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**Cc:** [Jason Marshall](#); [Dorothy Capra](#); [Ben D'Antonio](#); [Allison Smith](#)  
**Subject:** Re: 2/28/2014 Weekly Infrastructure Call Notice - 3:00pm - Addl Material  
**Date:** Wednesday, February 26, 2014 10:04:50 PM  
**Attachments:** [DCtrip\\_Gas-Electric notes\\_26Jan2014\[1\].pdf](#)  
[CostAllocation\\_23Feb2014.xlsx](#)  
[Potential Information Request - Gas Pipelines- TW NU BSD redline.docx](#)  
[Agenda 2\\_28\\_14.doc](#)

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All,

Please see attached additional materials for our 3:00pm call this Friday.

Please consider the materials draft – Not for Circulation.

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**From:** Jeffrey Bentz <[jeffbentz@nescoe.com](mailto:jeffbentz@nescoe.com)>  
**Date:** Monday, February 24, 2014 12:22 PM  
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**Subject:** 2/28/2014 Weekly Infrastructure Call Notice - Material

All,

Our next weekly call is scheduled for **Friday, February 28, 2014 at 3:00pm.**

Call in number is:

**Call inNumber    404-920-6777**  
**Code                54793643#**

Attached is a document to help forward the cost allocation discussion. We will plan to discuss the memo on Friday's call.

We continue to finalize other documents we discussed last Friday and will issue those over the next few days. If anyone has any other document they wish to discuss during the Friday, February 28<sup>th</sup> call please forward to me by close of business on **Wednesday, February 26**. I will accumulate them and send out in one email.

CONEG: (notes limited to Gordon and Chair LaFleur briefing)

- Is 600 mmcf/day the right amount of gas pipeline?
- Gordon's briefing:
  - Greater than anticipated price impacts in January and February 2014
  - More recent analysis makes the infrastructure inadequacy situation appear worse than previous analyses, primarily due to the Maritimes & Northeast Pipeline providing less supply from eastern Canada than expected
  - January experience included a so-called "design day" (some of the coldest weather in decades), during which 3,500 MW of gas-fired generation was unavailable for dispatch due to lack of fuel supply
  - "What you need to do is overbuild" the pipeline, which is a balance of economics and reliability
  - On the concept of trying to channel incremental pipeline capacity directly to electric generators, a caution against intervening in the competitive marketplace
  - On how to manage the incremental pipeline capacity, a recommendation for a third party, rather than ISO-NE or NESCOE
- LaFleur:
  - FERC is working to optimize the existing infrastructure, including through adjustments to the timing of the electricity markets to enable scheduling in the gas markets
  - The need for more pipeline is evident
  - The states' concept of providing "earnest money" is an innovative idea
  - However, struggling with:
    - The proposed mechanism of funding gas pipeline through the electric tariff does not cleanly fit within the Federal Power Act, RNS not a clean mechanism, and wonders whether a concept analogous to the Strategic Petroleum Reserve may be viable;
    - The mechanism for allocating the capacity of the incremental pipeline, as in which plants get the gas; and
    - How this affects the other non-gas-fired resources
  - Wonders whether a subsidiary or affiliate of ISO-NE and/or NESCOE could effectuate a solution, analogous to the Strategic Petroleum Reserve and the recent Winter Reliability Program.

EOP/DOE

Focus of questions and discussion:

- Is there FERC precedent for funding natural gas pipeline through the electricity tariff in a restructured region?
  - Nature of innovative proposal
  - What has been the ISO's response
- Siting issues and route
  - Have the states identified pipeline routes?
  - Are there local issues?
  - Are there issues associated with siting a pipeline through a Coastal Zone Management Area?
  - Discussion of process for selection and how states not looking to draw lines on a map.
- How does the Northern Pass fit within the states' plans?
- Timeline
  - NEPOOL process
- Are the states considering Liquefied Natural Gas (LNG)?
  - Discussion of LNG being cheaper this winter and as possible short-term solution
- What has been industrial customers' response? Is there a role for DOE's EERE office to provide assistance with industrial customers and/or interim measures?
- Have the states envisioned a role for smaller new and/or repowered hydro resources?
- Quadrennial Energy Review (QER)
  - Timing – spring
    - [Lunch meeting later indicated target of late March in New England]
  - DOE to follow-up

FERC (overall take-away, lot of interest and, while careful not to pre-judge, many questions and initial concerns)

- LaFleur:
  - Would the states file the gas pipeline and imported hydro mechanisms together as one package?
    - A “mega package” might be harder to process
    - Having separate dockets would be better administratively
    - In the filing, cite to the other as “interdependent” rather than package together in one filing
  - Would the states go through the NEPOOL process?
  - Is the electric transmission component similar to Order 1000?
  - What is the region’s commitment to competitive markets?
    - “raised the issue during the CONEG meeting, but apparently didn’t get much resonance”
    - Three primary concerns:
      - Having too many outside-of-the-market transactions ultimately erodes the market
      - Private investors in the marketplace are unwilling to fund resources necessary for reliability
      - The ISO ultimately becomes a vertically re-integrated utility, only at the regional level
  - Would it be necessary to amend the Federal Power Act to legally authorize cost recovery for a gas pipeline through the electricity tariff?
    - The proposal would need to be tied to electricity rates
    - The issues of proportionality would need to be addressed (who pays and who benefits)
    - The mechanism for managing and allocating the pipeline capacity would need to be specified clearly
  - Possible alternative approaches?
    - States get legislation
    - Public Utility Commissions could order either gas or electric utilities to procure incremental pipeline capacity
  - Statement regarding general attempts to flow a lot of through rates.
  - Staff questioned capacity release and waivers required.
- Norris
  - Positive statements on fuel diversity
- Clark
  - In the West, the states created a purchasing authority to address challenging issues such as New England’s
  - Very concerned about mixing competitive markets and ISO/RTOs and generation mandates to the point they are incompatible
  - Have the New England states thought about re-regulating?
  - “While I don’t want to shoot it down out of hand, it is not self evident that funding a pipeline through transmission rates comports with the Federal Power Act...”

- Noted this seemed like quasi-restructuring.
- Regulatory approvals will not happen quickly.
- “Re-regulation would address several problems”
- Could the electric generators form a risk-sharing pool?
- On the electric transmission aspect, the objective sounds like Order 1000. But view of gas proposal as more unique than transmission.
- The pipeline proposal is more “outside the box” and could be challenging given that generator cooperation may be necessary and pursuing long-term contracts for imported hydro power may work at cross purposes to obtaining generator support
- Moeller
  - Commend the states for collectively addressing the situation
  - Focused on maximizing the efficiency of the existing infrastructure through more liquidity and transparency
  - The states could embrace real time pricing and support wholesale market reforms that place an emphasis on firming up fuel supplies
  - Want to be careful to not create incentives that would cause other problems, lots of unintended consequences, and/or anticipated consequences that were deemed not important
- Staff (Legal, Market Oversight, Infrastructure, External Affairs)
  - View of gas approach as major hurdle.
  - Is this jurisdictional?
  - To be jurisdictional under the Federal Power Act, the pipeline proposal would need to demonstrate that it was a “practice affecting rates”
    - There would also need to be a limiting principle to justify the exception and protect against future exceptions that would swallow the rule
      - E.g., the Winter Reliability Program was just for one year and deals with fuel itself.
    - The proposal appears attenuated – akin to building a railroad through electric rates to facilitate coal delivery to a coal plant
  - Would the costs be recovered through Regional Network Service (RNS) or Real-Time Load Obligation (RTLO)?
    - The Winter Reliability Program provides guidance on this issue
  - Have the states anticipated the unintended consequences and proposed a remedy to alleviate them, similar to how the Minimum Offer Price Rule (MOPR) protects against price suppression in the capacity market?
  - Would the entity that operates and maintains the pipeline capacity be FERC jurisdictional? If so, under the Natural Gas Act or the Federal Power Act?
    - If the entity is outside FERC jurisdiction (“command and control”), how would the states address the dichotomy?
    - If the entity is FERC jurisdictional, how to address the discrimination issues that would arise?

- Would the pipeline capacity manager bundle the transportation with supply to both comport with the “shipper takes title to the gas” rule and the preferences of the gas-fired electric generators?
- Greenfield pipelines are challenging to site, especially in New England, which has a national reputation?
  - Existing rights of way may provide a more successful and expedient process
- If the states intend to utilize a Request for Proposals for natural gas pipeline, the Florida Power & Light example may be illustrative. [we have the RFP and related information if there is interest in these docs]

#### 2/26/14 Gas-Electric Focus Group

- Pipelines, LDCs and other reviewed the comments submitted to NESCOE.
- Many questions regarding the process going forward for the Governors’ Initiative.
- In response to a question the ISO received on the right amount of incremental pipeline capacity needed, ISO responded that there have been many studies conducted (ICF, B&V, CES) and that all included scenario analysis and ultimately the number is subjective based on one’s view of the future or assumptions used in the studies.
- One stakeholder who had not participated in the early process recited the mismatch between the gas and electric markets (pipelines require a 15-20 year commitment while the capacity market provides revenue certainty three years forward) that prompted debate on market design changes that have provided some relief and the degree to which other issues remain unresolved.