM will not
change, but the manner in which that revenue is paid to generators will change depending
upon the quality of each generator’s performance.

In contrast, NEPOOL proposes to address New England’s reliability concerns
through a $500 increase in the cap on bids in ISO-NE’s energy markets. NEPOOL also
proposes to evaluate generator performance using a modified EFORd system, rather than to
make such evaluations solely [during scarcity periods] as proposed by ISO-NE. The
NEPOOL Participants Committee rejected the ISO-NE Pay for Performance Proposal and
accepted by the competing NEPOOL proposal with the support of 80% of the members of the committee.

Both NEPOOL and ISO-NE propose that the majority of their modifications to the FCM be in use for the 9th Forward Capacity Auction (“FCA”). They therefore request an effective date of June 1, 2018 for the majority of the proposed tariff changes, while seeking an effective date of June 1, 2014, for those changes to the market monitoring and mitigation provisions of ISO-NE’s tariff that must be in effect prior to any efforts to implement the 9th FCM.

B. Recent NESCOE Actions

Last December, the Governors of the six New England states committed to cooperate with each other and with ISO-NE to develop needed energy infrastructure in the region in a manner that ensures the costs will be appropriately shared among the six states. The New England States Committee on Electricity (“NESCOE”), which is charged with implementing the Governors’ goals, has recently taken actions to implement the Governors’ directive. NESCOE has requested ISO-NE’s assistance, in a letter dated January 21, 2014, regarding the need for Commission approval to recover the costs associated with the construction of new interstate pipeline capacity. Specifically, NESCOE indicated that new pipeline capacity should be sufficient to eliminate or minimize the basis differential associated with the price of natural gas at various points in New England when compared to the price of natural gas sold at the Henry Hub. NESCOE indicates that an increase in firm pipeline capacity in New England of 1,000 MMcf per day above current levels (600 MMcf per day beyond what has already been announced for the Algonquin Incremental Market and Tennessee Gas Pipeline CT expansion projects) may be needed.
On January 27, 2014, NESCOE sent a memorandum to members of the New England Gas-Electric Focus Group seeking additional data regarding the amount of new pipeline capacity needed to meet the goals set forth by the Governors. NESCOE requested that members of the Focus Group provide this data by February 10, 2014. The Focus Group is scheduled to meet on February 26, 2014.

Together, the Jump Ball Filing and the actions taken by NESCOE underscore the urgency of electric reliability and energy infrastructure problems in New England and the need for all participants in the energy industry to work together to resolve those problems.

II. COMMENTS

The New England Natural Gas Industry does not here take a position on which proposal in the Jump Ball Filing should be adopted by the Commission. The New England Natural Gas Industry is, however, encouraged that ISO-NE and NEPOOL recognize that the current market is dysfunctional and that changes must be made. Similarly, it is a positive development that the long-awaited performance incentives filing is finally in front of the Commission for action.

The New England Natural Gas Industry notes that many possible solutions are available to address New England’s electric reliability problems. The New England Natural Gas Industry is encouraged that the Governors and NESCOE agree that more natural gas pipeline infrastructure is needed and are working on mechanisms to bring that infrastructure to the region. Consequently, the New England Natural Gas Industry encourages the Commission in its action on the Jump Ball Filing not to make decisions that might hinder other solutions that are under consideration and will work in concert with the proposals in the Jump Ball Filing to resolve New England’s reliability concerns.
The New England Natural Gas Industry believes these solutions all must work together and that each of the current proposals may be helpful in its own right. For example, increased electricity imports may be beneficial, as NESCOE notes, and use of existing capacity and east-end LNG imports may also help to diminish electric reliability concerns in the region. Dual fuel may be a viable solution, but will likely face permitting and environmental issues. It is also important to acknowledge that dual fuel will still need gas and oil deliveries — one of the fuels in “dual fuel” is natural gas. Many if not all of the problems with gas-fired electric generation units noted in testimony supporting ISO-NE’s proposal by ISO-NE Witness Peter Brandien, Vice President of System Operations, are actually problems of gas-fired units that lack firm transportation, not problems of gas-fired generation per se. If gas-fired generation seems like “just-in-time” delivery, it is because generators are contracting for just-in-time delivery or relying on just-in-time delivery from a spot capacity release market. Natural gas can play a valuable long-term role if parties contract for firm transportation and develop the requisite pipeline infrastructure that comes along with that firm contracting.

2 “In short, the supply [of natural gas to New England] is insufficient to meet the demand.” Brandien Testimony at p. 7 (Att. 1-1b). Mr. Brandien describes a study conducted by ICF International LLC (“ICF Study”) that concludes, “On the winter days studied, gas transportation capabilities are usually below the amount needed to supply the gas required for the activation of the operating reserve units on the system.” Id. at p. 8. Mr. Brandien goes on to note that existing pipeline capacity available for use by electric generators is likely to shrink in the coming years as demand by local distribution companies (“LDCs”) increases and that pipelines have informed ISO-NE that their west-to-east capacity is constrained or operating at near capacity throughout the winter and in non-winter periods. Id. at pp. 8-9. Later in his testimony, Mr. Brandien states that “generators are dependent on ‘just-in-time’ [natural gas] deliveries, which may be unavailable or disrupted with little or no notice.” Id. at p. 15. He also indicates that generators do not purchase high priority firm transportation services from interstate pipelines, but instead use capacity not be utilized on particular days by firm shippers such as LDCs. Id. at p. 18. Mr. Brandien notes that deliveries of liquefied natural gas (“LNG”) to New England have declined due to increased shipments of LNG to other parts of the world. Brandien Testimony at pp. 9-10. He indicates, however, that providing electric generators with increased incentives might provide them with the ability to sign agreements with LNG operators to provide additional shipments of LNG to the northeast. Id. at p. 11. Mr. Brandien also states that dual fuel generators would provide “valuable fuel diversity and flexibility,” but that dual fuel capability has declined in the region. Id.
The New England Natural Gas Industry asks the Commission to act quickly in this docket in a way that ensures all issues are addressed and that any resolution of the Jump Ball Filing does not preclude or hinder infrastructure development, including consideration of other proposals available, including those fostered by the States as described above. Yet time is of the essence — all proposals will take time to implement, including the Jump Ball Filing and natural gas infrastructure solutions. To have pipeline capacity in service by 2017, the process needs to begin immediately and the New England Natural Gas Industry stands ready to assist.

The New England Natural Gas Industry believes any changes to ISO-NE's markets must send appropriate price signals to address natural gas pipeline infrastructure requirements and urges the Commission to evaluate these filings with that, among other, solutions and objectives in mind.

Respectfully submitted,

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Dated: February 12, 2014
CERTIFICATE OF SERVICE

I hereby certify that I have served a true and correct copy of the foregoing document upon each person on the Official Service List compiled by the Secretary in these proceedings.

Dated at Houston, Texas, this 12th day of February 2014.

/s/ Jennifer R. Rinker
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