From: Heather Hunt [mailto:heatherhunt@nescoe.com]
Sent: Tuesday, November 19, 2013 3:41 PM
To: Dykes, Katie; 'Clarke, Steven (ENE)'; Esty, Daniel; Recchia, Chris; Welch, Thomas L; Woodcock, Patrick C; Gold, Marion; Ucci, Nick; Hatfield, Meredith; Harrington, Michael; Scott, Robert; barbara.kates-garnick2@state.ma.us; Ann Berwick; Mark Sylvia
Cc: Anne George; Dorothy Capra; Allison Smith; Jason Marshall; Jeff Bentz; Ben D'Antonio
Subject: gas material - RE: call Friday 11/22 12-2 on T & Pipe

Confidential Preliminary Draft for Discussion -

Please find attached a list of potential means to develop natural gas pipeline, along with related implementation and authority questions. ISO has reviewed, and added ideas. (See, for example, no. 9) This errs on the side of being exhaustive. It is intended to enable you to consider the range of potential means and shorten the list to those you collectively consider most desirable and viable. To the extent any state wishes to provide information about various authorities in short order, please do. We will in any case use this document as a starting point for discussion on Friday's call (12:noon -2pm; 404-920-6777; Code - 54 79 3643#) Please also come to the call ready to share with the group any other options you have thought about.
Thanks -

Heather Hunt
Executive Director
New England States Committee on Electricity
Office: 413-754-3749
Mobile: 203-610-7153
HeatherHunt@nescoe.com
www.nescoe.com

-------- Original Message --------
Subject: call Friday 11/22 12-2 on T & Pipe
From: "Heather Hunt " <heatherhunt@nescoe.com>
Date: Tue, November 19, 2013 12:52 pm
To: "Dykes, Katie" <Katie.Dykes@ct.gov>, "'Clarke, Steven (ENE)'" <steven.clarke@state.ma.us>, "Esty, Daniel" <Daniel.Esty@ct.gov>, "Recchia, Chris" <Chris.Recchia@state.vt.us>, "Welch, Thomas" <Thomas.l.welch@maine.gov>, "Woodcock, Patrick C" <Patrick.C.Woodcock@maine.gov>, "Gold, Marion" <marion.gold@energy.ri.gov>, "Ucci, Nick" <nicholas.ucci@puc.ri.gov>, "Hatfield, Meredith" <Meredith.Hatfield@nh.gov>, "Harrington, Michael" <michael.harrington@puc.nh.gov>, "Scott, Robert" <robert.scott@puc.nh.gov>, barbara.kates-garnick2@state.ma.us, "Ann Berwick" <Ann.Berwick@state.ma.us>, "Mark Sylvia" <mark.sylvia@state.ma.us>
Cc: "Anne George" <AGeorge@iso-ne.com>, "Dorothy Capra"

<DorothyCapra@nescoe.com>, "Allison Smith" <allisonsmith@nescoe.com>, "Jason Marshall" <jasonmarshall@nescoe.com>, "Jeff Bentz" <Jeffbentz@nescoe.com>, "Ben D'Antonio" <BenDAntonio@nescoe.com>

There will be a call this Friday **Nov. 22 from 12:pm - 2:pm** on Transmission Options (12:pm - 1:pm) and Gas Pipeline Mechanisms (1:pm - 2:pm). **404-920-6777 Code: 54 79 3643#.** ISO and NESCOE staff will join this call.

Friday's call is in addition to a call noticed yesterday for Thursday Nov. 21 at 3:30 on resource needs. Thursday's call is between states and NESCOE staff. Same number as above.

Please review this service list and send to anyone else in your state as appropriate.

Thanks -

Heather Hunt
Executive Director
New England States Committee on Electricity
Office: 413-754-3749
Mobile: 203-610-7153
HeatherHunt@nescoe.com
www.nescoe.com

Contracting for Firm Gas Pipeline
Potential Options to Facilitate Discussion

Preliminary Draft for State Legal Review

November 18, 2013

1. **All LDC Option**: All states order Gas LDCs (LDCs) in their jurisdiction to purchase firm pipeline capacity targeted for electric generation and to release that pipeline capacity into the market. LDCs would establish separate accounting for this purchase to allow tracking of all revenues and expenses. All involved LDCs would enter into agreements with ISO-NE to pass the charges associated with this purchase through RNS. All revenues received from capacity sales would be credited against RNS.

   ***Implementation Issues*:**
   a. How much would each LDC purchase? Is it in proportion to each state's electric load, or is it based on where gas-fired generators are located? Or is it based on where a pipeline upgrade would be located and to which territory it would deliver?
   b. Would the LDCs get paid for the risk associated with doing this? Would LDCs get a fee for administering the marketing of the capacity?

   Some State Authority Questions:
   a. Do states have the authority to order LDCs in their jurisdiction to buy firm pipeline capacity beyond what is needed for their natural gas retail load, and then order LDCs to release it into the market?
   b. If LDCs would not participate without payments for risk and/or administration, do states have authority to approve such revenue increase for LDCs?

   STATE AUTHORITY ASSESSMENT:

   ISO Authority Question: What is required to authorize ISO-NE to pass charges from LDCs along to RNS load?

2. **Single LDC Option**: One LDC in New England signs a contract for firm pipeline capacity for 20 years for all needed capacity. This LDC also signs an agreement with ISO-NE to pass along all costs associated with this contract through RNS rates. The LDC would set up separate accounting for this purchase to allow all revenues and expenses to be tracked. The LDC would release the pipeline capacity associated with this contract. All revenues from pipeline capacity release transactions would get credited against RNS pipeline charge.

Implementation Issues:

a. How does the region identify which LDC would undertake the role? (Only one state needs to have authority in this scenario).
b. Would an LDC want to do this or would a state have to order an LDC to do this, or entice an LDC by offering earning opportunities?
c. Would the LDC get to keep an administrative fee for marketing the capacity and/or get incremental compensation for assuming risk? (If more than one LDC was willing, states could issue an RFP to identify which LDC would do it for the lowest incremental fee/cost.)

Some State Authority Questions:

a. Does a state have the authority to order LDCs in their jurisdiction to buy firm pipeline capacity beyond what is needed for their retail load (and at sufficient quantities to provide for electric generators in other states and/or serving load across New England) and then order them to release it into the market?
b. Does any state have authority to request an LDC to do this or allow it if an LDC is willing to do it voluntarily?
c. Does any state have authority to approve incremental revenue to an LDC to compensate an LDC for associated risk and/or administrative costs? If an LDC is willing to do this for a fee to compensate for risk and/or administrative costs, does that one state's consumers pay to compensate the LDC for risk and/administration or do other states have authority to collect revenue from their LDCs' customers to contribute to the costs of the program administered by one LDC in one state?

STATE AUTHORITY ASSESSMENT:

ISO Authority Question: What is required to authorize ISO-NE to pass charges from one LDC along to all RNS load? (same as above)

3. **More than one LDC but less than all LDCs**: Similar in structure to Option 2 above, with more than one LDC or more that one state involved but not necessarily all.

Implementation Issues: In addition to above, how would the contract be divided among several LDCs?

Authority questions same as above.

4. **LDCs With Costs to LDC Customers or to Electric Distribution Customers**: Same as options 1, 2, and 3 above, except LDCs would pass costs through to their customers, not through ISO-NE. Or alternatively, LDCs would send a bill to EDCs to pass through to electric consumers.

    Implementation Issues: Not all electric customers are LDC customers so some electric customers will not be charged anything while LDC consumers could be considered to be subsidizing some EDC customers. Handling the accounting of billing from LDCs directly to EDCs without a central billing agent in the middle could be very complex.

    Some State Authority Questions:
    a. In addition to above, can states order LDCs to charge natural gas customers for pipeline capacity that LDCs are not using to serve their load?
    b. Do EDCs have authority to pass through this type of charge to electric customers? Do states have authority to approve an EDC charge to consumers to fund gas pipeline? Do states have authority to approve LDCs transferring their contract costs to one or more EDCs?

    STATE AUTHORITY ASSESSMENT:

    ISO Authority Questions: None.

5. **Shell Entity**: Create a shell company "X". X signs a contract with pipeline for 20 years firm supply. X signs agreement with ISO-NE to pass along all costs through RNS rates for 20 years. X signs an agreement with a marketer to resell pipeline capacity owned by X. All revenues from pipeline capacity release transactions get credited against RNS pipeline charge. X has no permanent paid employees.

    Implementation Issues:
    a. Who creates X? One or more state entities? ISO-NE (non-profit/501c3)? Could X be a subsidiary of ISO-NE? NESCOE (non-profit/501c4)?
    b. Who is on Board of Directors?
    c. Who picks the marketer?
    d. Who signs contracts on behalf of X?
    e. Would the pipelines be willing to accept a back-to-back agreement like this, with no company in the middle, as sufficient guarantee of payment to allow them to build pipe?

    Some State Authority Questions:
    a. Do states have authority, individually and/or collectively, to form a shell company? Could state officials serve on the Board?

b. If only one state had such authority, could one state execute this model for the region? If so, is there a way to share costs associated with X across the region?
c. Could ISO-NE or NESCOE form a shell company without compromising IRS status? Aside from tax status, would NESCOE's and ISO-NE's governing documents permit such action? Would NESCOE's Managers (state officials) have authority to serve on the Board of the parent company?

(NESCOE TO ASSESS NESCOE QUESTION)
STATE AUTHORITY ASSESSMENT:

ISO Authority Question: What authority would ISO-NE need to obtain to allow ISO-NE to pass charges from X along to RNS load?

6. **NESCOE Model (note: authority unlikely - option included to put range of potential options forward)**: NESCOE would sign a contract with pipeline for 20 years firm capacity. NESCOE would signs agreement with ISO-NE to pass along all costs through RNS rates for 20 years or passes it along through the existing NESCOE schedule. NESCOE would sign an agreement with a marketer to resell pipeline capacity owned by NESCOE. All revenues from pipeline capacity release transactions get credited against RNS pipeline charge.

Implementation Issues: Will the pipelines be willing to accept a back-to-back agreement like this, with only a non-profit whose assets are dedicated to specific purposes in the middle, as sufficient guarantee of payment to allow them to build pipe?

Some State Authority Questions:
a. Can Managers authorize NESCOE to enter into 20-year contracts under NESCOE's governing documents?
b. Is this approach permissible under NESCOE's FERC-approved scope and foundational documents?
c. Is this approach permissible under NESCOE's 501c4 non-profit status?

(NESCOE TO ASSESS)

ISO Authority Question:
a. What would be required to authorize ISO-NE to pass charges from NESCOE to RNS load?
b. Could ISO-NE use the existing NESCOE tariff schedule 5? If so, would this be subject to the process that governs NESCOE's annual

budget approval (schedule 5) process via NEPOOL and FERC? If so, what if NEPOOL voted against it in any year of the 20-year period?

7. **EDC Model**: All states order all EDCs in their jurisdiction to purchase firm pipeline capacity targeted for electric generation and to release that pipeline capacity into the market. Amounts that each EDC purchases would be in proportion to RNS load. EDCs would set up separate accounting for this purchase to track all revenues and expenses. EDCs would pass costs directly through to electric customers.

    Implementation Issues:
    a. Would the EDCs get paid for the risk associated with doing this?
    b. Would EDCs get a fee for administering the marketing of the capacity?

    Some State Authority Questions:
    a. Are EDCs in each state allowed to enter into contracts for gas?
    b. Do states have the authority to order EDCs in their jurisdiction to buy firm pipeline capacity, and then order them to release it into the market?
    c. Do states have the authority to pass these charges to electric consumers through retail electric rates?
    d. Would municipal utilities be included in this type of purchase?

    STATE AUTHORITY ASSESSMENT:

    ISO Authority Question: None.

8. **State RFP**: States would conduct an RFP for entities (LDC, Marketer, Producer) to build and manage the pipeline. The selected entity would manage the capacity release on a nondiscriminatory basis to all potential shippers and receive a management fee with cost reimbursement on an annual basis under the ISO-NE tariff.

    Implementation Issues:
    a. What entity/ies would sign a contract on behalf of the states?
    b. How is the pipeline capacity released to the market?
    c. Development of the RFP and contract details could be complex.

    Some State Authority Questions:
    a. Do states have authority to conduct such an RFP?
    b. Do states have authority to sign such contract or order some entity to sign a contract?
    c. Could one state sign a contract of sufficient magnitude to serve the region?

d. Do states have authority to approve a management fee?

STATE AUTHORITY ASSESSMENT:

ISO Authority Question: What authority would ISO-NE need to pass charges from one or more states to RNS load?

9. **ISO Tariff as Funding Mechanism With No Contract:** A rate schedule is added to ISO-NE's Tariff that allows for collection from ISO customers (and payment to the pipelines) of firm transportation charges for expanded gas pipeline capacity, based on ISO-NE's need to protect electric system reliability. ISO-NE does not sign a contract for the expanded capacity, nor does any other entity. The pipelines rely on the stream of revenues from the ISO Tariff rate schedule to finance the project. The model is essentially the same as that used for transmission where ISO-NE provides a vehicle for regulated funding. ISO-NE would then contract with a marketer or similar service provider to manage the pipeline capacity release on a nondiscriminatory basis to all potential shippers. The amounts collected from ISO-NE customers would be reduced by revenues received from capacity releases, but wrap in the service provider fee(s) incurred by ISO-NE from its marketer, and any other ISO-NE costs incurred in managing the process, and ISO-NE would earn no profit nor suffer any cost from the process. ISO-NE would support the states in determining the amount of pipeline capacity to be acquired.

Implementation Issues**:**

a. Is the assurance of a regulated payment through the ISO Tariff without a contract sufficient for pipelines to rely on to finance the project?
b. Under the current ISO Tariff, all Participants "backstop" the funding arrangement. Which entities would "backstop" this Tariff arrangement? (Can the existing Participant backstop extend to this? Would Transmission Owners be the exclusive "backstop"?)
c. How is the pipeline vendor selected? (Could there be funding through the tariff of the projects being proposed by companies to the size determined by the states - currently a strawman 1.7 bcf for discussion?)
d. If the pipeline is satisfied with this arrangement, would FERC approve a pipeline certificate application based on this framework?

Some State Authority Questions**:**

a. Do the states have the authority to make a determination of how much capacity to procure and, by making such determination, bind the states against later challenges in the case of under utilized pipeline capacity?
b. Do the state have authority to require the Transmission Owners to "backstop" the Tariff payment stream?

STATE AUTHORITY ASSESSMENT:

ISO Authority Questions:

a. Would FERC approve the addition of a new schedule to the ISO OATT to allow for gas pipeline charges associated with electric system reliability to be recovered from regional electric customers?
b. If the pipeline agrees to enter into an arrangement (backstopped by the ISO tariff) in which ISO-NE is obligated to pay the demand charges associated with the new pipeline capacity, will this arrangement have negative implication for its tax status?