

A nighttime photograph of a city skyline, likely New York City, with several illuminated skyscrapers. In the foreground, a bridge with purple lighting spans across a body of water. The scene is reflected in the water, and a dark blue semi-transparent overlay covers the bottom half of the image.

*Algonquin Gas Transmission, LLC*

**Capacity Release Tariff Proposal**  
**Docket No. RP16-618-000**

*Richard Kruse, Vice President*  
*Regulatory and FERC Compliance Officer*  
Technical Conference | May 9, 2016

# Purpose

*The purpose of the technical conference is to address the issues raised in response to Algonquin's tariff filing.*

*The fundamental questions raised in those pleadings are:*

- Whether the Commission can approve such a proposal in a pipeline-specific proceeding?
- Whether there are electric reliability and price volatility concerns in ISO-NE that require pipeline infrastructure and flexible service offering solutions?
- Whether it is appropriate for EDCs to acquire Access Northeast project capacity to address electric reliability and price volatility concerns?
- Whether allowing EDCs to release such capacity on a targeted basis to generators without subjecting them to FERC bidding requirements on Algonquin is in the public interest?

# The Commission Can and Should Address Algonquin's Proposal in this Proceeding

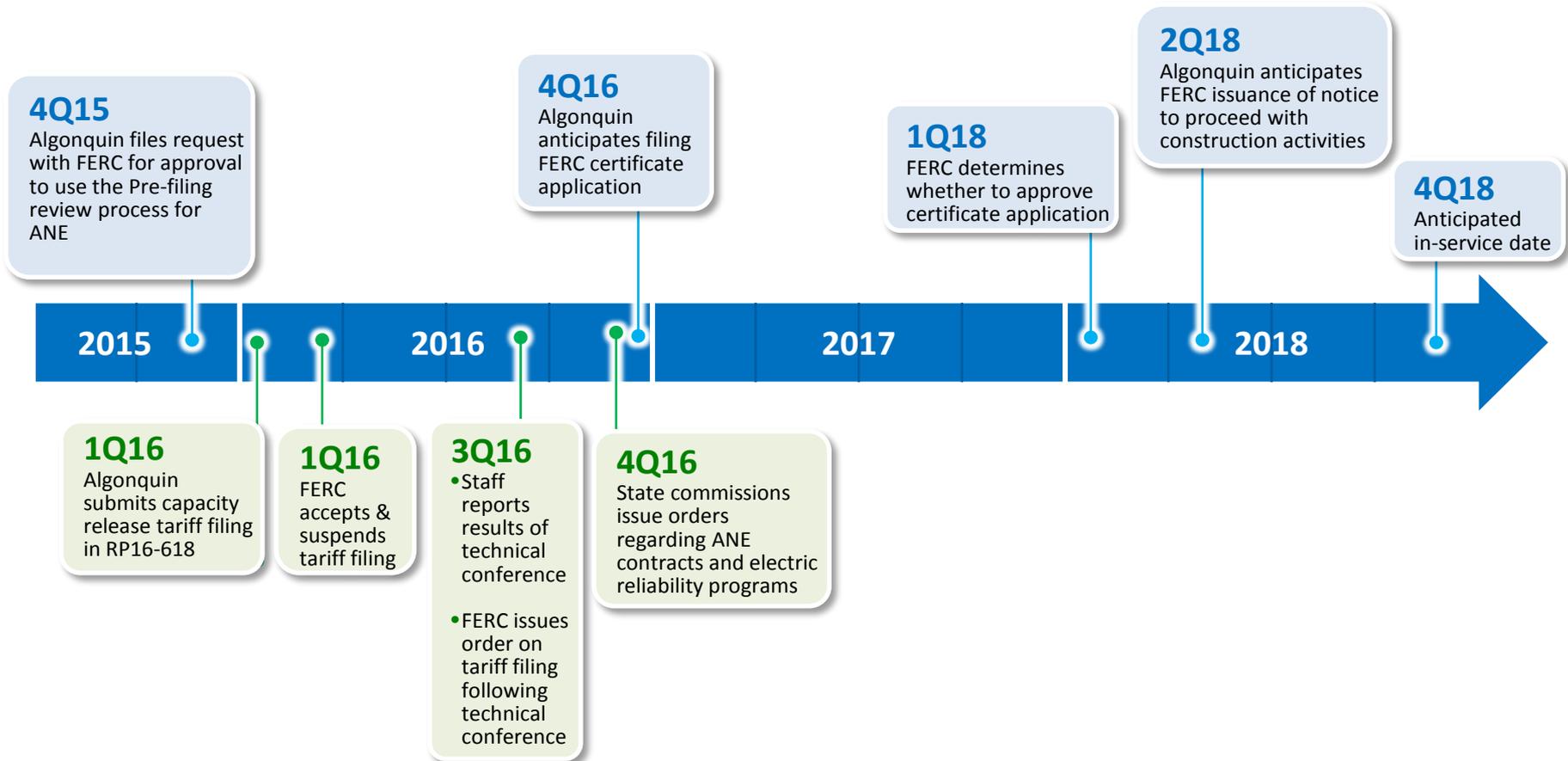
## The Commission has the authority to approve the proposed exemption in this proceeding

- Commission can establish policy in a pipeline-specific proceeding
- Algonquin is not proposing to amend the existing regulations nor is it proposing a new industry-wide or nationwide exemption that requires a rulemaking
- In Order No. 809, the Commission announced that it **“is open to considering requests for waiver of its capacity release regulations . . . on a case-by-case basis, where it is shown that such a waiver would be in the public interest, for example by assisting natural gas-fired generators in obtaining access to firm transportation service in a transparent and not unduly discriminatory manner.”**

## Public policy dictates that the Commission act in this proceeding

- As described below, electric reliability and pricing concerns in New England need to be addressed
- Commission action will provide certainty to the stakeholders regarding whether the proposed solution is viable

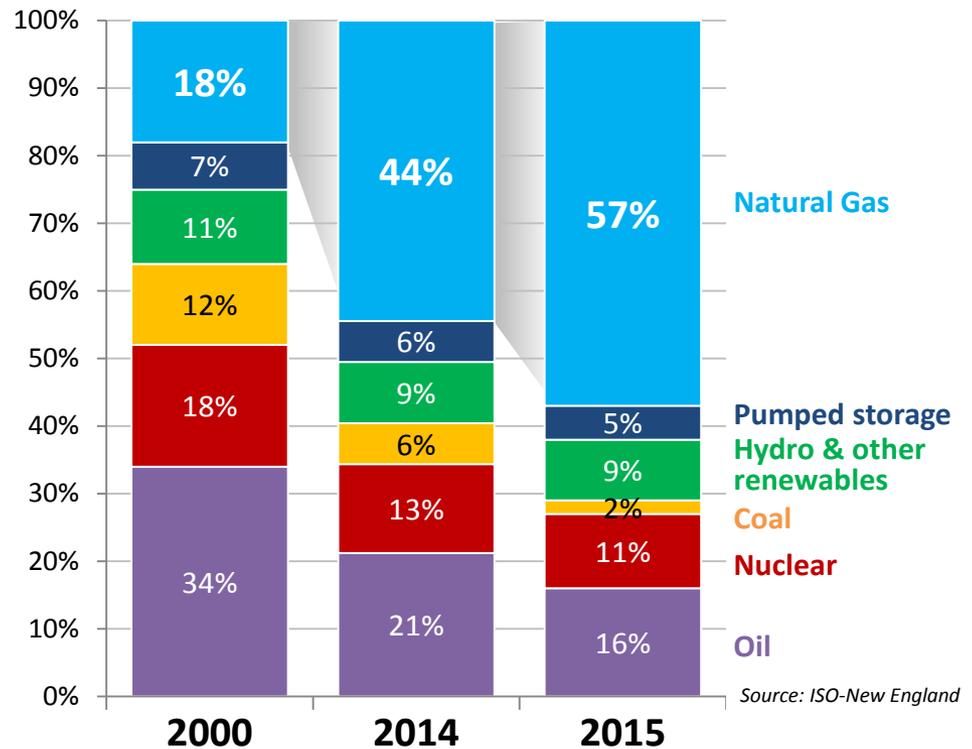
# Proposal Timeframe



# Electric Reliability and Price Volatility Concerns: New England is increasingly relying on natural gas to fuel electric generation

- As New England moves to a natural gas-fired generation fleet, access to natural gas becomes increasingly important
- Natural gas-fired power plants should have firm transportation to ensure reliability of supply

**New England Fuel Mix for Power Generation**



*As older, less efficient power plants in New England retire, they are being replaced with natural gas-fired power plants – increasing the need for gas infrastructure*

# Electric Reliability and Price Volatility Concerns: New England's reliance on natural gas-fired generation is expected to continue

## TODAY



**350**  
Generating facilities



**~31,000**MW  
Generating capacity

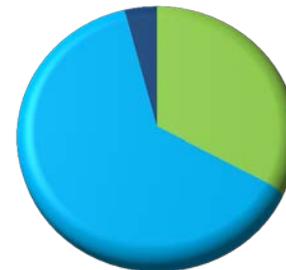
## RETIREMENTS

**~4,200**MW + **~6,000**MW = **~30%**  
Non-gas generating capacity retiring 2013-2019      Non-gas generating capacity at risk of retirement by 2020      of the region's generating capacity could be gone by 2020

## NEW GENERATION

**13,000**MW  
Proposed generation in the ISO-NE Generation Interconnection Queue as of January 2016

**63%**  
Natural Gas



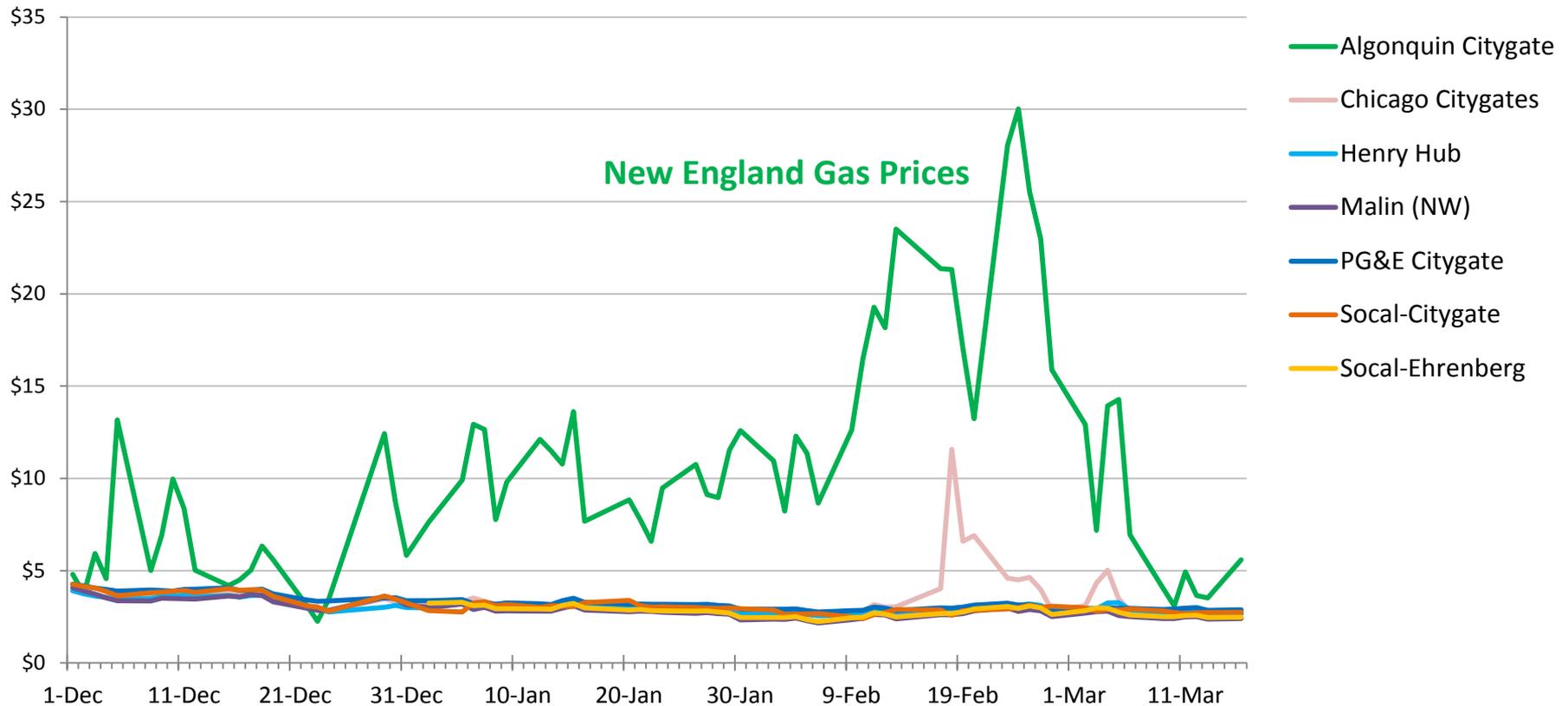
**33%**  
Wind

Source: ISO-NE (Jan 2016 REO Report)

# Electric Reliability and Price Volatility Concerns

## Winter 2014-15 Natural Gas Market Prices at Selected U.S. Hubs

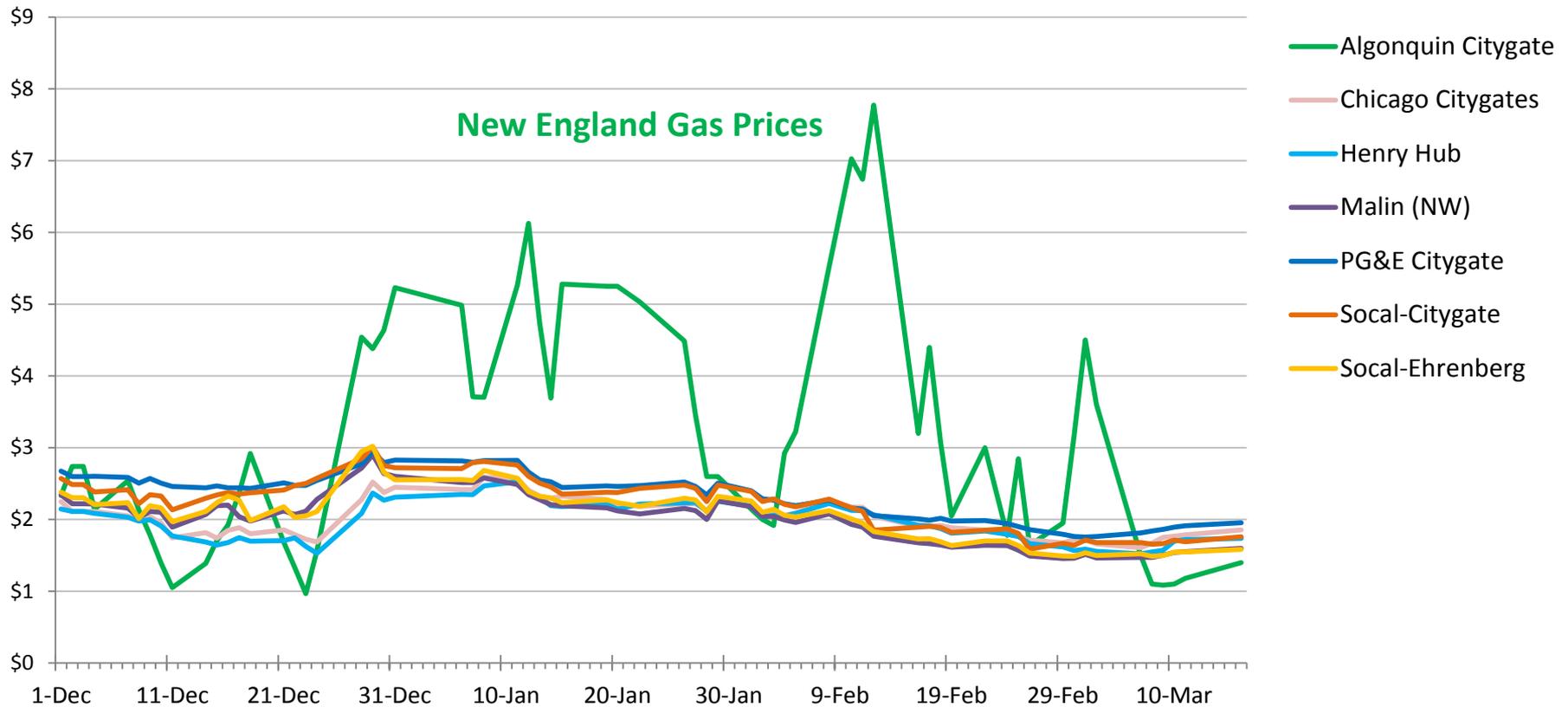
(ICE Reported Data Republished by U.S. EIA - \$/MMBtu)



# Electric Reliability and Price Volatility Concerns

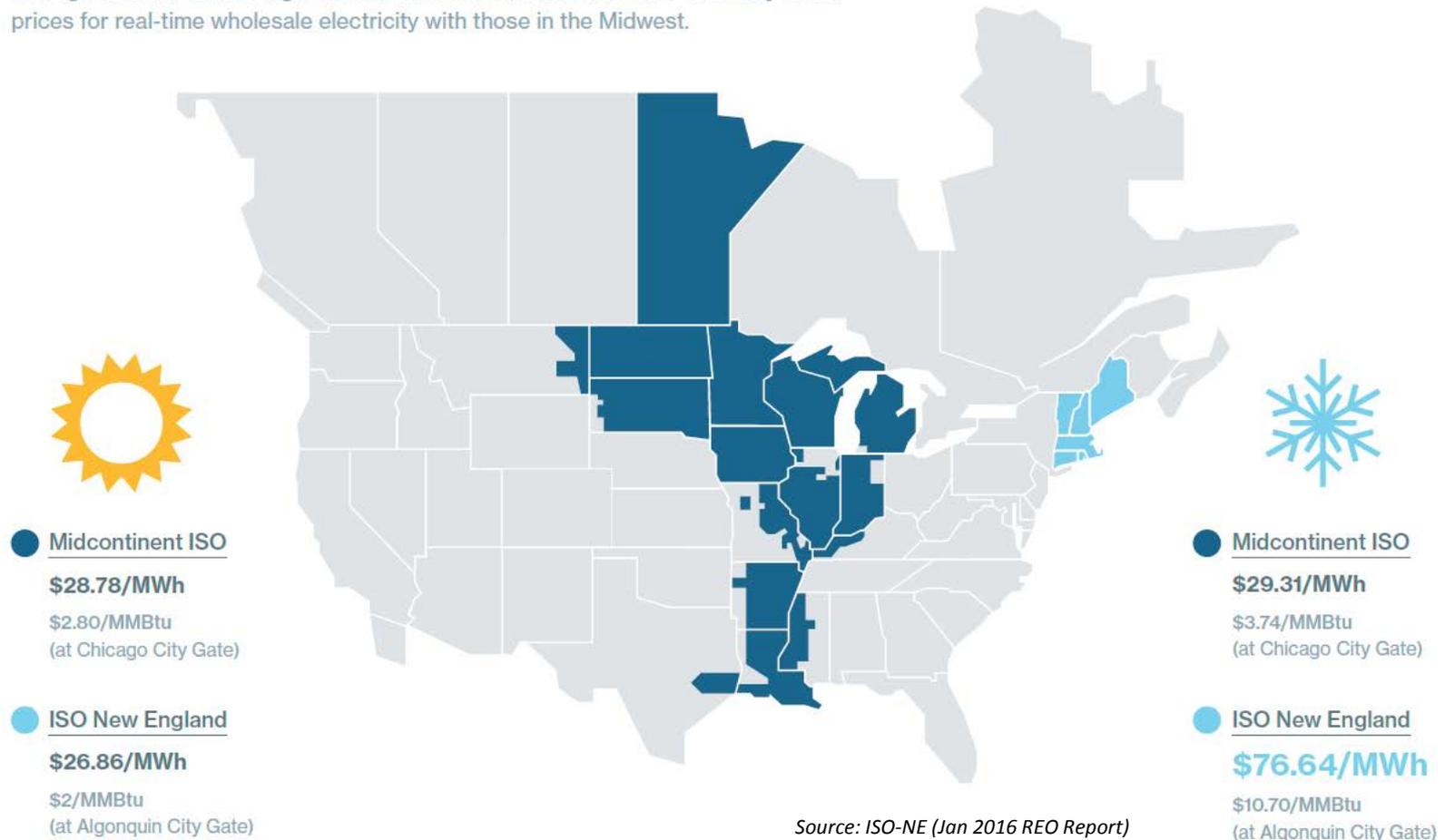
## Winter 2015-16 Natural Gas Market Prices at Selected U.S. Hubs

(ICE Reported Data Republished by U.S. EIA - \$/MMBtu)

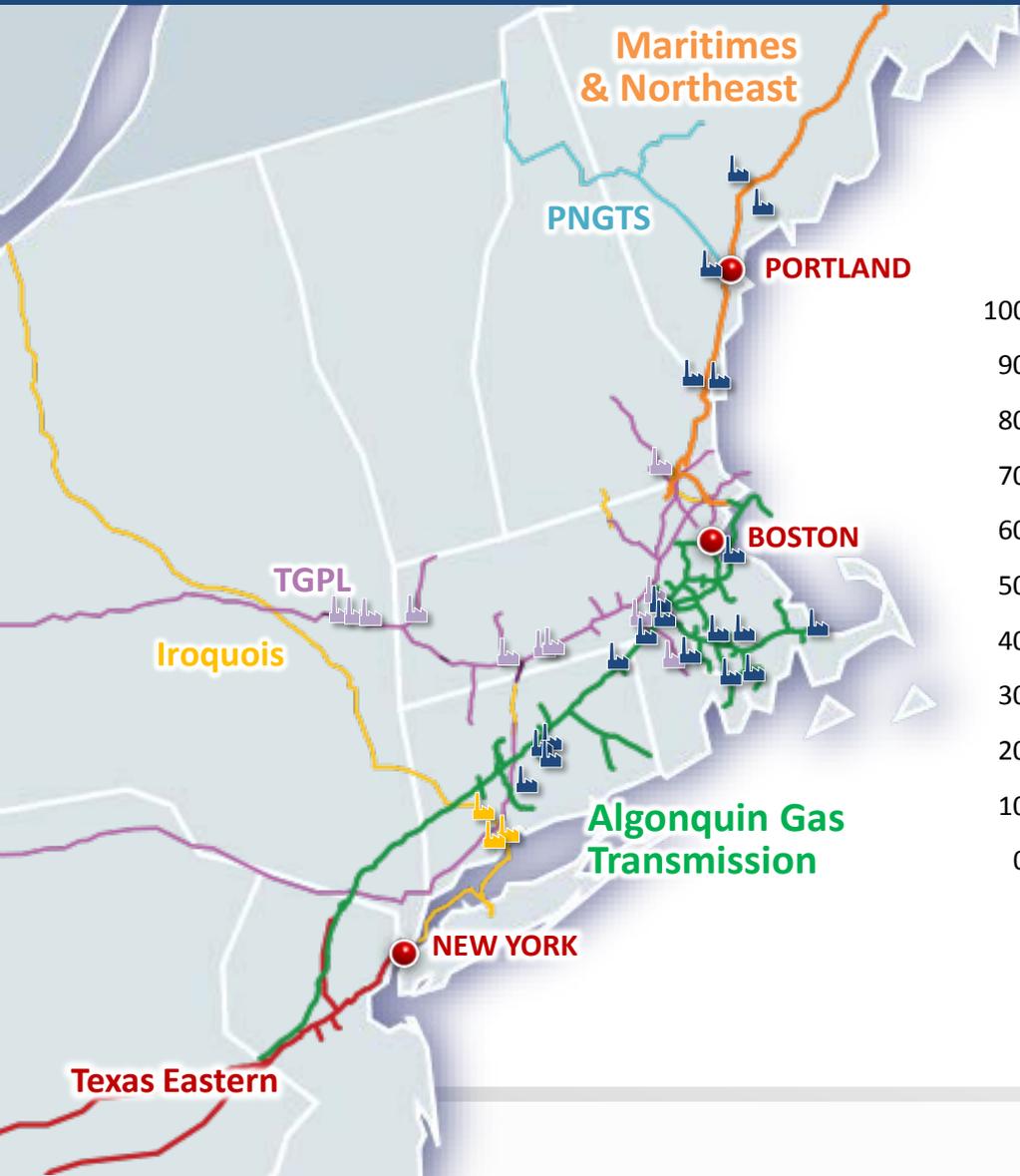


# ISO-NE's Tale of Two Seasons

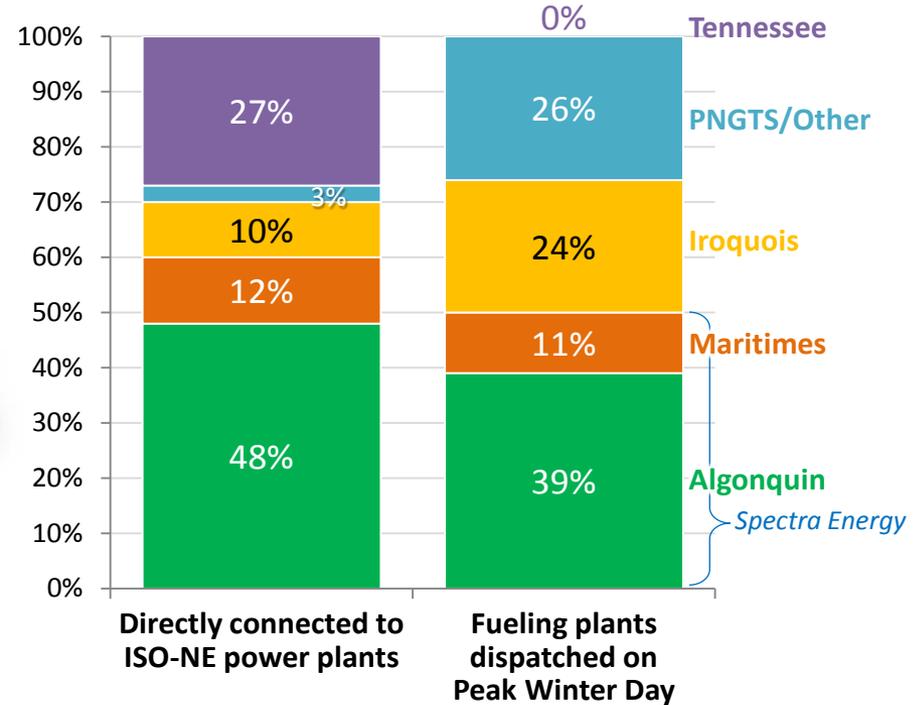
When the region's gas-fired generators have unconstrained access to natural gas, wholesale electricity prices are competitive nationally. Compare New England's average summer (June–August 2015) and winter (December 2014–February 2015) prices for real-time wholesale electricity with those in the Midwest.



# Existing connections to natural gas-fired generation



## Who Fuels Natural Gas-Fired Generation Plants in ISO-NE?

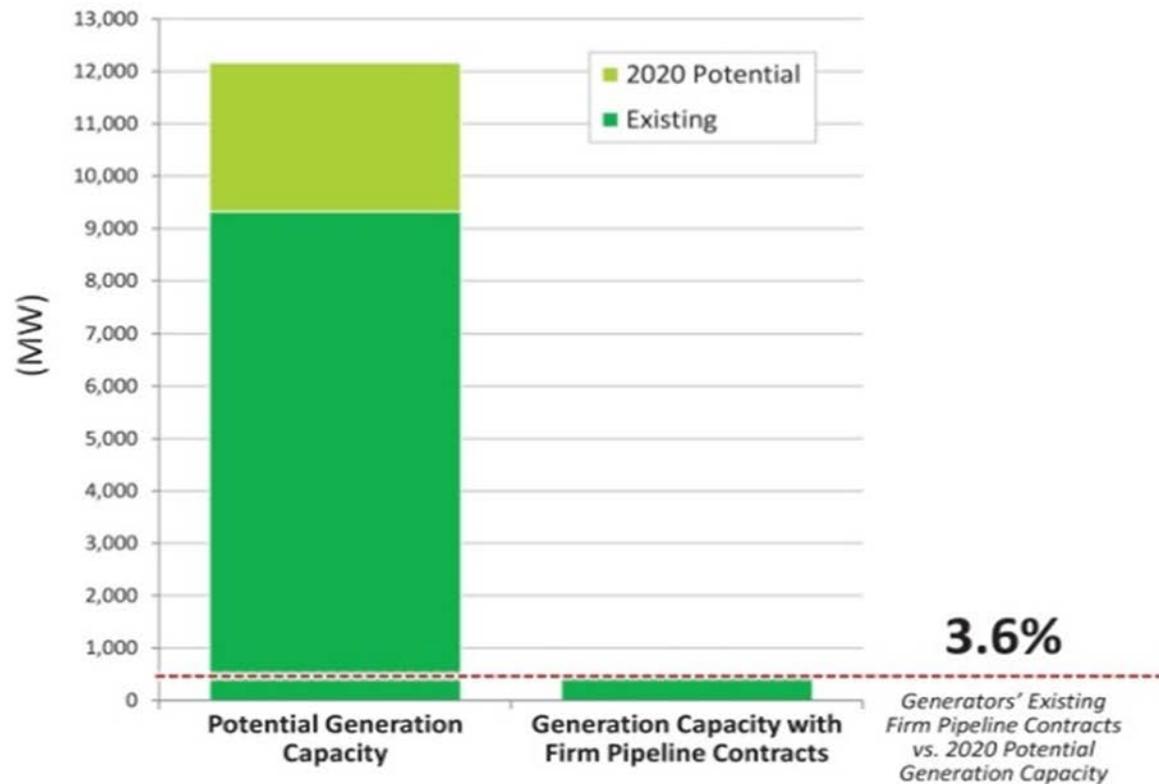


Source: ISO-NE; Peak Winter Day = January 4, 2014, AM Peak of 3,143 MW

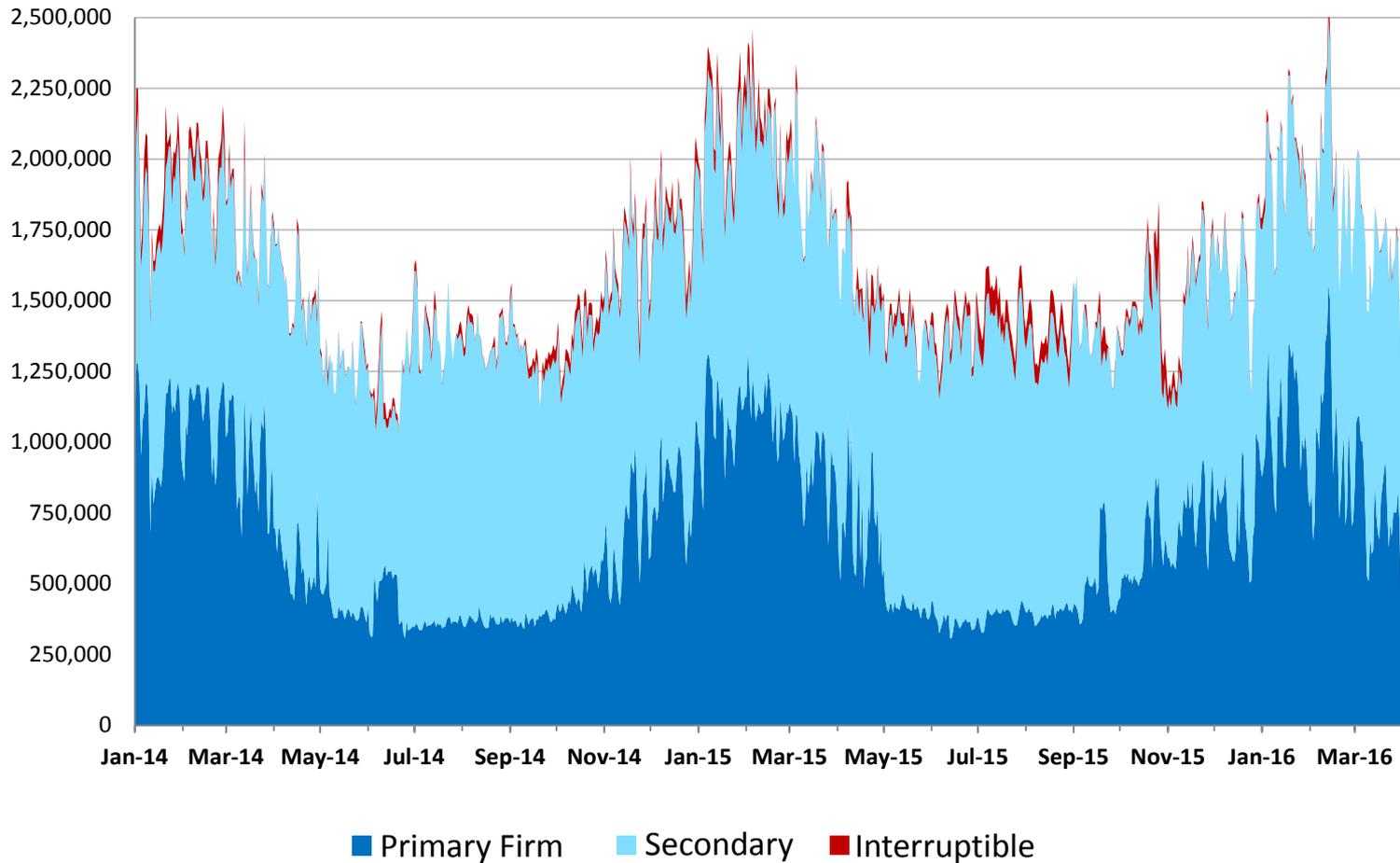
# Algonquin Gas Transmission Natural Gas-Fired Power Generation Dynamics

Algonquin Gas Transmission and M&N Pipeline U.S.

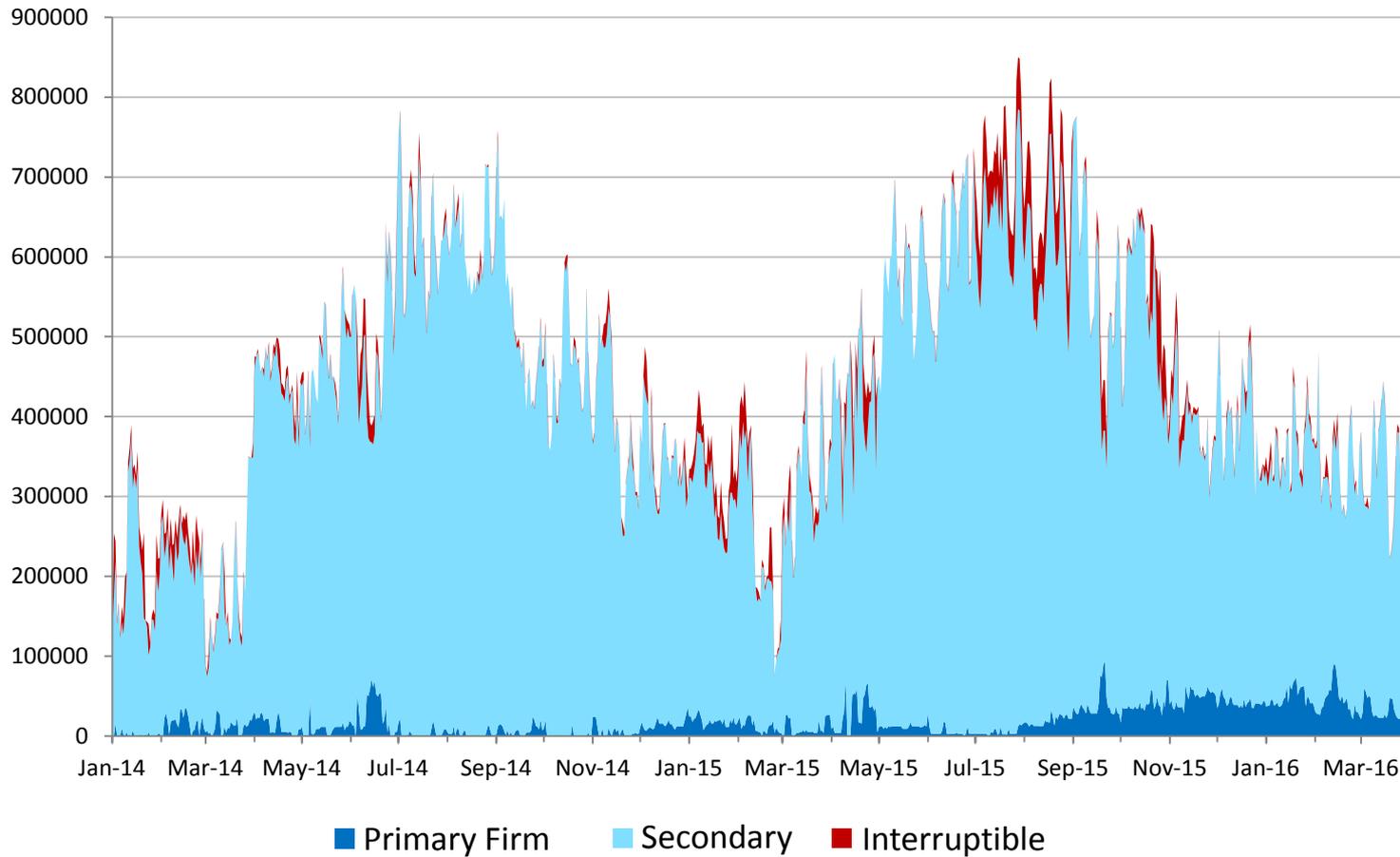
## Potential Generation Capacity vs. Generation Capacity with Firm Pipeline Contracts



# Algonquin Gas Transmission System-Wide Priority of Service

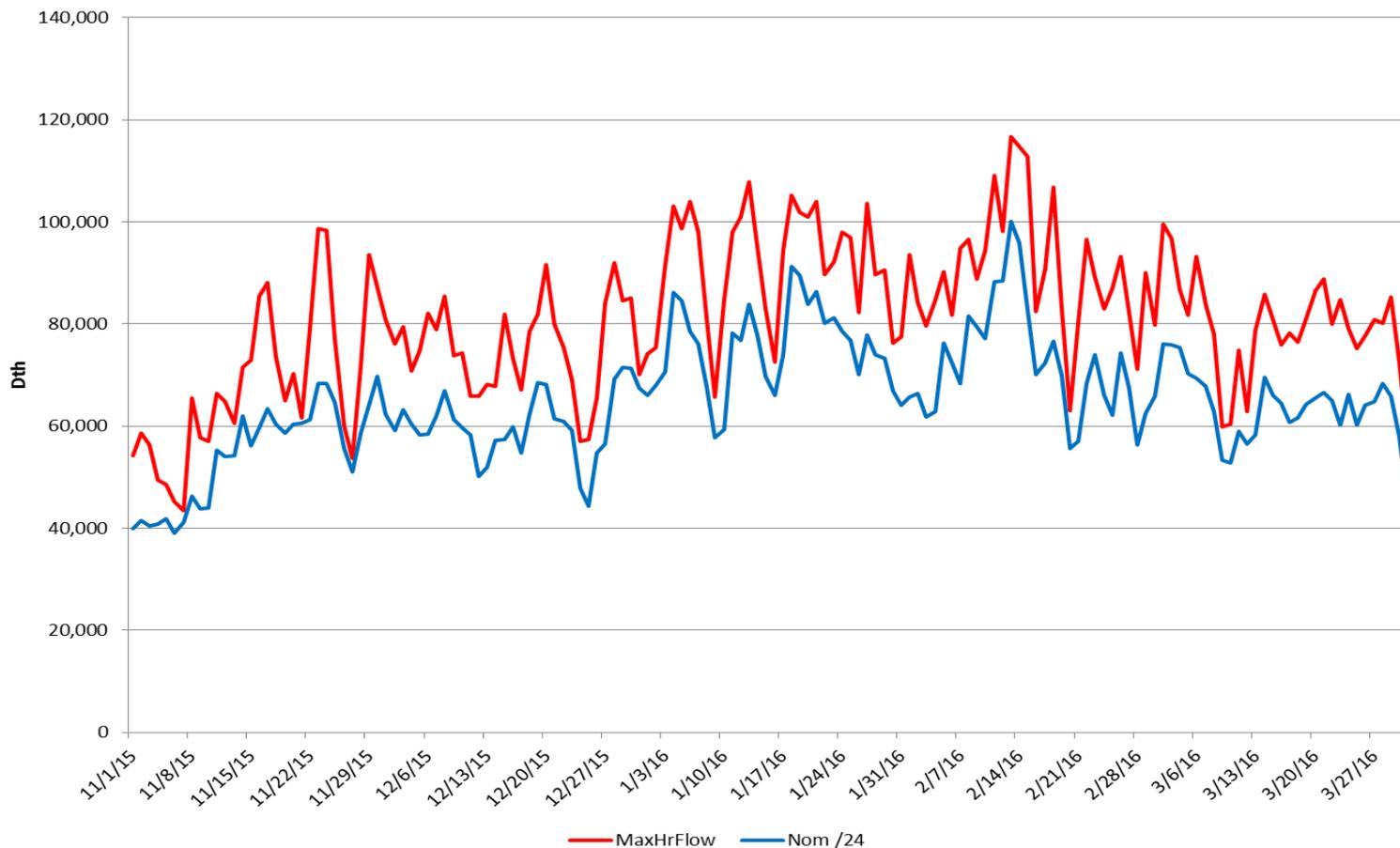


# Algonquin Gas Transmission Generator Priority Of Service

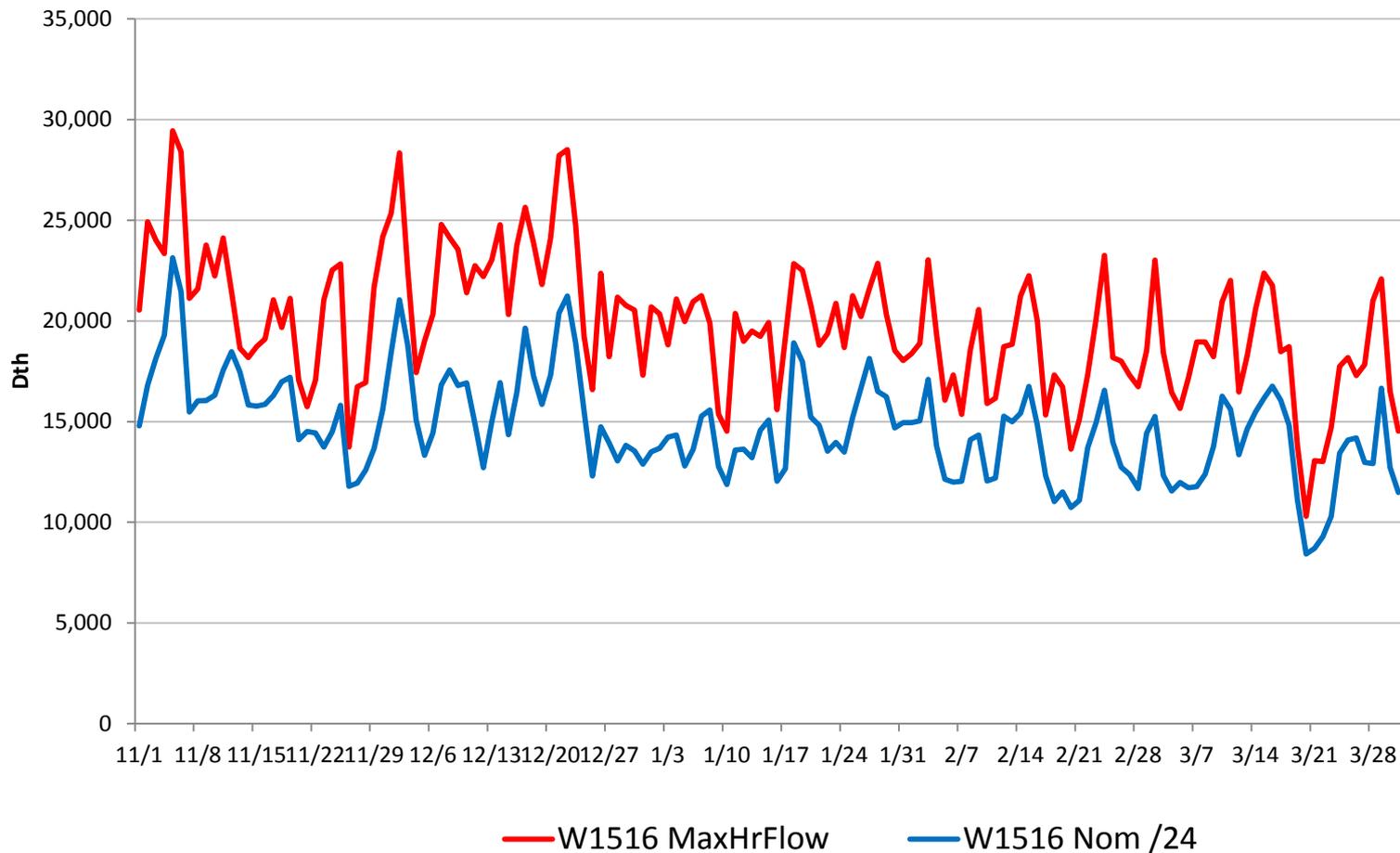


# Algonquin Gas Transmission System-Wide Maximum Hourly Deliveries vs Scheduled Nominations

## Algonquin Maximum Hourly Flow vs Nominations



# Generator Maximum Hourly Deliveries vs Scheduled Nominations



# New England states recognize challenges of inadequate pipeline infrastructure

*“New England is challenged by a lack of natural gas pipeline infrastructure and is losing non-gas power plants, both of which threaten power system reliability.”*

Department of Energy & Environmental Protection,

**New England Governors’ Statement on Regional Cooperation for Energy Infrastructure**, Apr. 23, 2015

available at:

<http://www.ct.gov/deep/cwp/view.asp?Q=564676&A=4707>

The New England governors also released a 6-state action plan, in which the governors advised,

*“that the region’s economy is limited by existing natural gas pipeline capacity”*

and expressed their support for

*“regional efforts to expand natural gas capacity in New England to address reliability risks to the electric system and price impacts on electric consumers during the winter period.”*

Id.

# ISO-NE statements regarding the need for pipeline infrastructure and service solutions

## 2015 Regional System Plan

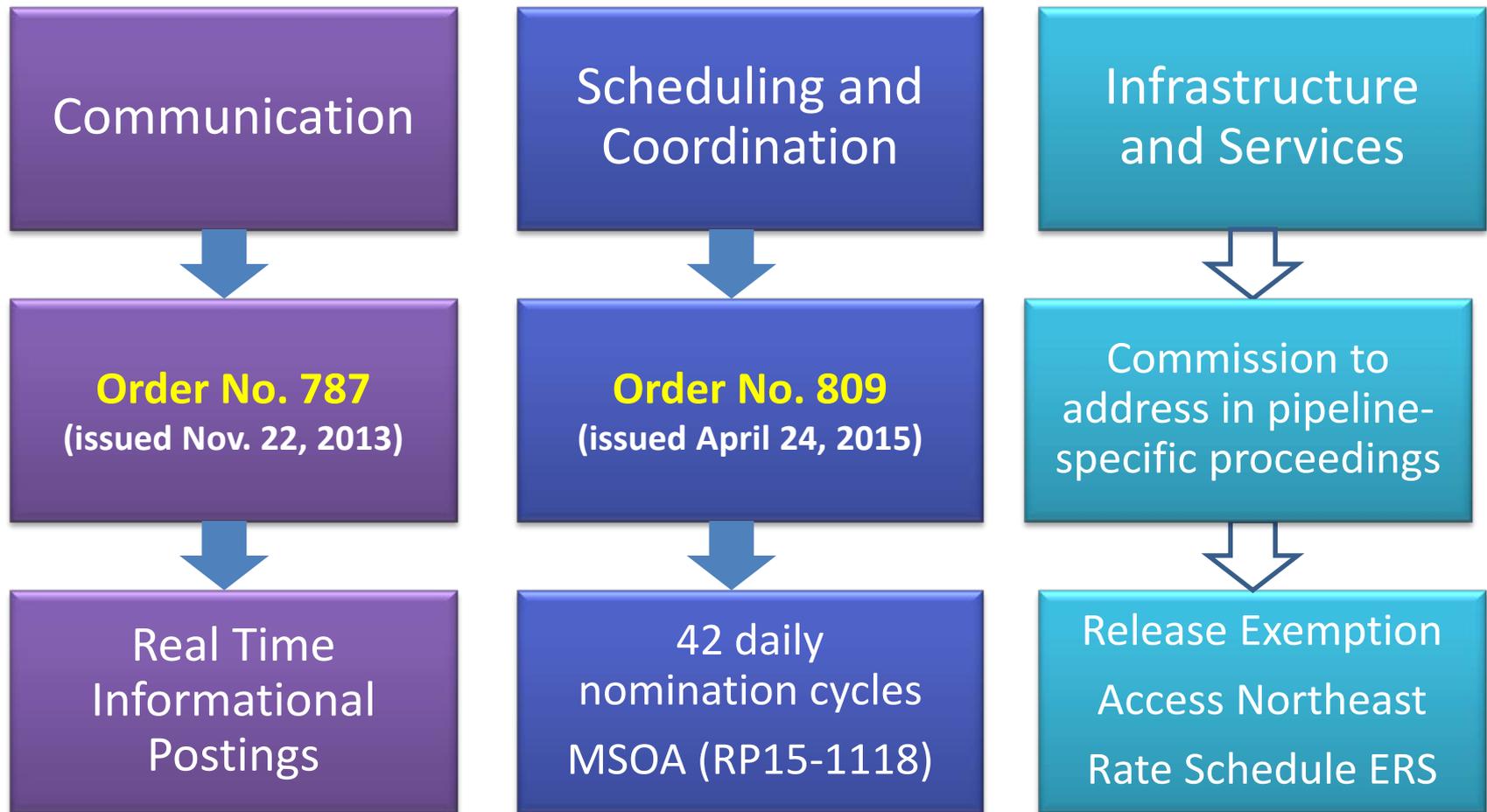
*“Ways in which the gas sector could assist with reliability efforts include having gas suppliers provide generators with additional opportunities to obtain fuel outside normal business hours, having pipelines offer more flexible scheduling, offering additional services, and improving real-time information on the status of the pipeline system.”*

## 2016 Regional Electricity Outlook

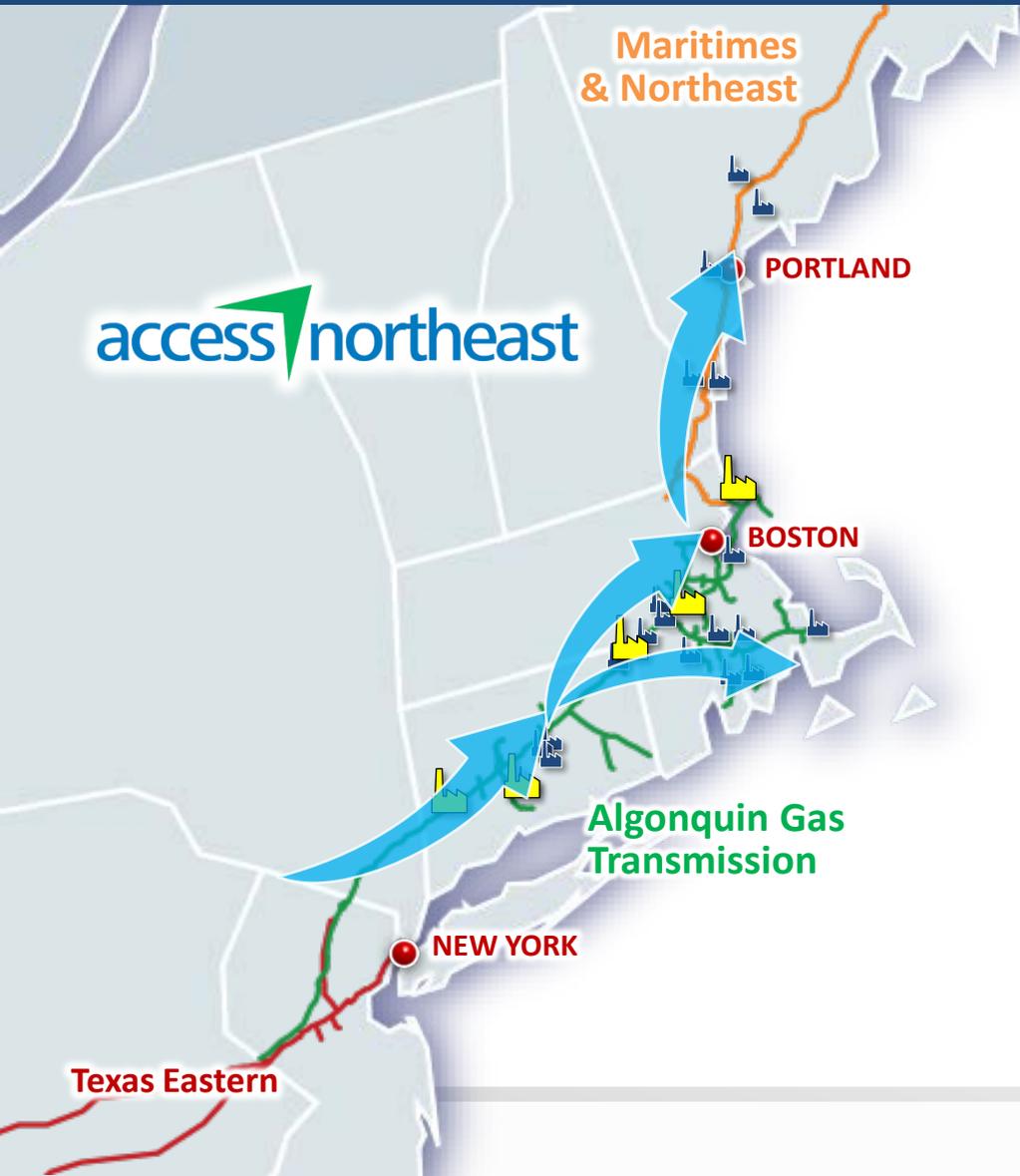
*“natural gas constraints have led to grid reliability challenges, emission increases during winter, and spikes in wholesale electricity prices.”*

*“the grid is becoming more vulnerable to unexpected generator or transmission outages in winter. To counter this risk, the ISO has been seeking solutions on both the operations and market fronts to ensure reliability. **Ultimately, it will take natural gas infrastructure improvements – some combination of pipeline, liquefied natural gas, and storage solutions – to address both reliability risks and price volatility.**”* [emphasis added]

# Algonquin has proactively responded to the Commission's encouragement to address Gas/Electric Issues



# Access Northeast is a continuation of Algonquin's innovative solutions to support electric reliability



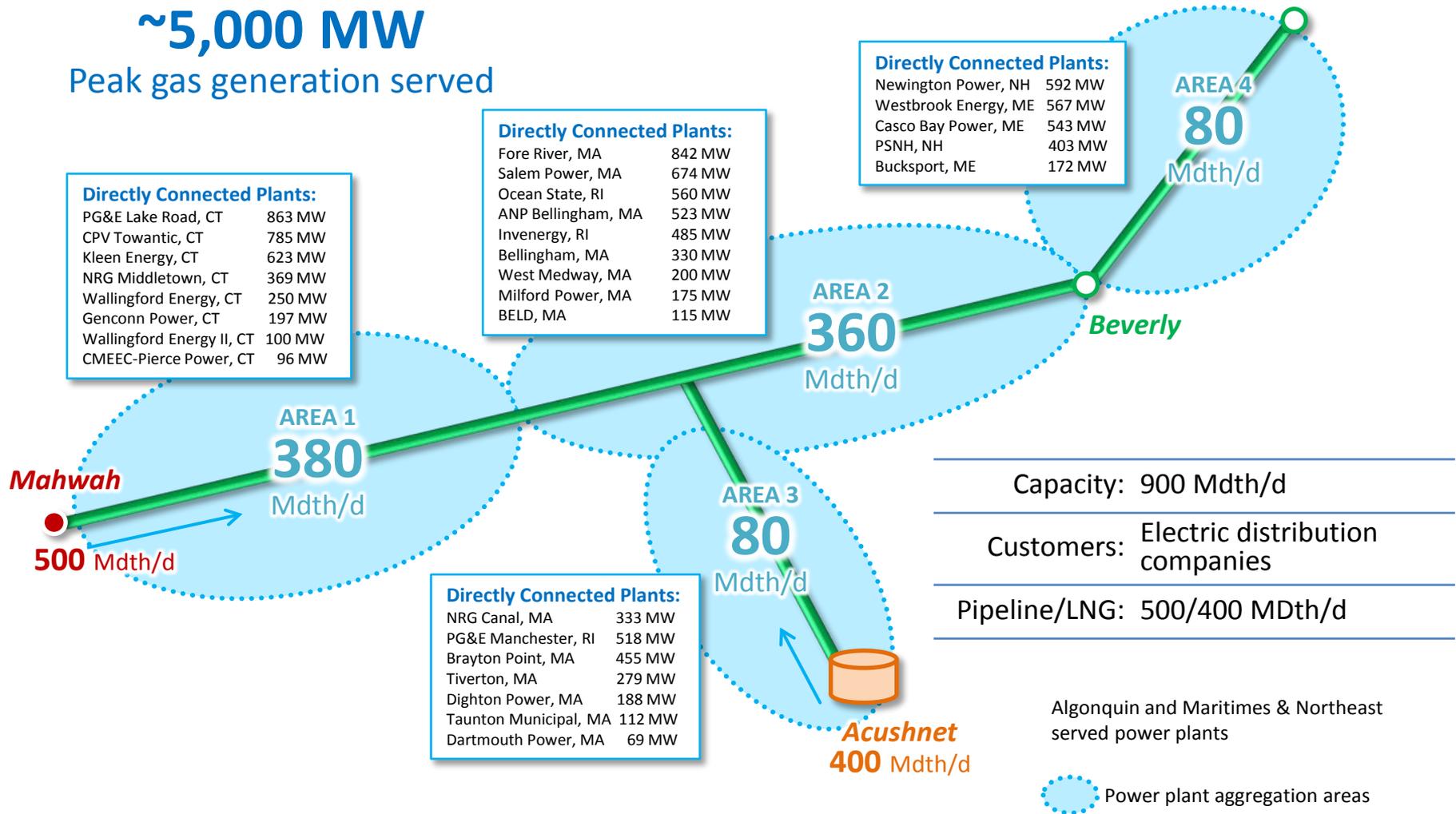
*Access Northeast is a tailored solution for the region's electric energy needs*

- Upgrading **existing pipelines**
  - Cost effective
  - Environmentally responsible approach
- Increases natural gas supplies to power plants by **0.9 Bcf /day**
  - Gas to fuel 5,000 MW of generation
  - Ensuring energy security
  - Lowering electric costs
  - Reducing carbon emissions
- Uses **local natural gas storage** to ensure reliability of supply
- Provides **rapid response capability** – a first of its kind service to electric generators that will:
  - Meet peak winter day needs
  - Back stop intermittent solar and wind-renewable power

# Access Northeast Aggregation Areas

~5,000 MW

Peak gas generation served



# Algonquin's filing in RP16-618 is a continuation of its innovative solutions to support electric reliability

## Capacity Release Exemption

- **Pipeline-specific exemption** - The proposed exemption for state-regulated electric reliability programs is a narrow exemption to address a specified problem, *i.e.*, to provide firm transportation capacity to electric generators so as to increase electric reliability.
- **Timely transfers of capacity** - The Algonquin-specific exemption to the FERC capacity release bidding requirements will facilitate the targeted transfer of capacity rights from EDCs to generators in a timely manner and ensure direct benefits to electric reliability.
- **Existing exemptions are not sufficient** - Although generators may avail themselves of other existing exemptions, including the exemption for transactions of less than one month, the restrictions on repeated use of that exemption may impede generators' ability to acquire capacity outside of the established bidding period.

# Need for Bidding Exemption

## Prioritize Electric Reliability

- EDCs have committed to a biddable process at the state level to select generators for receipt of available releasable capacity
- Exempting generators from FERC bidding requirements on Algonquin will ensure that the EDC participation in Access Northeast will provide the greatest benefit to electric reliability
- EDC contractual commitments to Access Northeast are conditioned upon approval of non-biddable releases at FERC level

# Tariff Mechanism Meets FERC's Just and Reasonable Requirements and is in the Public Interest

- Algonquin has identified electric reliability concerns in New England, which can be addressed by the Access Northeast Project and the proposed capacity release exemption
- EDCs and state commissions are acting to satisfy their obligations to ensure electric reliability for retail electric customers
- The proposal is in the public interest
  - Supports electric reliability and benefits regional prices
  - Consistent with the Commission's capacity release precedent
  - The Commission can approve the proposed tariff mechanism without having all of the details of the state-regulated electric reliability programs

## *Response to Comments:* Reliability Concerns and Alternative Solutions

**Commenters claim** that (i) existing programs are sufficient, (ii) there are no reliability concerns because there have been no market failures, (iii) price spikes in 2013-14 were an anomaly, (iv) MSOA could be an alternative, and (v) Access Northeast will resolve electric reliability concerns so the tariff filing is unnecessary

### **Response:**

- Claims that there are no reliability concerns are supporting continued price volatility.
- Waiting for a failure to occur is not consistent with Commission policy and reliability planning.
- Price volatility and reliability concerns were not limited to the winter of 2013-2014.
- MSOA has not been utilized by generators or other stakeholders to address electric reliability.
- Proposed exemption is currently a component of Access Northeast.

# *Response to Comments:* Gas Market Impacts

## **Commenters claim** the proposal is discriminatory

### **Response:**

- Any natural gas-fired generator in New England can participate.

**Commenters claim** that generators would acquire capacity at a steep discount, that prices will be increased while others claim prices will be lowered, that the “removal of 0.9 Bcf/day” would distort prices, and that the distortion will affect Algonquin’s decision to build

### **Response:**

- The states will require the EDCs and their capacity manager to first maximize reliability and then revenue, and states will be responsible for overseeing compliance.
- The proposed exemption is related to the addition of 0.9 Bcf/day.
- Algonquin’s decision to build is not based on capacity market prices; executed precedent agreements support construction.

# *Response to Comments:* Electric Market Impacts

## Commenters claim that the proposal is a scheme to suppress prices

### **Response:**

- Although the proposal is expected to help facilitate reliability benefits to and reduce prices in electric markets, it is not a scheme to engage in “price suppression.”
- The proposal will result in the development of long-lived pipeline infrastructure to address a market constraint.
- Removal of a market constraint resulting in a reduction in the costs of inputs is not “price suppression.”
- The proposal does not require a generator to acquire capacity or dictate the price at which a generator offers electricity into electricity or capacity markets.
- The transactions will be arms-length; the EDCs will have the incentive to receive the highest value for the capacity and the state commission will oversee EDC activity in this regard.
- There is no guaranty that generators taking EDC-released capacity will be able to recover their costs.

## Response to Comments: State Programs

**Commenters claim** consideration of Algonquin's proposal is premature because the state programs have not been approved and the details of those programs are necessary to evaluate Algonquin's proposal

### **Response:**

- The Commission can and should act now to provide stakeholders with certainty with respect to this proposal to address electric reliability.
- Concurrent consideration of federal and state aspects of these proposals is necessary to maintain the schedule; neither regulatory proceeding is appropriately delayed for the other.
- FERC does not need additional details and can rely upon the state commissions as it did with the retail access program exemption.
  - *"In cases where retail access programs have been reviewed and approved by state regulators, there is a sound basis to believe that retail access and wholesale access programs are working toward common goals of promoting customer choice and competition, subject to state supervision and oversight. State regulators can review a proposed program and establish essential conditions . . . ." Order 712-A at P 124.*
- Approval of the proposal will not harm participants in a state that is still considering a program because the exemption will not apply until adoption of an applicable program.

## *Response to Comments:* Authority

**Commenters claim** the proposal should be considered in a rulemaking because Algonquin is proposing (i) to add a new exemption to capacity release (other exemptions are in Section 284.8) or (ii) to modify existing regulations, and that a rulemaking will allow all stakeholders to participate

### **Response:**

- Algonquin is not proposing a new, industry-wide and nationwide exemption that is more appropriately implemented by a rulemaking.
- Algonquin is not proposing to amend any existing regulation.
- Commission may establish policy in a pipeline-specific proceeding. Such an action is appropriate where, as here, the policy is based on a specific set of facts, with implications in only one region and is not proposed to apply automatically to other pipelines.
- Stakeholders with interests in an Algonquin-specific exemption are present at this Technical Conference.

# Conclusion

- The Commission can approve such a proposal in a pipeline-specific proceeding.
- There are electric reliability and price volatility concerns in ISO-NE that require pipeline infrastructure and flexible service offering solutions.
- It is appropriate for EDCs to acquire Access Northeast project capacity to address electric reliability and price volatility concerns.
- Allowing EDCs to release such capacity on a targeted basis to generators without subjecting them to FERC bidding requirements on Algonquin is in the public interest.

# ALGONQUIN GAS TRANSMISSION



# Appendix A

## Proposed Tariff Language

### **14.16 Customers Participating in State-Regulated Electric Reliability Programs**

Releases pursuant to a state-regulated electric reliability program designed to provide pipeline transportation that will be utilized by the replacement shipper to provide electric generation to the wholesale electric market serving the electric distribution company will be exempt from the bidding requirements of Section 14 of the General Terms and Conditions of this FERC Gas Tariff in the following circumstances:

- (a) A release by an electric distribution company to an asset manager when the asset manager is required by the release to use the released capacity to carry out the electric distribution company's obligations under the state-regulated electric reliability program.
- (b) A release by an electric distribution company, or an agent or asset manager for that electric distribution company, when the replacement shipper is required by the release to provide electricity to the market serving the electric distribution company.

All other releases by the electric distribution company, or asset manager or agent for that distribution company, will be subject to any applicable bidding requirements of Section 14 of the General Terms and Conditions of this FERC Gas Tariff.

Algonquin has no responsibility or liability for determining whether a Customer is in compliance with its state-regulated electric reliability program.

## Energy Reliability Service (ERS)

### *Reserved No-notice Gas Transportation with Quick-Start Option*

- Reserved firm capacity available on a no-notice basis any time during gas day
- Primary firm nominations submitted any time during gas day assigned highest scheduling priority
- Utilizes storage for quick start-up of electric generators
- Generators can take gas on an accelerated basis for the first two hours without a commensurate supply nomination
- Option of further enhancing accelerated hourly flow rights

## Appendix C

# Algonquin's Pipeline Conditions for 2/11/2016

### Algonquin Gas Transmission, LLC : Critical Notices

**Notice Text:**

For Gas Day February 11, 2016, Algonquin Gas Transmission (AGT) has approved and scheduled nominations at each pipeline segment and meter station up to AGT's operational capacity. The following locations have been restricted due to requested nominations exceeding AGT's operational capacity:

AGT has restricted 100% interruptible and approximately 97% secondary out of path nominations that exceed entitlements sourced from points west of its Stony Point Compressor Station (Stony Point) for delivery east of Stony Point. No increases in nominations sourced west of Stony Point for delivery east of Stony Point, except for Primary Firm No-Notice nominations, will be accepted.

AGT has restricted 100% interruptible and approximately 98% secondary out of path nominations that exceed entitlements sourced from points west of its Oxford Compressor Station (Oxford) for delivery east of Oxford. No increases in nominations sourced west of Oxford for delivery east of Oxford, except for Primary Firm No-Notice nominations, will be accepted.

AGT has scheduled and sealed nominations sourced from points west of its Cromwell Compressor Station (Cromwell) for delivery east of Cromwell. No increases in nominations sourced west of Cromwell for delivery east of Cromwell, except for Primary Firm No-Notice nominations, will be accepted.

AGT has restricted 100% interruptible and approximately 91% secondary out of path nominations sourced at the Tennessee Gas Pipeline interconnect at Mendon (Meter station 00205). No increases in receipts sourced from Mendon will be accepted.

AGT has restricted interruptible and approximately 70% secondary out of path nominations that exceed entitlements sourced upstream of the G System for delivery on the G system. No increases in nominations sourced upstream of the G system for delivery on the G system, except for Primary Firm No-Notice nominations, will be accepted.

AGT has restricted interruptible and approximately 71% secondary out of path nominations that exceed entitlements sourced upstream of the E System for delivery on the E system. No increases in nominations sourced upstream of the E system for delivery on the E system, except for Primary Firm No-Notice nominations, will be accepted.

Furthermore, the OFO effective February 11, 2016 will remain in effect until further notice.

In addition, as previously posted, AGT requires all Power Plant Operators to provide information mandated by FERC Order No. 698. Information required includes the hourly consumption profile of directly connected power generation facilities.

Customers are advised that capacity may become available as the nomination and confirmation process continues throughout the day.

Please contact your Operations Account Manager should you have any questions.