

Federal Energy Regulatory Commission

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Volume:

Case: In the Matter of: Algonquin Gas Transmission, RP16-618-000



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BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

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In the matter of :
ALGONQUIN GAS TRANSMISSION : RP16-618-000
- - - - - X

Commission Meeting Room
Federal Energy Regulatory Commission
888 First Street, Northeast
Washington, D.C. 20426
Monday, May 9, 2016

The technical conference in the above-entitled
matter was convened at 10:00 a.m., pursuant to Commission
notice and held before:

- COMMISSIONER CHERYL LaFLEUR
- COMMISSIONER COLETTE HONORABLE
- COMMISSIONER TONY CLARK

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1 FERC STAFF:

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9

10

11 PRESENTERS:

12

13 KATHLEEN BARRON, Exelon

14 CRAIG ADAMS, Calpine

15 JAMES DALY, Eversource Energy

16 STEPHEN MCCAULEY, National Grid

17 TIM BRENNAN, National Grid

18 RICHARD KRUSE, Spectra Energy

19 JOHN RUDIAK, Connecticut Natural Gas

20 JOHN COYLE, Duncan & Allen

21 JOE DALTON, ENGIE Gas & LNG

22 VINCE MORRISSETTE, Repsol Energy

23 TOM LOCKETT, Tenaska

24

25 Court Reporter: Alexandria Kaan, Ace-Federal Reporters

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(10:03 a.m.)

MS. FERNANDEZ: Good morning. Welcome to the technical conference in Algonquin Gas Transmission, Docket No. RP16-618-000. My name is Anna Fernandez and I will be moderating today's conference. In its March 31st, 2016, order the Commission directed staff to convene this technical conference to examine the issues raised in the protest and comments regarding the February 19 filing made by Algonquin Gas Transmission. In that filing, Algonquin proposed to exempt, from the capacity release bidding requirement, certain types of capacity releases of firm transportation by electric distribution companies that are participating in state-regulated electric reliability programs. Issues to be examined at this technical conference include concerns raised regarding the basis and need for the waiver. As indicated in the noticed agenda, we have several party representatives making presentations here today. Due to the number of parties requesting to make presentations, each presentation will be limited to 15 minutes to provide sufficient time for discussion. Staff, speakers, and audience members will have an opportunity at the end of each presentation for questions and comments. For those watching the live webcast, speaker materials are available on the Commission's website. We plan to break

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1 for lunch at noon, and we will reconvene the conference at
2 1:00 p.m. Also, at the end of today's technical conference
3 we will discuss the schedule for post technical-conference
4 comments.

5 I would also like to ask anyone who has their
6 cell phones to turn those off at this time. And now I'd
7 like to welcome our Commissioners, and first I'd like to
8 welcome Commissioner LaFleur.

9 COMMISSIONER LaFLEUR: Thank you very much,
10 Anna, and thank you to everyone for being here and the
11 panelists for coming to share your views, and especially
12 thank you to staff for pulling this together pretty
13 quickly. I'm really looking forward to the discussion
14 today on Algonquin's capacity release proposal.

15 I thought I would just make a few framing
16 comments on what I hope to get out of today's conference.
17 Obviously, we're here to discuss Algonquin's proposed
18 exemption from the Commission's capacity release bidding
19 requirements. While I recognize that this proposal relates
20 to the development of the Access Northeast project in
21 particular, today's conference is not intended to address
22 whether we should authorize development of that project.
23 Rather the conference relates to the capacity release
24 proposal that Algonquin has put forward. As I've said
25 repeatedly, I think we should be flexible in considering

1 tariff structures for pipelines to support the development
2 of pipeline capacity if and where it is needed, but we can
3 only exercise flexibility within the limits of our
4 authority under the Natural Gas Act. What I'm most
5 interested in getting at today is the following two
6 questions: The first is why the proposed capacity release
7 exemption is needed to achieve the stated objectives of the
8 electric distribution companies of increasing the
9 reliability of gas supplied to the region; and the second
10 is whether there are changes that can and should be made to
11 the capacity release proposal to ensure that it is in the
12 public interest under the Natural Gas Act, to see where we
13 can get to from here. I'll of course consider any issues
14 that are raised today in the posttechnical comments and in
15 later dockets as well, but I hope we particularly hear
16 about those things. Thank you very much.

17 MS. FERNANDEZ: Thank you, Commissioner.

18 Next I'd like to welcome Commissioner Honorable.

19 COMMISSIONER HONORABLE: Thank you. I'd like to
20 yield to Commissioner Clark. He says go ahead. Good
21 morning everyone and thank you Anna. Thank you to the
22 staff and I also want to thank all of the participants and
23 those of you who traveled from near and far to be with us
24 today to explore this issue with the Commission.

25 In my mind, this capacity release proposal

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1 raises novel concepts, and therefore I agree that a
2 technical conference would be a great opportunity to
3 explore your views of whether this would be a prudent one,
4 and I'm delighted to take in this information with all of
5 the interested parties. I'd like to thank all of you who
6 have worked tirelessly on this issue. We know that
7 coordination is a challenge for you, particularly in your
8 neck of woods, and it's a priority for us here at the
9 Commission. I think because of how dynamically the
10 electric industry and the sector is shifting, it really
11 requires heightened dedication and work on our collective
12 parts, and I look forward to undertaking that effort with
13 you. As you all know, the Commission has recently directed
14 several improvements necessary for gas-electric
15 coordination, and I'm raising coordination here because I
16 think this proposal could be an attempt to be creative in
17 how we address the needs in this sector. And I've
18 certainly, along with my colleagues, been watching the
19 markets very closely to see how the changes that relate to
20 how dynamic the markets are moving will play out. The
21 parties here to be commended for working together to find
22 new ways to resolve natural gas contracting issues -- and I
23 must say for a number of you traveling on Mother's Day to
24 get here, we appreciate that very much. We also recognize
25 that electric generators generally have very different

1 natural gas needs than more traditional pipeline customers,
2 and we see gas contracting issues materialize more
3 frequently here at the Commission, and I believe that it
4 warrants our continued attention.

5 Finally, I look forward to the discussions today
6 and hearing more about this unique solution. I appreciate
7 those of you who have put forward comments; we have
8 certainly taken those in and will keep them in mind. And
9 if I'm not in the room throughout the day today, I will
10 have -- a staff member here will do it, someone here, in
11 case anyone would need to reach out to me in particular.
12 Thank you.

13 MS. FERNANDEZ: Thank you, Commissioner.

14 Next I'd like to welcome Commissioner Clark.

15 COMMISSIONER CLARK: Good morning and welcome
16 everyone, thanks for traveling to be here for those of you
17 who came from out of town.

18 Just a couple of opening comments on my part. I
19 think both my colleagues framed the issue very well. What
20 I would say about what I'm hoping to get out of the
21 conference is this: I'm hoping we're able to study the
22 issues that are teed up here today in the context of the
23 Natural Gas Act. And I understand this can become a bit of
24 a fine line in looking at some of the comments that
25 Commission has received thus far, seeing that line blurred

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1 a little bit. But I contrast that with the impacts of
2 these proposals on the Federal Power Act and electricity
3 markets, so on and so forth. I have expressed concerns
4 from time to time over the last few years -- I know others
5 have as well -- about the functioning of electricity
6 markets, especially in unbundled regions of the country
7 where you have far-reaching fleet -- of generators, and how
8 that is working in the context of the Federal Power Act.
9 But to me, today this isn't really that particular
10 discussion. What we're talking about today is within the
11 context of the Natural Gas Act requirements that FERC has
12 traditionally required, and whether those need to be
13 tweaked or not or whether they can be tweaked given the
14 industry and the state of the law, given the proposals that
15 we have in front of us. So really what I'm going to be
16 looking at today at least is going to be focusing on those
17 issues related to Natural Gas Act itself. There's going to
18 be lots of time in the future to talk about the Federal
19 Power Act and how wholesale electricity markets are
20 working, not just in the context of these proposals but by
21 lots of other things that are going on, especially in the
22 restructured eastern markets of the country. But that
23 debate is probably for another day at least. So thank you
24 all for being here, I look forward to a very good
25 discussion today.

1 MS. FERNANDEZ: Thank you, Commissioner.

2 Now I'd like to introduce the other staff
3 members here today. Today I'm joined by Michael Goldenberg
4 from the Office of General Counsel, Richard Howe from the
5 Office of the General Counsel, Frank Sparber from the
6 Offices of Energy Regulation, Kamala Jayaraman from the
7 Office of Energy Market Regulation, Linda Hearne from the
8 Office of Energy Policy and Innovation. I'd like to make a
9 standard disclaimer that staff's comments today do not
10 necessarily represent the views of the Commission or any
11 individual Commissioner.

12 And with that, I think we're ready to begin our
13 presentations. I'd like to welcome to our table our
14 speakers, and thank you for being here. Our speakers today
15 include Richard Kruse from Algonquin Gas
16 Transmission/Spectra Energy, James Daly with Eversource
17 Energy, Tim Brennan with National Grid, Stephen McCauley
18 with National Grid, John Rudiak speaking on behalf of New
19 England local distribution companies, John P. Coyle
20 speaking on behalf of the Massachusetts Attorney General,
21 Craig Adams with Calpine Corporation, Joe Dalton with ENGIE
22 Gas and LNG, Kathleen Barron with Exelon Corporation, Vince
23 Morrisette with Repsol Energy North America Corporation,
24 and Tom Lockett with Tenaska Marketing Ventures. I'd like
25 to remind all of our speakers to please turn on your

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1 microphone before speaking so those in the room and
2 watching via webcast can hear your comments. And I'd also
3 like to ask the speakers that you turn your table tent on
4 its side when you'd like to make a comment or ask a
5 question so I can recognize you to speak.

6 And now I'd like to invite our first speaker,
7 Richard Kruse, to begin his presentation.

8 MR. KRUSE: Thank you for the opportunity to
9 speak for Algonquin. We have some slides, PowerPoint. In
10 any event, thank you very much. We see that the issues
11 that are raised in this conference -- good morning. Thank
12 you for the opportunity to turn my mike on, and thanks for
13 the reminder. We see the fundamental questions that this
14 filing has raised is really boiling down to two questions.
15 We have four up there, but really there's two, particularly
16 in light of the comments made by the Commissioners. And
17 that is, first and foremost, can the Commission approve our
18 proposal without engaging in rulemaking? And the answer we
19 believe is clearly yes. We feel like the Commission has
20 abundant ability to foresee on a case-specific basis, on a
21 very targeted basis, to address that problem that Algonquin
22 is seeking to help the electric distribution companies
23 address and solve, and that is a gas-electric reliability
24 and price volatility that we have talked about at this
25 Commission for several years. Several initiatives have

1 been addressed; every time this issue comes up, the rest of
2 the country says, "New England needs to get its act
3 together, address it on a case-specific basis." And that
4 is what we're seeking to try to do here today.

5 The other question is: If you can act, should
6 you act? And we would say absolutely. There is a clear
7 need for assistance for policy pronouncements from this
8 Commission to help Algonquin, to help the Northeast, figure
9 out how to move forward on resolving the capacity
10 constraints that we all I believe, acknowledge exist. This
11 proposal is a stand-alone proposal, but nevertheless I
12 think we all recognize that it is part of the Access
13 Northeast project. And we're not here to debate whether
14 the Access Northeast project needs to be approved today; we
15 believe it should be eventually, but it's not before the
16 Commission. What is here today before the Commission is a
17 proposal that would allow electric distribution companies
18 to release capacity on a targeted basis for electric
19 reliability reasons. And obviously to release it, they
20 have the contractor capacity, and one avenue they're
21 following is the Access Northeast project. However, the
22 proposal I submitted enables them to contract for any
23 capacity they acquire from Algonquin in any way, so it's
24 broader than just Access Northeast.

25 The next couple slides -- and I'll breeze

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1 through these quickly in light of the 15-minute
2 restriction -- is just to restate the obvious: New England
3 is using more natural gas, becomes more reliant on natural
4 gas every day. The generators that are being built to
5 serve the future needs of New England are gas-fired
6 generation to a large extent. We project, ISO New England
7 projects, that gas is going to comprise 60 percent of the
8 generation in the very near future; it's 50 percent today.
9 That is driving because of pipeline constraints extreme
10 volatility in the gas prices, which you can see over these
11 last two years, which results as ISO New England portrays
12 it, as a tale of two seasons. The gas prices drive
13 extremely high electric prices in the winter, such that ISO
14 New England is an outlier in terms of gas prices compared
15 to, say, MISO. In the summer when capacity constraints are
16 less, I would point out we are running full-year-round on a
17 west-east basis, so we really can't say the constraints are
18 gone but the prices moderated. And that is totally because
19 of the increased availability of capacity because the LDCs
20 are not using it in any way. That's the fuel mix, who is
21 supplying natural gas to the New England gas-fired
22 generators. Algonquin, Maritimes -- and that's part of the
23 two systems we're talking about -- both supply about 50
24 percent of the gas-fired generators. We do that with only
25 about 3 percent of that generation covered by firm

1 contracts. That is a daunting number in our mind, over 50
2 percent of the electricity that we are responsible for
3 supplying gas to is relying on secondary capacity release
4 contracts. Another word for that is they're relying on
5 interruptible contracts on a day-to-day basis. If they get
6 it scheduled, it's firm. But every day they have to wonder
7 whether it's going to be scheduled because it's
8 interruptible until scheduled.

9 Here's our system-wide breakdown, the next
10 couple graphs, of what our primary contracts are, what are
11 secondary and what are interruptible, and this is for the
12 total system. You can see that primary peaks in the winter
13 and then declines. But the generation rely on secondary,
14 there's only about 80,000 a day, dekatherms, of capacity
15 committed to power generators, the rest of it is capacity
16 release. So the problem we see is that the electric
17 industry is relying on capacity that is not available
18 during peak days during the winter. They're also taking
19 advantage -- and not in a negative sense, all our customers
20 take advantage -- of the flexibility that Algonquin
21 provides. But it also is creating hourly concerns in terms
22 of hourly flows both for the overall system and also on a
23 generator basis. Essentially, we are using pipeline
24 capacity that is committed to serve local distribution
25 companies, designed to serve local distribution companies,

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1 to serve a vast and growing demand for gas-fired
2 generators. The reliability risk, in our view, is clear,
3 the price concerns that the pipeline constraints create is
4 clear. And that is what has driven us working with the
5 electric distribution companies to attempt to come up with
6 a solution. And this proposal is part of that solution in
7 the sense that the electric distribution companies seek to
8 acquire pipeline capacity and then on a targeted basis
9 release it to generators for electric reliability. And to
10 put that in context, and it was alluded to by the
11 Commissioners at the start of the meeting, we have been
12 talking about gas-electric issues and how to improve
13 reliability for years. I actually have been talking about
14 it since 2004. And we have focused on communication, and I
15 think Algonquin has done everything possible to improve and
16 enhance and have real-time information postings so that the
17 status of our system is instantly known by the ISO New
18 England to the extent possible. We meet with them
19 frequently, we compare outages, we talk to them weekly, the
20 communication is good. We have worked on scheduling and
21 coordination. We do 42 nomination cycles for any given
22 24-hour gas day. We do that far in excess of any other
23 pipeline, and increasingly 41 of those nominations, our
24 scheduling response is no. You will see in the back of our
25 slides a typical posting, we took it from this last winter,

1 which says, "No IT, no secondary out of path, no secondary
2 in-path, primary only." And some version of that is issued
3 every day on the basis of moving gas from the West to the
4 East. So if you want to access cheaper gas supplies in the
5 West from the Marcellus, from Pennsylvania, from Texas
6 Eastern, you have to schedule it, you have to schedule it
7 timely, and you have to do it on a firm contract, to even
8 have a chance of getting gas. So we think that the
9 low-hanging fruit has been fully addressed by Algonquin
10 and, too, what remains is we have an infrastructure problem
11 that needs be resolved, and this targeted release exemption
12 is part of that solution. There's a slide on Access
13 Northeast, we're not really talking about Access Northeast,
14 but there's the slides.

15 So what are we proposing? We see the capacity
16 release exemption that we're proposing as a continuation of
17 Algonquin's ongoing efforts to improve flexibility, to be
18 innovative in addressing the needs of the gas-electric
19 harmonization communication coordination efforts. It is a
20 pipeline-specific exemption, it is a narrow exemption
21 designed to address EDC's releasing capacity on Algonquin.
22 We're not asking for rulemaking for the entire industry,
23 we're not asking for authorization for any other pipeline
24 other than Algonquin. If other pipelines want to model
25 this program, we would expect that they would come in to

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1 the Commission and endeavor to convince the Commission that
2 the public benefits outweigh any concerns. It permits a
3 timely transfer of capacity. The EDCs are signing up for
4 this capacity for the sole purpose of releasing capacity to
5 generators when they need it. It is their belief, one that
6 we happen to share, that by increasing the capacity,
7 increasing the reliability of transportation services to
8 power generators in New England, that it will generate
9 tremendous benefits for New England and for their retail
10 customers. That is why they are currently engaged in state
11 proceedings seeking approval at the state level for these
12 type of contracts. As part of that, they're asking their
13 retail customers to be responsible for paying the cost.
14 They need some assurance, they desire assurance, that they
15 can in fact release these contracts to the entities for
16 which they are requiring them for, which is generators.
17 The existing exemptions under the Commission's current
18 policy, we have tremendous amount of transactions that are
19 currently released on a non-biddable basis under either
20 prearranged transactions -- is really not sufficient. And
21 they're not sufficient for two reasons: (1) They don't
22 guarantee that the capacity gets to the electric
23 generators, which is the primary goal of the EDC signing up
24 for the contracts, that's why they're asking their retail
25 customers to pay for the capacity; (2) The 31-day exemption

1 is a one-time exemption, it doesn't roll over. And we all
2 have been in this room I think talking about generators
3 wanting to find capacity at 2 o'clock in the morning from
4 somebody. And I would hate to think that there is a
5 capacity that's available that would keep the lights on
6 that is not releasable because it was released two weeks
7 ago to keep the lights on, but it's not releasable now
8 without going through bidding, which under the current
9 rules cannot happen until tomorrow morning. So we cannot
10 do short-term releases. Long-term, it really boils down to
11 the desire of the EDCs to be able to do targeted releases
12 to the generation for reliability and price concerns. It's
13 a priority of the EDCs to do this for the exemption of --
14 the mechanism under which the state EDCs will be doing this
15 and the state programs will be discussed later. But it has
16 been patterned after what has been approved for LDCs. In
17 other words, the Commission found a public interest to
18 promote in terms of the LDCs, it was retail and bundling.
19 In this case we would submit the interest of electric
20 reliability and price volatility. They permitted the LDCs
21 to do this, to have prearranged releases, to the extent
22 they were operating under state-approved plans. That's
23 exactly what we're proposing here for the EDCs. If the
24 EDCs have a state-approved plan, they would be treated as
25 prearranged releases and released.

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1 To the extent that parties claim that there are
2 other solutions out there that solve or address the
3 problems, Algonquin would admit that we have been trying to
4 solve this problem in a multitude of ways. I mean, we are
5 one of the few pipelines that have taken advantage of the
6 Commission's contract policy of permitting multiple
7 shippers to sign up under one contract. That was an effort
8 to acknowledge that signing up for pipeline capacity by any
9 one generator can be a very risky proposition. We filed
10 that shortly after the Commission announced it was open to
11 that idea. We have not received any inquiries from that.
12 The truth is: Generators are very challenged in signing up
13 for pipeline capacity, and that goes to the rules under
14 which they operate on the electric side; that is the
15 reality. We are not seeing generators sign up for firm
16 pipeline capacity; we've held multiple open seasons and it
17 has not materialized. Claims that the proposal is
18 discriminatory I think misses the primary purpose of this.
19 We would submit it's not undue discrimination for EDCs to
20 be able to release capacity for the targeted purpose for
21 which they acquired it, that is the basis on which the LDCs
22 are releasing gas under retail programs essentially, is
23 they have this capacity, it's for the benefit of the retail
24 customers to promote the objective, unbundling, they're
25 getting a targeted release. We believe a similar thought

1 process leads to a conclusion that is not unduly
2 discriminatory to permit EDCs to release the capacity. It
3 will be subject to scrutiny at the state level, the manner
4 and method of that release is not solely the discriminatory
5 decision-making of the EDCs but rather will be subject to
6 the states. And we think the Commission can and should
7 support such a program.

8 To the extent that the parties believe this is
9 an effort to suppress prices -- and when they say that,
10 that's usually a bad thing. It is an effort to lower
11 prices, it is an effort to remove a price constraint caused
12 by lack of pipeline capacity. We think that is a good
13 thing, it is not an interference with the market. The
14 market is working very inefficiently now we believe because
15 of the price constraints, because of the capacity
16 constraints. And so rather than seeing this as a bad
17 thing, we think it is in fact a good thing to remove
18 capacity constraints to permit the market to operate as
19 efficiently as possible.

20 In terms of comments that this is premature, we
21 would urge the Commission that, now, the arguments about
22 whether proposals to fix the gas-electric infrastructure
23 problems in New England are premature are being made both
24 at the state level and at federal, sometimes by the same
25 parties, which leaves you to believe they don't want a

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1 resolution of the issue at all. But the states are
2 currently looking at proposals from the EDCs in which the
3 capacity release exemption is part of the proposal that has
4 been submitted for the state to review, and the response at
5 the state level is, "Well, FERC hasn't approved this. You
6 can't approve this because FERC hasn't approved it." And
7 we see some of the same arguments in reverse up here.
8 We're not asking for approval of Access Northeast, but we
9 do believe that this concept, this targeted release, if it
10 is acceptable to the Commission, a timely issuance of an
11 order so indicating will go a long way to provide the
12 necessary guidance to the region on how to proceed. If
13 this is not acceptable to the Commission or to the Staff,
14 what is? Because we're open to ideas.

15 And I'm sure I've run out of time by now, so I
16 will leave that at that, urging the Commission guidance
17 here.

18 MS. FERNANDEZ: Thanks, Richard.

19 And now we're going to accept any questions or
20 comments for Richard. And I'd like to point out that
21 there's a standing mic to my right, if the audience members
22 have any questions or comments as well. And please
23 introduce yourself and who you're with before you speak.
24 Thank you.

25 Commissioner Kelleher.

1 MR. KELLEHER: Joe Kelleher with NextEra Energy.
2 And I had a question for Richard, one of two questions for
3 Richard, that lend themselves to pretty succinct answers I
4 think. But the first is a question that Commissioner
5 LaFleur raised, which is need. In the Mass DPU
6 proceedings, Eversource has said that this waiver is
7 actually not needed, that the price suppression would be
8 more effective with the waiver, I think they call it public
9 benefits, but the price suppression would be greater with
10 the waiver, but that the program of the price suppression,
11 there would be a lower level that would be less effective
12 but it's not needed. But here Algonquin is saying it is
13 needed, so it seems like it can't be needed at FERC and not
14 needed at state level. So I'm trying to understand the
15 discrepancy.

16 One reason for the discrepancy might be, one
17 theory, is that in the course of it negotiating the
18 contracts the EDC's actually did believe it was necessary
19 and that Algonquin is bound to file. And so when Algonquin
20 says it's needed, they're really saying "We're
21 contractually obligated to pursue the waiver." But since
22 over time the EDC's have changed their position and they've
23 concluded it's not needed.

24 So I guess the question is: Richard, can you
25 explain the discrepancy between what Eversource is saying,

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1 Mass DPU at the state level is not needed and what you're
2 saying today, that it is?

3 MR. KRUSE: Well, I will allow the EDC's to
4 speak for themselves; we have representatives on this
5 panel. But in terms of Algonquin's perspective, it was
6 requested by the EDC's. We see the wisdom of the targeted
7 release and the purpose of it. It is my understanding, at
8 least in Connecticut, the RMP that is contemplated in
9 Connecticut does require such a targeted release. So in
10 Massachusetts the EDC's very well may feel it's not
11 currently being required at the state level. But from a
12 regional standpoint, it is clear to me that there are some
13 state agencies that see a lot of value in this. So we're
14 targeting in seeking Commission approval to the extent we
15 can create what is very much a regional solution and is
16 going to require all of the states to participate.

17 MR. KELLEHER: Thank you for that. I just think
18 it's important for the Commission's point of view -- I'm
19 going to try to channel what the Commission is going to
20 think about this -- it is important to see whether this is
21 something that would be nice to have or something that is
22 actually necessary.

23 The other question is just the program itself,
24 the state electric reliability program is not defined in
25 your filing. And to a suspicious mind it seems like any

1 program that any state asserts would somehow advance
2 reliability, would fall under the gambit of its program.
3 So if so, this waiver is very different than the waivers
4 that the Commission has granted in the past when the
5 Commission actually knew what it was approving when it was
6 approving it.

7 Here the Commission would be writing, I think, a
8 blank check to the states to say "Any program you stick a
9 'reliability' label on would be permitted." So I think the
10 Commission would actually be approving a pig in a poke.
11 Will you be providing more of a definition of what this
12 program means or is the definition I proposed, really the
13 absence of one, of what the Commission is supposed to rely
14 on? And that's also for Richard.

15 MR. KRUSE: Well, we have Mr. Daly on this
16 panel, I think he's going to talk a little bit about the
17 structure of the state program that is being proposed. I
18 would make the observation that the LDC exemption, the LDC
19 waiver, does not require that the states bring their
20 programs back to FERC in order to get approval of them
21 prior to taking advantage of it. We have attempted to lay
22 out our vision of how these programs would work. It is
23 very much an ongoing process.

24 If there are guidelines that the Commission
25 would like to put on what a state program would look like,

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1 we would welcome that from an Algonquin perspective. We
2 are really trying not to get caught in a catch 22 process
3 in which we cannot make progress at any venue because some
4 other key participant in it has not weighed in and
5 expressed their views on the proposals that were created.
6 So if the Commission want to put restrictions or feels like
7 it needs to on what the program looks like, we're open to
8 those. We do think you can creatively rely on the LDCs
9 based on our description of the programs to come up with
10 programs that work for the region. Certainly, there will
11 be active discussions of that at the state level.

12 MR. KELLEHER: Can I interpret that answer as
13 saying that you don't propose to define the term and that
14 the Commission's invited to define it for you?

15 MR. KRUSE: Well, I can't really define it
16 better than what we have in our filing. Proposals have
17 been made, I can describe what, or have people that are
18 familiar with that, describe what they're proposing at the
19 state level. But in terms of contemplating what every
20 state in New England is going to approve, I think we'll
21 have to wait and see, unless the Commission wants to lay
22 out some guidelines to begin with.

23 MR. KELLEHER: I have one more short one,
24 please. You argue that this waiver is needed to promote
25 the expansion capacity but the waiver would extend the

1 existing capacity. And I didn't see in your filing really
2 an explanation why you propose preferential release not
3 just for the expansion capacity but all for existing
4 capacity.

5 MR. KRUSE: Well, it's the similar logic, at
6 least in our mind, if the EDC goes out and is acquiring
7 capacity, whether it's acquiring existing capacity or is
8 contracting for new capacity, it's doing that for a
9 targeted purpose which is to release it to generation, to
10 increase the reliability of electric generation. And if
11 they do that pursuant to a state program, presumably
12 they're asking their retail customers to agree to be there,
13 be part of that cost recovery mechanism for them. And it
14 makes sense in our view to make sure that the capacity gets
15 to the user, in this case the electric generator, that is
16 the designated beneficiary of the capacity in the first
17 place.

18 MR. KELLEHER: Thank you very much.

19 MS. FERNANDEZ: Mr. Daly, did you still have a
20 comment or question?

21 MR. DALY: I was going to comment on the earlier
22 question in terms of capacity release and why is it that
23 we're targeting electric generation for this capacity
24 release. The context of the discussions and the answers
25 that were given that state level that were referred to are

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1 that when we engaged with our utilities commissions, and I
2 like to describe a little bit of that in my presentation,
3 the EDC's entering into contracts on behalf of their
4 customers incurring costs, and then asking those customers
5 to pay for natural gas transportation, it seems there was a
6 disconnect. If the charges to customers didn't end up with
7 the benefits to electric customers, so by releasing the
8 capacity directly to electric generators who would use that
9 capacity to transport gas, and thereby lower the cost of
10 electricity and increase reliability, those benefits were
11 going back to retail electric customers, and that we
12 thought the connection, a clear line of sight between the
13 cost causation and the benefits, was necessary. That's why
14 we included this as part of the program.

15 MS. FERNANDEZ: Mr. Brennan?

16 MR. BRENNAN: Yeah, I just wanted to emphasize
17 how important the release is to the states and to National
18 Grid. And I think, as James said, there's an argument that
19 if we didn't have this exemption and the ability to target
20 the release, you'd still get most of the benefits through
21 the normal action of the market. But given that we're
22 asking customers to commit to support these pipelines to
23 address these reliability pricing concerns, the real way to
24 ensure that it is always available, especially at those
25 times when it's most needed, is through this ability to

1 allow us to target that release so it's used as needed.

2 And that's been very critical to at least some
3 of the states, which is meant from the start, they're
4 concerned that even if they accept the arguments that the
5 market will work on its own, that in order to really be
6 sure that the customers were receiving the benefit at all
7 times, the one way to guarantee that load is targeted
8 released to be able to ensure at all times on the coldest
9 period when we have had several days of cold snaps, the
10 capacity hasn't been released or taken up by another market
11 participant and hopefully not used to address the
12 reliability and pricing concerns that would be real at that
13 point. So it is a real requirement for us, and I think,
14 many of the states in New England to have this approved at
15 FERC.

16 MS. FERNANDEZ: Thanks.

17 MS. LAZURE: Helen Lazure. We submitted some
18 comments and some questions on the proposal. So my
19 question now is specifically about regional market
20 efficiency. Just whether you considered when certain
21 entities get exemption bidding requirements, what if
22 another entity is willing to pay more? And so how does
23 that impact the efficiency of the markets on a more
24 regional level of New England for example?

25 MR. KRUSE: Well, we have looked at the amount

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1 of capacity that is really released on a good will basis.
2 And the vast majority of that is actually prearranged. And
3 that is something that has been, I think, sustainable in
4 the marketplace because of the number of different capacity
5 holders. In other words, you can almost get the same
6 capacity from one primary shipper as you can from the next
7 one, and then use secondary to get it there so that you can
8 be in the marketplace continually on a prearranged basis to
9 a certain extent. That is going to be more challenging and
10 potentially in some cases impossible to do in the context
11 of some of the contracts that we're contemplating in that
12 it is very specific capacity, it is capacity that we
13 anticipate will be operated on a regional basis.

14 And if you come in and use that capacity from
15 point A to your power plant on one capacity prearranged
16 basis, when you come back the next time it's going to be
17 the same path and from the same capacity holder. So that's
18 going to be something that would run a 31 -day requirement.
19 So we don't see a real impact on the market dynamics, the
20 vast majority of capacity is negotiated bilaterally on a
21 prearranged basis and we don't see that changing.

22 MS. LAZURE: Thank you.

23 MS. FERNANDEZ: Staff, do you have any
24 questions?

25 MR. GOLDENBERG: Yes, Richard, I have a couple

1 of questions. I think you mentioned that this 80,000 firm
2 capacity that is going to generators today as primary firm?

3 MR. KRUSE: Yes.

4 MR. GOLDENBERG: Is that more or less than it
5 was before the states had retail access on the electric
6 side?

7 MR. KRUSE: I can't give you a precise number
8 there, Michael. There's less capacity committed to power
9 generation today than there was in 2004, I can tell you
10 that. So if we have see a trend, it has been downward, not
11 upward in terms of capacity holder. But tying it to the
12 LDC program, I would have to go back and check.

13 MR. GOLDENBERG: You also, I think, mentioned,
14 or you cited to an operational flow order that you had in
15 the back of your presentation, that you said that is sort
16 of representative of the winter where there is a
17 restriction on secondary, as well as interruptible
18 transportation. During those periods, are there generators
19 operating in the ISO New England area, and if so, how are
20 they getting their gas?

21 MR. KRUSE: Yes, there are generators operating,
22 and they are getting it on the basis of holding secondary
23 contracts or moving gas from alternate sources from the
24 East. We have inputs coming into Algonquin on the East and
25 from several different pipelines. What you do see is that

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1 under peak day conditions, though, there is a significant
2 percentage of the gas-fired generators not able to run and
3 alternate reliability measures are being adopted by the ISO
4 New England to assure electric reliability. Dual fuel is
5 an example; turning on the old generators is one. So you
6 get less than an environmental optimal generation mix. But
7 the ISO New England has been able to keep the lights on at
8 a cost, and it shows up in the electric prices.

9 MR. GOLDENBERG: Are the prices on the east of
10 your system, the natural gas prices, higher than they are
11 on the west in general?

12 MR. KRUSE: Well, I think as the pipeline
13 constraints exist we see a flare-up in citygate prices for
14 Algonquin across board. So the spot prices are high across
15 board. It's those higher prices that incentivize some of
16 the other market participants to bring gas in on the east
17 end of the system.

18 MR. GOLDENBERG: You also mentioned, I think, in
19 your presentation a short-term release at 2:00 a.m. in the
20 morning or a nonstandard time where bidding wouldn't be
21 permitted under the Commission regulations. Do you get a
22 lot of those releases today? And if so, do you have the
23 numbers of those short-term releases?

24 MR. KRUSE: Well, prearranged releases can come
25 in at any time and will be implemented as soon as the

1 system is activated. So it is possible to do a capacity
2 release at 1:00 in the morning and we have the gas flow at
3 2:00, if it's non-biddable. If it's biddable, that
4 capacity release would have to wait until the bidding
5 period, that is the next morning. So we'd miss that window
6 of getting gas at night. As I've said, most of our
7 capacity to release transactions, currently 80 percent or
8 more is prearranged non-biddable.

9 MR. GOLDENBERG: Of those prearranged
10 non-biddable releases, do you have any idea of the number
11 that occur at 1:00 a.m., 2:00 a.m. at some non-biddable
12 time, or are they mostly daily releases, monthly releases?

13 MR. KRUSE: I don't have a specific number. But
14 what we're talking about is the one-off situation almost.
15 Because it's an unexpected situation, the power plant needs
16 to run at 2:00, we have no capacity, he has no gas, and ISO
17 New England I know has been up here complaining "Where do
18 they buy the gas? How do they get the capacity?" And on
19 our system at least, if you have the capacity you can
20 nominate, so you have a chance at getting it. If it's
21 required to be biddable, if you don't have the capacity
22 you're just out of luck. So most nominations, most
23 businesses done on the day-ahead business, I grant you
24 that. But the crisis will be at 1:00 in the morning where
25 some power plant that is not holding capacity is asked to

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1 run.

2 MR. GOLDENBERG: One other question I had:
3 Under your proposal, if an electric distribution company
4 obtained release capacity, would the bidding exemption
5 apply to a rerelease by that electric distribution company
6 or is it restricted to only primary capacity required by
7 the EDC?

8 MR. KRUSE: I would say it's not restricted to
9 the primary capacity system. If they acquired it for
10 capacity releases and they had a state-approved program,
11 they could redirect it on a targeted basis.

12 MR. GOLDENBERG: Thank you. I don't have any
13 further questions.

14 MS. FERNANDEZ: We have someone in the audience.

15 MR. FOSSUM: I may be technically challenged.
16 Actually, do these in the opposite order. I got a
17 follow-up question to the question that was just asked.
18 Once the capacity is allocated to the EDCs --

19 MS. FERNANDEZ: Did you introduce yourself?

20 MR. FOSSUM: I'm sorry, I skipped that step. I
21 got the mic working, but I forgot to introduce myself.
22 Drew Fossum with Tenaska Marketing Ventures, and our
23 primary interest is ensuring the efficiency of the overall
24 regional gas market and the secondary market.

25 So once the capacity is allocated to the EDCs,

1 and I guess the question, Richard, is: Is the expectation
2 that the full capacity of the Access Northeast project will
3 be allocated out to EDC's regionally, all 900,000?

4 MR. KRUSE: The premise of the Access Northeast
5 is that we're building a 900,000-a-day expansion that would
6 be committed to the EDCs.

7 MR. FOSSUM: Okay, let's assume that just for
8 now just for simplicity. So once that capacity has been
9 allocated out to the EDCs, the EDCs through this yet to be
10 designed state mechanism will in turn release that capacity
11 to chosen generators who will use that capacity to move gas
12 to their power plants. Right? That's a question
13 Commissioner Kelleher asked about how that process works,
14 and that allocation mechanism has not been defined yet.
15 Right?

16 MR. KRUSE: That allocation methodology is in
17 the process of being defined, and the application is going
18 to be pending in Massachusetts.

19 MR. FOSSUM: Thank you. I'm building up to the
20 real question here, which is this question: Once that
21 allocation mechanism has done its thing and the 900,000 in
22 capacity is allocated to the EDCs and then released by the
23 EDCs to the generators, is that capacity in the hands of
24 the generators eligible to be rereleased into the secondary
25 market?

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1 MR. KRUSE: Well, as contemplated by the tariff
2 filing, it would not be. In other words, the EDC's are
3 releasing it on a targeted basis to guarantee that it's
4 being used for electric reliability purposes. To the
5 extent that it's not being used, it would be recallable by
6 the EDCs.

7 MR. FOSSUM: Richard, I know your filing asks
8 for the exemption from the posting of bidding rules that
9 would permit that first allocation to occur from the EDCs
10 to the generators, but I don't recall that you asked for a
11 separate exemption from the capacity release rules to
12 provide that that capacity once in the hands of the
13 generators cannot be rereleased. Did I miss that? Does
14 the filing cover that? Or is that done at the state level
15 through some sort of a prescriptive rule?

16 MR. KRUSE: Well, I think if you look at the
17 tariff language, at least it was our intent to be clear
18 that it's a release on a targeted basis to the generators,
19 when the replacement shipper is required to provide
20 electricity to the market serving the electric
21 distribution. So the intent was really that the EDCs could
22 release the capacity one of two ways: They could either
23 release it to electric generation to generate electricity
24 on a targeted basis; and then to the extent that they had
25 no need or didn't see a need for targeted releases, they

1 would release that capacity pursuant to the current
2 Commission rules, which is the ones that apply to all other
3 shippers.

4 MR. FOSSUM: So this capacity, Algonquin's view
5 is that this capacity, once in the hand of the generators,
6 can enter the secondary market but through normal vanilla
7 tariff capacity releases. Did I hear you right?

8 MR. KRUSE: I don't believe so.

9 MR. FOSSUM: It can't. Well, I'll shut up about
10 it.

11 MR. KRUSE: Our intent was if it's released to
12 the generators they will use it to generate electricity.
13 That's the only reason they get the capacity. If the EDCs
14 have a desire or need to release the capacity for any other
15 reason than electric reliability, they would have to comply
16 with the existing capacity release rules, including the
17 bidding requirements.

18 MR. FOSSUM: Our company has built a lot of
19 generation, and I know there's varying load factors based
20 on units. But peakers generate less than 20 percent load
21 factor big combined cycle units 50, 60, 70 percent load
22 factor, but they don't run all the time. Right? So
23 there's going to be a lot of times when this capacity,
24 whether held by the generators or somehow gets back into
25 the hands the EDCs, isn't being used to haul gas to these

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1 power plants. So if that capacity cannot rereleased to
2 anyone else, it essentially is unusable by the market? Is
3 that the lay of the land here?

4 MR. KRUSE: No, I wouldn't agree with that
5 characterization. I think there's a -- and certainly some
6 of the EDCs may want to address this -- but as stated,
7 there is a desire to make sure that if the EDCs are going
8 to ask this retail customers to allow them to buy this
9 capacity in the first place in order to support
10 reliability, they need -- they want some assurance that
11 that capacity will be released to generators for the
12 purpose of generating electricity. They're not releasing
13 it to generators for them to turn around and release it
14 into the gas market and not generate electricity.

15 MR. FOSSUM: But when they wouldn't be running
16 anyway, they can't release it into the gas market for
17 someone else to use I think is what I'm hearing here?

18 MR. KRUSE: If you want that capacity under
19 those terms, you should be talking to the EDCs about
20 releasing the capacity, not for electric reliability, but
21 for general market gas-electric purposes. And then you can
22 get it and do with it what you want.

23 MR. FOSSUM: Thank you, Richard.

24 MS. FERNANDEZ: Mr. Adams and Mr. McCauley.

25 MR. ADAMS: Just real quickly. Capacity, just

1 generally speaking, is one of the legs of the puzzle that
2 generators like Calpine and Epsilon and ENGIE use to
3 actually fire a plant. In the context of Mr. Kruse's
4 example of a generator coming on at 2:00 and this proposal
5 will make capacity available to that generator, that
6 doesn't mean gas shows up at the plant. We have to go out
7 and buy gas into that capacity.

8 So, Mr. Kruse, can you tell me what sources of
9 gas will be available to generators when you assign us this
10 capacity?

11 MR. KRUSE: That's going to be dictated by what
12 capacity you acquire.

13 MR. ADAMS: Well, if we acquire capacity that is
14 part of this program, I think that's a pretty clear-cut
15 question.

16 MR. KRUSE: I mean, if you want to talk about
17 what Access Northeast does, it moves gas on a west-east
18 basis, about 500 a day, from liquid interconnect points
19 with Millenium and Ramapo and Iroquois to the east with
20 capacity that is constructed to assure delivery at each of
21 the power generators currently attached to Algonquin's
22 system. It also envisions an LNG storage facility that
23 would liquefy the gas and make it available during the peak
24 days for an additional 400, and that's how you get to the
25 900. On any given day, if a generator is wanting to move

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1 gas from the west to the east, it will have 500 a day. It
2 can call on the LNG capabilities. The service envisions,
3 several creative features including non-ratable tanks from
4 the LNG facility, as well as basically the ability to take
5 deliveries without nominating a source of supply.

6 One of the problems we're increasingly seeing on
7 Algonquin -- and our flexibility is getting stretched
8 further and further every day, we see that by the increased
9 numbers of LFOs we're issuing -- is that the system is
10 operating at full capability. And at times we will see
11 generators come on without nominations. And we address
12 that issue through the Access Northeast by giving them
13 basically a two-hour grace period to go find gas. We are
14 seeing situations where generators come on without a nom
15 and so we don't know where they're getting their gas yet.
16 And when we ask, we usually get begged for one-hour
17 forgiveness at least. And we do, I think, a pretty good
18 job for trying to accommodate the realities of the
19 gas-electric interface. But there are limits to what the
20 system can do.

21 That's the base of why we feel like a different
22 capacity that needs to be committed to support the electric
23 generation market. We're not building capacity for every
24 plant to run all the time. We're building it at a
25 significant percentage but not for all of it. So you'll

1 have more choices in terms of where your gas comes from
2 under Access Northeast than you will without it. Again,
3 where that gas comes from ultimately is the shippers'
4 responsibility to find it.

5 MS. FERNANDEZ: Mr. McCauley?

6 MR. McCAULEY: Good morning. I'd like to start
7 off by saying that collectively National Grid and
8 Eversource put together, what we filed in Massachusetts and
9 the National Grid will at some point have EDCs with Rhode
10 Island, and electric reliability service program, and that
11 was first mentioned by Richard. And in there we lay out
12 specifically a schedule for when we would make capacity
13 available to the generators and it would be done on various
14 terms, whether it be yearly, seasonally, monthly, weekly,
15 or even daily, to make it available to a market and
16 specifically to the generators again for reliability, to
17 make it available for them to generate electricity. And if
18 that capacity is not released out to the market to the
19 generators, that ultimately the EDCs through a, right now,
20 planned capacity manager would make that capacity available
21 through bundled sales to market participants. So it would
22 be ultimately available to both generators and the rest of
23 the market participants. So it can be, in the end if the
24 capacity is not needed for the generators, will be
25 available to the market. So ultimately there will be a

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1 convergence of prices that maybe the generators are willing
2 to pay and what the rest of the market participants are
3 willing to pay. So I think that addresses some of the
4 questions.

5 The question as far as for electric generators
6 in the capacity that they would get under their capacity
7 release, we've put a clause in our electric reliability
8 service program that it could be recallable by the EDCs,
9 again for reliability reasons if the generators are not
10 using it to generate electricity, that it would be up to
11 the EDCs to decide whether it was a reliability issue from
12 a generation standpoint to then recall the capacity and
13 then make it back-available to other generators. It
14 doesn't necessarily mean that we have to or will recall it,
15 you just need to have that assurance that the capacity is
16 available for any other generator in the New England region
17 that might -- that could use it to produce electricity. So
18 I think that addresses a lot of the questions that were
19 asked before.

20 MR. HOWE: Richard, on the question of
21 rereleases by electric generators, I didn't see anything in
22 your proposed tariff language that would prohibit electric
23 generators from rereleasing pursuant to the ordinary rules.
24 I understand that the state program proposal has a
25 prohibition, but if some state wanted to permit rereleases,

1 is there anything in your tariff language that would
2 prohibit the state from doing that?

3 MR. KRUSE: Well, if there is, that is certainly
4 something that we'd be willing to tweak. The reason I was
5 saying there was is that the requirement on the targeted
6 release was that it was for electric reliability purposes
7 only, that that is where I got the statement there, if
8 you're not going to use it for electric reliability you've
9 acquired the capacity in a way that's inconsistent with the
10 waiver exemption that we've asked for. But if programs are
11 evolving or changing, we're open to that, and to
12 accommodate that.

13 MR. HOWE: But the tariff language itself seems
14 to just be an exemption from bidding as opposed to any kind
15 of prohibition on different types of releases. This may be
16 a question more for National Grid and Eversource, but would
17 the capacity manager have the ability for a one-year
18 release to an electric generator and there's times when the
19 electric generator isn't using it, could the capacity
20 manager recall in order to make a release to the market,
21 general natural gas market, or recall for the ability to
22 send the capacity off to another electric generator?

23 MR. BRENNAN: I think that was the point the
24 Steve had made, he said details of that electric
25 reliability service and the overline does allow that to be

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1 recalled if it's not being used as intended to address the
2 reliability concerns of the energy market. So to the
3 extent that when it's the generator's not, finds out,
4 regardless of purchase of the year-head or day-ahead, at
5 some point, it's not going to be dispatched, it's not going
6 to used as a division to provide electricity. Then it
7 could be recalled, but at the point depending on the
8 details of the time and the need for other generators to
9 employ that capacity, it could be targeted back to electric
10 generators. If on the other hand it's not needed to any
11 generation to be released to secondary market by the
12 capacity manager.

13 MR. HOWE: And finally I have a request really
14 for Algonquin in its comments to have more detail or as
15 detailed information as you can give us as to prior to each
16 state restructuring program back in the late 1990's, what
17 percentage of gas-fired generation in New England was
18 actually served by firm contracts? And then to the extent
19 those firm contracts in state restructuring got transferred
20 to independent generators, what happened to it thereafter?
21 And in the end I'm interested in knowing to what extent
22 those much higher percentage of gas-fired generations
23 certified firm contracts prior to the state restructuring
24 programs than after?

25 MR. KRUSE: Well, the vast majority of the

1 contracts that were transferred to the generators during
2 restructuring have unfortunately probably been rejected or
3 terminated, and they were rejected in bankruptcy. But
4 we'll provide that information.

5 MS. FERNANDEZ: Mr. Fossum.

6 MR. FOSSUM: I'd like to follow up again if this
7 is still on. I have a follow-up question to a question
8 that Richard Howe just asked, and I think clarified
9 something I guess I read in the filing, but it hadn't
10 clicked. We've heard that once the capacity is released to
11 the generators, the generators cannot release it into the
12 secondary market themselves. It's not in the tariff
13 language that Algonquin filed, but that's a restriction in
14 the state program. Have I heard that correctly? Assume
15 that for a minute.

16 We also heard that the EDCs can recall that
17 capacity when a generator is not using it, so once the
18 capacity is released to a generator, if that generator is
19 not using it on a particular day or hour, the EDC for
20 reliability purposes -- that's the phrase we heard a couple
21 of times -- can recall that capacity from generator 1 and
22 then allocate it to generator 2 or 3 so that generator can
23 use it to generate electricity. Is that correct?

24 What I don't think we heard is whether there's
25 any way for either the generator by releasing it to the

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1 secondary market directly or the EDC by recalling the
2 capacity from the generator that wasn't otherwise using it
3 and then putting that capacity by release into the
4 secondary market, neither of those ways are available to
5 get the capacity in this 900,000 Access Northeast project
6 to anyone other than a generator. You can't get it to the
7 gas LDC who needs it, you can't get it to an industrial
8 that needs it. Once this 900,000 capacity is built in the
9 hands of the EDC's benefit, the generators -- I'm hearing
10 sort of a Hotel California problem, once it get in it can't
11 get out -- it can't ever get back into the secondary market
12 for use by anyone other than a generator. If I'm wrong,
13 strike me out; and if I'm right, can we talk about whether
14 that's something there might be some flexibility on?

15 MS. FERNANDEZ: Mr. McCauley.

16 MR. McCAULEY: Sure. Ultimately what you said
17 is, I'll say, mostly true to the extent of the exception
18 that ultimately we want, as EDCs, to have all this capacity
19 used as much as possible. And our goal will be to get the
20 capacity out to the market, whether it's through releases
21 by the EDCs to the market and have it biddable, if the
22 capacity is not being used, if there isn't this need for
23 all of the generators. And ultimately it will be available
24 to the market through bundled sales by the capacity manager
25 out into the market itself, or it could be generators that

1 have the capacity and the EDCs do not need to recall it for
2 reliability reasons.

3 MR. FOSSUM: Who is the capacity manager that
4 would be making these bundled sales?

5 MR. McCAULEY: In a proposed, Eversource and
6 National Grid have proposed that we would be using a
7 capacity manager. It doesn't mean that all EDCs in the
8 region will, but that we propose that we will have a
9 capacity manager managing collectively the capacity that
10 was contracted for by the National Grid and Eversource. So
11 it would be a third-party capacity manager that we would
12 contract with it to manage the assets for at least the
13 National Grid and Eversource.

14 MR. FOSSUM: Okay, I'll stop here. But one of
15 the things my colleague Tom Lockett will speak to later,
16 from Tenaska, and I'll just mention now is, we'll be
17 looking for assurances that these various steps in the
18 process that we just learned about will be conducted on an
19 open and transparent and non-discriminatory basis, much
20 like posting a bidding operates under the current rules to
21 assure nondiscriminatory allocation capacity. Each one of
22 these steps, the initial allocation by the EDCs to
23 generators, the flow of that capacity back into the
24 secondary market, either through bundled sales like we just
25 heard about or through recall from the EDCs and rereleased

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1 back into the market, the filing is pretty sparse on how
2 the what we believe to be currently very
3 efficiently-operating secondary market will continue to
4 operate efficiently in that respect. So this has been very
5 helpful, but there's some steps we would like to hear some
6 more clarification on. Thank you.

7 MS. FERNANDEZ: I think this would be a good
8 time to turn to the EDC's joint presentation. And with
9 that, we'll thank you, Richard. And I'd like to now
10 introduce James Daly, Tim Brennan, and Stephen McCauley.

11 MR. DALY: Thank you very much. So the purpose
12 of this presentation -- I'll do the first part of it and
13 then hand it over to Tim Brennan for the second part -- the
14 purpose is to give you some context from the EDC
15 perspective as to how we entered into these contracts and
16 the reasons behind why we're asking for this tariff change.

17 So starting on slide 2, so this started, just to
18 put it into context, this started in 2013 when we got a
19 letter from the New England governors supporting
20 infrastructure development. So I think you'll appreciate
21 New England has six states, it's difficult to get six
22 states organized behind a single effort, so that's somewhat
23 notable in itself. I won't read all of the text of the
24 letter, but basically the New England governors directed
25 their staff in order to envision -- calls the New England

1 State Committee on electricity. It's a small staff run by
2 the governors of each state as they're involved in
3 wholesale Electricity matters and energy matters generally.
4 So they directed them to lead the regional effort, and we
5 participated in that with a lot of other stakeholders.

6 So over a year, year and a half or so they
7 solicited proposals from the marketplace to address this
8 particular critical issue of gas generation, gas-fired
9 capacity power generation, which was not yet in the region.
10 They submit lots of different proposals, had a very open
11 forum, a lot of the participants who are in the room here
12 also participated in that.

13 So in looking at where that was going and
14 recognizing there really weren't a lot of very solid
15 options in the marketplace, we, Eversource along with
16 National Grid and the United Illuminating decided we put
17 together a proposal so that at least there was one workable
18 proposal. The fundamental problem here is: Having strong
19 credit rated entities contracting for capacity that would
20 then cause the interstate pipelines to develop this. In
21 other words, they'd put up a significant amount of dollars
22 necessary to extend, to build these pipelines and they
23 charged their customers. So it was a charge to the
24 customers basically with high credit ratings, that if we
25 came forward on behalf of our customers we could put a

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1 solution in place.

2 So we made a proposal to NESCOE and out of
3 that there were a number of proposals, but it was really
4 the only one in our view that was going to actually solve
5 the problem of the shortage in pipeline capacity. So we
6 made that offer, as generally we would provide credit
7 support on behalf of our customers because of the benefits;
8 and I'll show you those benefits later. So that was about
9 a two-year process.

10 So on slide 3, what developed -- so in that time
11 frame states were addressing the issue of who would
12 contract for natural gas, whether the EDCs could do it or
13 not. And by the end of last year we had Massachusetts and
14 a number of other states had taken action to make it
15 clearer what electric distribution companies could do. So
16 in October of last year National Grid and ourselves issued
17 an RFP for infrastructure, for an increase in
18 infrastructure to reduce the high cost of volatility of
19 electricity in New England.

20 Some of the structural requirements that we put
21 in that RFP had to be a regional scale. There were a lot
22 of smaller solutions that could be implemented on their own
23 that didn't need our involvement to do it. But it needed
24 to be incremental gas, transportation capacity or gas
25 infrastructure. We know what's out there in the

1 marketplace, the reutilization or repurpose of what's out
2 there really wasn't going to affect reliability in the
3 region. So incremental infrastructure was needed.

4 And what was lacking sorely was primary
5 delivery to doing the power generators, so we wanted firm
6 delivery to the power plants and inter-station of the power
7 plants. So in response to that RFP we got about 20
8 different proposals from all of the regional players. We
9 put on the company websites and issued it to the players.
10 I mean, we generally know who's active in the marketplace
11 and market their proposals, there aren't any secret
12 proposals out there, that people are constantly engaged in
13 the marketplace. So we found what proposals were out there
14 and we went through a process, so it was a competitive
15 process to select Access Northeast, was selected by
16 Eversource and National Grid.

17 So net customer benefits, long and short, is
18 about one billion dollars per year; I'll show you more on
19 the cost of that. 900,000 dekatherms which involved both
20 transportation on pipeline and natural gas, and it would
21 access most of the power plants in New England, 50 percent
22 of the power plants in New England, flexible with no notice
23 service.

24 So power generation has been asking for a
25 service like no notice service, no limited service, you can

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1 actually fire up your power plant for two hours and be
2 running before you need to notify the pipeline of what your
3 nominations are. So no notice service is supported by the
4 LNG within the region and provides for a lot of
5 flexibility. And at the end of the pipelines we have a lot
6 loss options in a lot of other parts of the country. So
7 specifically designed for power generation.

8 So that resulted in the present agreement which
9 we had filed with state regulators. Eversource filed in
10 Massachusetts and New Hampshire and National Grid has filed
11 in Massachusetts and will soon come along with Rhode
12 Island. And indeed there are other proceedings going on in
13 Maine, shortly there will be -- there's a process going on
14 in Connecticut, we expect to see an RFP for this type of
15 capacity in Connecticut shortly as well.

16 So I won't go through all of the -- on slide 4,
17 I have a synopsis of what all of the states are doing. I
18 won't go through all of the language of it except to say
19 that five out of six of the New England states -- Vermont
20 is not connected to the pipeline flows, but the rest of New
21 England is. So they're not actively participating, but are
22 generally supportive of gas-fired generating capacity.

23 In terms of looking at some of the numbers, I
24 think this is what -- this will give you a picture of what
25 distinguishes New England from the rest of the country;

1 everybody knows we have the highest electricity prices in
2 the continental U.S. in New England. And this is a
3 calculation of -- this is basically the clearing prices in
4 ISO New England in the period from December through March
5 for each year. So this is -- this drives the clearing
6 prices in ISO New England, this is the cost of gas in
7 dollars per dekatherm. So the read bars, you will see,
8 it's quite volatile. So in the winters of '12-'13, '13-'14
9 and '14-'15, you can see the red bars had dislocated from
10 the rest of the country considerably. So I'm showing you
11 the -- what results in the electricity prices are coming up
12 in another slide.

13 But we also added here the effective heating
14 degree days, percentage to actual 30-year average on the
15 bottom line. So you can see when it's cold in New England,
16 in other words when there's very high effective heating
17 degree days, the volatility breaks out, so we get these
18 very high spikes in electricity prices in New England.

19 And then in a very mild winter, like last
20 winter, which was 70 percent lower than normal on a
21 temperature basis, you can see it falls back closer to what
22 the rest of the country is. But that was an extremely mild
23 weather conditions, some of the warmest in recorded history
24 in New England, but still had volatility. So even under
25 very optimistic, very mild conditions, New England still

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1 has issues on its prices, its gas prices driven by
2 shortages.

3 These bars show the actual billions of dollars
4 that it cost New England's electric ratepayers depending on
5 the winter. Again, this is December through March. So you
6 can see on maybe more of an average-type winter New England
7 consumers need to spend about \$3 billion, but then in a
8 very cold winter it can go up a another \$3 billion as we've
9 experienced and then fall back again in milder winters.

10 So this is a very high-cost driver, so it
11 affects how our customers look at New England as a
12 marketplace for expanding, the industry forums where they
13 talk about having to relocate the manufacturing process out
14 of New England. We've had paper mills shut down and send
15 their workers home in January because of shortage of
16 natural gas. So these are a real and very significant
17 drivers for our economy. And high prices aren't bad for
18 everybody of course, there are people who are beneficiaries
19 of these high prices, and I'm sure some of them are here
20 today. And you know, we understand that they like the high
21 revenues. But our customers are paying extraordinarily
22 high prices and need relief.

23 So the question is: What are the other options?
24 And as I started, there aren't a lot of other options for
25 our customers except to move off electricity, which

1 obviously in the modern world isn't that palatable. And
2 there are people who are more for renewable energy, and we
3 said, "Fine, let's have renewable energy as well, but we
4 need natural gas to back up renewable energy in the form of
5 New England Solar. We can't continue to expand our
6 gas-fired generation on a firm basis without gas
7 infrastructure to support, it just isn't feasible." During
8 times when the sun isn't there, when the wind isn't
9 blowing, we need firm capacity.

10 So in summary of this one, so those numbers and
11 other numbers we've looked at say what are the benefits of
12 it. We've hired ICF to do an analysis of the benefits of
13 it, adding gas transportation. National Grid hired Black &
14 Veatch, Independent, nationally-recognized consultants. So
15 both studies determined that ANE will generate significant
16 savings for our customers, will increase reliability to the
17 region. So under normal weather conditions, as I said,
18 it's about a billion dollars a year, we get severe weather
19 or, indeed, if we had a nuclear shutdown that number can go
20 to about \$2.6 billion per year. So very significant
21 numbers during the solicitation for these investments for
22 both the cost of electricity and reliability.

23 So that's more the context of how we got here
24 and why it's important to us. I'll hand it over to Tim
25 Brennan at this point to take us through the rest of this.

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1 Thank you.

2 MR. BRENNAN: Thank you. And I know at least
3 John wanted to talk, so I will try to quickly move through
4 this and we'll have some time for questions. This next
5 slide, slide 8, is just a summary, I think, of what we've
6 been talking about. Clearly, we're trying to get this
7 targeted release to ensure the capacity can be used, what
8 we're asking for the benefit of the customers who are
9 asking to support it, and align with that to address the
10 reliability and pricing concerns. We talked about how,
11 obviously, the states this is important to will be involved
12 in setting up the fine details of the electric reliability
13 program. As we clarified in some of the questioning
14 clearly we're not required by the generators to release
15 CPUs to produce electricity. I think it's in everyone's
16 benefit and advantage to make sure that capacity is
17 released either to other generators who might need it and
18 ultimately to secondary market. No one is advantaged by
19 simply use -- holding onto that capacity when it's not
20 being used to meet its intended need and assure the
21 reliability of electricity market.

22 I'll move onto the next few slides, which I know
23 one of the reasons for this technical conference or perhaps
24 -- was to address the concerns that we're seeing and raised
25 in a lot of protest and comments. We had gone through a

1 lot of those protests and comments and identified some of
2 those main concerns. The first one covered on this slide
3 is a concern that we're somehow removing .9 BCF from the
4 secondary market, distorting pricing and really causing
5 some problems there. I think the thing to remember -- and
6 I think John or someone brought up I think a reminder that
7 this is additional capacity we're talking about here --
8 clearly, this is EDC capacity for reliability program. So
9 we're talking about, first, that additional capacity being
10 allowed to be targeted, and then when not used being
11 available to the secondary market. So really it can only
12 possibly add to the secondary market and availability
13 capacity in that secondary market. It's not disrupting by
14 removing existing capacity from the secondary market.

15 Another concern that we have heard many times is
16 that this is just simply an effort to artificially lower
17 gas prices and gas transportation prices, and suppressing
18 wholesale markets. We've talked quite a bit, it's clear
19 this is an effort required by the EDCs, the generators have
20 been unwilling or unable to ensure adequate infrastructure.
21 So for reliability we're adding infrastructure. Yes, the
22 effect will also be to lower the prices and extreme
23 volatility that we've seen, as James mentioned, over the
24 past several winters. But there's certainly nothing
25 inadequate about ensuring adequate infrastructure, there's

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1 nothing wrong with the result of greater reliability and
2 reduced price volatility for customers.

3 Another concern that was brought out in many of
4 the comments was that at least three ANE projects and this
5 exemption here that would issue, it's going to create haves
6 and have-nots in favoring certain generators over another,
7 and that was inappropriate and disruptive. The first thing
8 to remember is that the capacity to be released will
9 ultimately be available to all generators able to produce
10 electricity in New England. Now, some may be located close
11 to the pipeline, the aggregation areas have an easier time
12 of making use of that release. But there's no prohibition
13 against other generators if they've had other arrangements
14 to get from those areas to take that capacity and use it as
15 they may to generate electricity. And, yes, while certain
16 generators will obviously have a greater ability at times
17 given their particular locations to use it, this is
18 understandable about any investment and infrastructure.
19 And a good analogy and one to think of is is when we build
20 infrastructure on a transmission system, the system decides
21 what transmission is needed, where is it inadequate, and
22 what is cost-effective, whether it's reliability or
23 economics for example under the New England tariff. And
24 when you build that infrastructure that's found to be
25 needed for reliability and cost-effective for customers,

1 there's going to be some generators on one side of the
2 transmission restraint versus others on the other side who
3 would be advantaged or disadvantaged, in the short term at
4 least, by higher prices in one zone, lower prices in
5 another zone. Some examples to think specific to New
6 England, if we were to relieve transmission from Maine,
7 Maine generators would be able to be dispatched more and
8 flow out of Maine and serve the needs of the rest of the
9 system; if we were to relieve the constraints into NEMA,
10 Boston, where again, some units in Boston might have their
11 prices lowered, but other resources outside of Boston, who
12 were dispatched down because they couldn't get into Boston,
13 would now have the advantage of that infrastructure. That's
14 just simply due to where they had chosen to locate their
15 investments and the fact that infrastructure that was found
16 to be cost-effective, the need for reliability happened to
17 be closer and advantaged them more than others, at least in
18 the short term. That's just the natural effect of building
19 infrastructure.

20 Another concern is that these places could be
21 perceived to limit a generator-preferential capacity to
22 only selling to the market serving electric distribution
23 company, and I think that was some misinterpretation of the
24 language we had chosen. When we were talking about the
25 market serving electric distribution company, at least I

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1 can speak for I think Eversource and National Grid, we're
2 talking about the entire New England wholesale market. It
3 was not intended to say that this capacity only has to be
4 to generators dispatching for instance in the national
5 mass-electric distribution company area of National Grid.
6 So this was simply -- I think this concern expressed by
7 some participants was just a misinterpretation of the
8 language used, you know, we want this to be available to
9 the entire wholesale New England market from which we all
10 draw our power -- to go to the security-constrained
11 economic dispatch, it's not generated by generator or
12 distribution company but by a distribution company.

13 And so this, again, is a concern that was
14 raised, that the proposal would insulate electric
15 generation from the true prices of interstate pipeline
16 capacity and that it was a subsidy to electric generators.
17 And I think, I want to emphasize again, that this is needed
18 infrastructure and there's nothing disruptive to the
19 markets or a sign of undue discrimination or preferential
20 treatment by the EDCs trying to get adequate infrastructure
21 for deliverability of gas to New England. If you consider
22 other generators, they also have often -- are advantaged
23 and like you might say subsidized by society paying for the
24 infrastructure required to transport fuel to their
25 facilities. If you take, for instance, Maine baseload

1 clients that require fuel to be delivered by ships, society
2 and taxpayers fund intermodal facilities, ports, shipping
3 channels, to make sure that their ships can make it to the
4 market. The generators are not responsible for paying for
5 all of that infrastructure. Same with resources that get
6 their fuel by use of ground transportation, highways,
7 bridges, local roads, those are all taxpayer-funded,
8 society-paid infrastructure that help the fuel get to the
9 plant. So it's not a question of buying the fuel itself;
10 we're simply here talking about making sure there's
11 adequate delivery infrastructure, the same type of
12 infrastructure that's funded and subsidized, if that's the
13 word you want to use, for other resources, not just gas
14 resources in New England.

15 And there's also a point that the winter
16 reliability program, we saw some comments in the protest of
17 COF between the winter reliability program, which is a
18 transitional program going on right now in New England,
19 until we get to the performance incentives and the enhanced
20 incentives in the forward capacity market. But those two
21 together will assure system reliability on a going-forward
22 basis. And I think the best evidence that that's not true
23 is if you continue to follow New England markets and see
24 that the ISO New England still has concerns and -- in the
25 words of the CEO Gordon van Welie who says, "The

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1 fundamental challenges facing New England remain the same
2 and the perspective has not changed. The system continues
3 to be in a precarious system during extended periods of
4 extreme cold. The region will continue to be in this
5 position until the New England natural gas infrastructure
6 is expanded to meet the demand for gas." And if you look
7 just to last year at ISO 1, in any day that they were
8 concerned that 4,200 megawatts of gas-fired generation
9 could not get the gas if they were called on in certain
10 circumstances.

11 We've talked a little bit about it, I'll --
12 quickly. This is similar to past exemptions, a lot of it
13 is analogous in many ways; we're buying capacity systems
14 we've had in the past -- for their gas customers, where if
15 you're buying capacity for the LDC customers, were buying
16 capacity for the benefit of EDC customers, we want to make
17 sure that capacity, at least initially, can be targeted and
18 used as desired before it's released to the rest of the
19 market. It will be released in both cases that hangs under
20 the LDC program, it will under the EDC electric reliability
21 program. To the extent it's not used to need, and in many
22 others it won't be, it will then be released to the
23 secondary market.

24 So I think in conclusion, I think you've heard
25 the arguments that we've made of why we think this is

1 important, it makes sense, it's nothing more than asking
2 the customers -- the customers, to ensure that the capacity
3 that they're supporting can be used to meet its primary
4 need. To the extent it's not, it will be released and made
5 available to the rest of the market. Thank you.

6 MS. FERNANDEZ: Thank you, Tim, Stephen, and
7 James.

8 Now, we'll take questions. I think Commissioner
9 LaFleur has a question.

10 COMMISSIONER LaFLEUR: Yes, I have a couple
11 questions. It seems like the right people to ask it,
12 although I'll take answers from anyone. And I'll ask my
13 first two questions together because they're related. So
14 to Tim's point that what the EDCs are doing is asking their
15 customers to fund the development of needed infrastructure
16 like a shipping channel or railroad or whatever, if you
17 went forward and had the customers fund pipeline storage
18 that you're looking at but didn't have the specific
19 hardwired capacity release but that capacity that the
20 pipelines enabled was released according to the normal FERC
21 rules or some much more limited exemption, do you not think
22 that customers would get the benefits of more reliability,
23 lower cost, given the market dynamics you both describe?
24 And then kind of a related question: Clearly you're trying
25 to protect your electric customers from some risk by

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1 hardwiring it this way. Can you articulate what that risk
2 is and who you think should bear it if the electric company
3 shouldn't? Those are hard questions, but this is a hard
4 case.

5 MR. BRENNAN: I think I'll first get to the
6 first point. I think as we talked earlier, there is an
7 argument that the market itself will take care of it
8 without this exemption. But as I talked earlier, I think
9 many of the times that's likely to be true, but in order to
10 really -- the real issue here is, you'll see from some of
11 the charts as you follow others, is the real extreme point
12 when you have significant cold or -- either prolonged over
13 winter -- you've got over three or four days. And it will
14 be a shame if in those days we see prices such as we saw a
15 few winters ago where a generator and PJM in the same day
16 could get to the one that's out of gas to generate
17 electricity, could get gas to \$3 dollars at \$3 million BTU.
18 In New England that day generators were buying from spot
19 market at \$36 a million Btu, for 10 times, due only to that
20 infrastructure constraint. So an example of the concern
21 that someone brought up in New England, we hear often in
22 the public hearings, is, "Well, this gas is just going to
23 be brought into New England and liquefied and sent around
24 the world, so it will be no benefit to -- the customers."
25 Well, clearly we would not want that to happen. And

1 whether you think it's likely or not, this could prevent
2 that. If we get to the point where the LNG prices on the
3 world now are like they were just a few years ago and there
4 was a liquifaction facility that could enter into our
5 initial release, buy up all of the capacity because it was
6 more advantageous for them to sell it off, that'd really be
7 the worse-case scenario where we would wish we had this
8 ability to assert -- for the generators who would need it
9 at that same time. That's not the result we want to get
10 to, and I think we and the states and our customers would
11 all be in a bad situation if that was allowed to happen.
12 So let's make sure this is made available to satisfy its
13 intent first. If it's not needed, then it can be made
14 available to anyone else including someone who might want
15 to liquify it and send it somewhere else.

16 MR. DALY: On the second issue, so in terms of
17 who bears the risk for this, we as EDCs see this as very
18 similar to the way we operate on the LDC side. The
19 business model on the LDC side is that we contract with
20 capacity, that's to benefit our customers. And the
21 customers pay for that over the long term, it's the most
22 efficient way to do it. So they're the beneficiaries of
23 it. In terms of risk, the pipeline has taken on the risk
24 of construction, they don't get paid until it goes into
25 service. So people who have opposed -- bring up this --

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1 they could get paid and not -- that's not the case --
2 requires them factually delivered, it's
3 FERC-jurisdictional, the cost they can charge us. So it is
4 regulated, they won't have to pay until it goes into
5 service. But once it goes in service, we believe the
6 customers should pay for the cost of it, assuming our
7 retail regulators in the states approve that, and we're
8 going through the process to determine whether that's -- so
9 there are contested proceedings in the states, frankly
10 underway, and utilities, commissions will make the
11 determination as to whether it is in the customers'
12 interest to make these charges. We as EDCs think that's
13 where the costs should go because that's where the benefits
14 should go, and it's very similar to the way we operate on
15 the LDC side. We also say in response to criticism as to
16 why are you doing this, you say show me a better
17 alternative. Well, what is your alternative? And nobody
18 has come up with one --

19 COMMISSIONER LaFLEUR: Tim, to your point, is
20 this day -- this winter day of gas was 13 bucks in New
21 England and 3 bucks in PJM --

22 MR. BRENNAN: Excuse me, it was actually 30.

23 COMMISSIONER LaFLEUR: Sorry, 30 bucks in New
24 England and 3 bucks in PJM. Wouldn't the suppliers be
25 motivated to sell gas in New England and the generators be

1 motivated to buy gas so they'd be taken? And if the real
2 issue is not exporting it, have you considered just saying,
3 "Hey, this can't be exported," but not all the other
4 controls?

5 MR. BRENNAN: I think the issue is, without this
6 infrastructure being built, we would continue to see these
7 \$30 and \$3 days due to only the infrastructure constraint.
8 So we need that infrastructure to be built so that the
9 capacity and the load prices and the price have sufficient
10 supplies to meet the demand.

11 COMMISSIONER LaFLEUR: I was going to ask why
12 you need the release. But I would just ask one more
13 question, and then I'll turn it over to staff. Have you
14 parsed how much of the benefit that your customers are
15 getting comes from the storage piece as opposed to the
16 pipeline? Because this is the project you're bringing
17 forward is kind of like a half-storage/half-pipeline I
18 think? Or is that not a meaningful question? Because
19 you've obviously figured out what your customers are
20 getting.

21 MR. DALY: So we asked our ICF to model this
22 particular program. So the benefits that we talk about a
23 billion dollars a year are modeling the combinations. We
24 modeled the project. We didn't model variations on the
25 project. So what we're seeing is the pipeline capacity, if

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1 we were to add all the pipeline capacity, for example,
2 would increase the cost of the project. The LNG is more of
3 the peaking nature, so it provides economics that are
4 superior to, say, the \$900,000 pipeline. So it was the
5 optimization of that supply into the region, so we modeled
6 that piece of infrastructure in addition to what's there
7 already, and then translated that into the electric market
8 and ran models that simulate the production in the electric
9 market and came up with those numbers. But we didn't do
10 variations on this, that's a lot of what if's, but we felt
11 this was the best project by far that we evaluated as part
12 of that competitive process.

13 COMMISSIONER LaFLEUR: Thank you.

14 MR. McCAULEY: I'd like to try and answer your
15 question: Why the release? And I know we said this a
16 couple of times similar to the ODC lines and the contract
17 for capacity and they use it for their own use, and when
18 they decide for reliability reasons, because it's not cold
19 enough, that there's excess capacity, they make it
20 available to the market. Thinking along the same lines,
21 that's what will happen here.

22 Similarly, the EDC's are taking a risk in
23 signing up for this capacity to generate electricity but is
24 now having to go out into the market and we wanted it to go
25 to the generators who are going to produce electricity, I

1 would say it would be comparable to saying that the LDC's
2 need to sign up for this capacity and don't first fill it
3 through their own use, go ahead and release it out to the
4 market, and now as LDC's go back out and rebid for this
5 capacity. Now you're competing with everyone.

6 We're purchasing the capacity on behalf of
7 the LDC's to be first used by the LDC's, we're purchasing
8 the capacity for the EDC's to be used first for the EDC's,
9 and then it will be made available to the rest of the
10 market just like it is today with the LDC's and the excess
11 capacity. So that's where we were getting to as to why we
12 need this -- it has to first go to the generators because
13 that's the primary reason, to produce electricity.

14 MS. FERNANDEZ: I think Staff had a question and
15 then I will come to the speakers and then go to the
16 audience, okay. I actually had a question and then Michael
17 has a question and Richard has a question, we have a lot of
18 questions. My question was: I know that Richard had
19 mentioned the concern here, one of the reasons for the
20 exemption was sort of the 2:00 a.m. call and you can't wait
21 until the morning to do the bid. But I know based on your
22 proposal, at least from what I understand from what has
23 been filed in Massachusetts, is that you currently
24 anticipate daily, monthly, yearly releases and that as far
25 as the daily is concerned that would be two days in advance

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1 of delivery. So I'm not understanding, given sort of the
2 new bidding deadlines after 809, why you need the exemption
3 if you're just talking about a daily -- I know it's not
4 going to be hourly in the middle of a night -- why you need
5 the exemption from bidding because you can do prearranged
6 deals provided that your generator matches the highest bid?
7 Thank you.

8 MR. McCAULEY: I think what we're saying here
9 is, in the market as to the question what happens at 2:00
10 a.m. from a release standpoint, because I don't think
11 that's not possible to release capacity that's available.
12 The release is for in the period that's well in advance
13 that allows the generator-purchased gas to generate
14 electricity. In the middle of the night, the asset would
15 still be available, and this is where either the capacity
16 manager or if an EDC decides to retain the capacity by
17 themselves to market it themselves, they would then make
18 the asset on the short term notice available to the
19 generators.

20 MS. FERNANDEZ: Then why do you need the bidding
21 exemption? Because you would participate in the bidding in
22 the morning and a prearranged deal can be done provided
23 your generator matches the highest bid? I guess I'm not
24 understanding the need for the exemption, then.

25 MR. DALY: I think -- our proposal is to release

1 it to power generation. I think you said "provided the
2 highest bid". And in that case, you wouldn't need it if
3 you could assure that the generator always had the highest
4 bid because that's not the occasion to marketplace. Other
5 participants may bid on that capacity, unless it's a
6 targeted release to generation, and that capacity could go
7 elsewhere. And in the example that Tim Brennan gave, that
8 capacity could be used for gas transportation for ENGIE
9 exports for example.

10 MS. FERNANDEZ: My understanding of the current
11 regulations is that, provided your generator matched the
12 highest bided, your generator could always take that
13 capacity. You would have like sort of a final right -- not
14 "right of first refusal" -- but you would have the right to
15 bid on that capacity, and provided that you matched that
16 highest bid, you would get it.

17 MR. DALY: Yes, that's right, with the proviso
18 you just mentioned, yes.

19 MS. FERNANDEZ: So I guess what Richard was
20 saying is one of the concerns was being able to release
21 capacity at a time outside of sort of the current bidding
22 hours. But what I hear you saying is that you don't want
23 -- part of the reason for the request is you want to avoid
24 having your generators match the highest bid. Is that
25 correct?

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1 MR. DALY: We aim to maximize the revenue from
2 the bidding, I mean, it would be competitively bid by
3 generators. We aim to maximize the revenues from the
4 release. So if the generators are always the highest
5 priced payers, they will always end one the capacity. How
6 can we assure that happens? We can't tell them what to the
7 bid and we can't make them bid the highest price. Maybe
8 they have another capacity and they don't need it. So if
9 they don't need it, then we release it to the rest of the
10 market and have that be the source for the maximum revenue
11 for everyone else. But it's a staged release, first we
12 want a target generation, and then to the degree the
13 generation pays the highest price it will go there anyway.
14 And we believe the most efficient generators will be the
15 highest price, if they afford it they're more efficient.
16 After that, we want to release it to the marketplace. But
17 in the first instance to be assured that it's going to be
18 used for power generation particularly during the peak
19 periods of time, we want the targeted release for it. And
20 then after that we are proposing to release it to the
21 market generally.

22 MR. GOLDENBERG: To follow up, I'm not sure I
23 understand why there would be a situation in which a
24 generator bids in your little market and they bid, let's
25 say \$50 an MCF of capacity, and a replacement shipper in

1 Algonquin's auction bids \$55, and you're saying that
2 generator, even though they're being dispatched by ISO New
3 England, is not going to match the \$55. I'm not sure --
4 why do you expect that that generator will not be able to
5 retain the capacity by matching the highest bid in the FERC
6 auction that's run by Algonquin rather than your auction
7 between only generators? It seems like that would maximize
8 your revenue from the release, because instead of getting
9 \$50, you would get \$55.

10 MR. DALY: I think if we could assure they were
11 always going to pay the \$55 in the example, then we
12 wouldn't need it. But I don't think we could be assured of
13 that.

14 MR. GOLDENBERG: Why wouldn't they if ISO New
15 England needs the generation and they're the generator
16 that's being dispatched, why would they not match the \$55?
17 Otherwise they're not going to be able to run because they
18 won't have natural gas.

19 MR. BRENNAN: I think some of them would think
20 as even we have seen in the reliability in the past winter
21 they would think that they could still get something from
22 the spot market. And they're all trying to think if I'm
23 going to be dispatched ahead of another resource or not.
24 And even those ones who may want to bid to what they think
25 is going to be the price, there's a certain limit, if

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1 there's another resource there or another potential bidder,
2 if it was up to them, whether it was an extreme example
3 that someone says "I can just take this to Canada, liquefy
4 it or export it", or maybe it's another shipper who says,
5 "I got a better idea: We'll loop this back to New York", to
6 that extent you can do that. They could be bidding and
7 then we would not be solving the reliability of price
8 volatility concerns.

9 Clearly, we're asking our customers to buy this
10 to make sure it's available, sufficient supply is available
11 to be used to generate electricity and address those
12 concerns. And there is the potential that there would be
13 others, for whatever reason, who could outbid a generator,
14 a generator that's having trouble being convinced they're
15 going to be able to recover that price in the market or
16 not, or any particular owner where they think they're
17 needed or not, they might not get dispatched until
18 reliability assurance system that runs later in the day,
19 they might be called at the last minute to fill in for a
20 contingency.

21 So we want to do everything we can to make
22 sure that capacity is available to the generators first in
23 those circumstances before we release it to the general
24 market, because there is the potential, whether you believe
25 it will happen often or only extreme cases, but if it

1 happens only once-in-awhile extreme cases it could cost
2 hundreds of millions of dollars and over, billions of
3 dollars, in a winter, as we've seen.

4 So we feel it's such a reasonable request that
5 if we're buying the capacity for, in a sense, argues for a
6 particular purpose, give us the opportunity to use it for
7 that use first as we do in the LDC example before we
8 release it to the rest of the market.

9 MR. HOWE: Your program includes the capacity
10 manager issuing request for proposals and then like the
11 winning request for proposals is determined by the
12 Committee of the EDC's. Would you have purely objective
13 standards for choosing the winning requests for proposals?
14 Could they determine by a third-party without any exercise
15 or judgment or is there some reason or benefit to be
16 obtained from having a kind of a discretionary look at the
17 request for proposals and deciding which was to accept or
18 not to accept?

19 MR. McCAULEY: The intent was to do the RFP such
20 that -- to answer your first question: It would be
21 objective, we would set the release such that it would be
22 pretty plain as to what the term was for the capacity
23 release itself. In doing the RFP and getting the results
24 back, what we wanted to do was that we wanted people to be
25 as aggressive as they possibly could on their releases, but

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1 we understood that the whole market, they might not
2 necessarily want the whole market to know what their
3 particular bid is, that might telegraph a company's
4 position. So the thought was that do the RFP, get the
5 highest bid result back, and then post that bid out on the
6 bulletin itself. It would preserve confidentiality between
7 the marketplace and all of the generators, it might want to
8 get into the capacity itself because if you just do a
9 regular bid, there's an auction out there and people could
10 bid it out. Some people might not want to show what their
11 best bid is, but we want people to be able to show and know
12 that's it's going to have confidentiality, "Here is the
13 highest bid for the period, the term, the volume", that it
14 will be released, and it will be seen by everyone and it
15 preserves that confidentiality between all of the
16 generators.

17 MR. HOWE: But is the winning bid going to be
18 chosen just pursuant to purely objective standard or is
19 there going to be some objective exercised by the special
20 committee?

21 MR. McCAULEY: It would be purely objective. We
22 might put a reserve price on it. We don't want to accept
23 anything less than blank on the release. But it would be
24 purely objective as far as who's paying the highest for
25 that asset.

1 MR. HOWE: In your precedent agreements, is the
2 entire capacity that you're going to obtain going to be no
3 notice or is part going to be no notice in some standard
4 firm transportation?

5 MR. KRUSE: The service that Algonquin is
6 offering is no notice service for the 900 a day pursuant to
7 the terms of the reached agreement.

8 MR. HOWE: Now, that no notice service seems to
9 include, or at least the LNG storage component includes the
10 two injection periods as I understand it. How is the
11 release to the generators going to work if there's a
12 separate injection period and withdrawal period? I guess
13 for the releases that are one year, the generator will get
14 -- will be responsible for doing the injection of LNG, or
15 is it the responsibility going to stay with capacity
16 managers?

17 MR. McCAULEY: It could be both where we would
18 release a portion of the field available to the market
19 where they could choose to have the transportation capacity
20 and some of the capacity of the field and injection
21 withdrawal rights and it would be their decision to go
22 ahead -- if they want to take it for a whole year, they
23 need to be able to control the injection and the withdrawal
24 piece. And then there could be a percent that would be
25 retained by the EDC's to sell a bundled sale service of the

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1 number of services.

2 MR. HOWE: And then the EDC retains it, how is
3 the pricing of the sale of the LNG going to be in?

4 MR. McCAULEY: The price itself?

5 MR. HOWE: Yeah, for the LNG, for the gas of the
6 price commodity.

7 MR. DALY: If I could have a shot at that? The
8 gas commodity, we source the transportation piece and sold
9 it to the marketplace to again maximize revenues. So we
10 would sell it at the highest price, which would likely be
11 the city gate index program, would be the commodity on
12 those variable charges. So that if you like the impact of
13 it to the marketplace is that it's increased supply,
14 therefore, it will likely reduce prices because it's
15 increasing the supply into the market. The laws of supply
16 and demand will cause the price to decrease and will
17 maximize the revenue from it. So what we're doing is
18 maximizing the revenue from the sales, increasing supply
19 into the marketplace, maximizing the sales revenues which
20 will then go ahead to offset the public offices. So we
21 think that's the best pricing algorithm for the marketplace
22 that fits with how the marketplace works today in terms of
23 people relying and buying their gas and it's the least
24 disruptive, if you like, and fits to where gas gets priced,
25 but at the same time maximizing the revenues back to

1 customers.

2 MR. GOLDENBERG: I have a question for Richard
3 Kruse. Is the LNG necessary to support the no notice
4 service?

5 MR. KRUSE: Very much so. I mean, it's an
6 integrated component of basic ERS service. And there's
7 really two aspects as envisioned currently to the ERS
8 service that is no notice: One is the capability to
9 nominate transportation at any time during the day. So
10 we're able and we're committing that the capacity will be
11 there committed to new gas firm from the receipt points to
12 any of the prior generation plants on a firm basis whenever
13 nominated during the day.

14 The LNG storage tank provides the capability to
15 support non-ratable take flexible by the power plants. We
16 are a pipeline that is largely designed on a non-ratable
17 flow basis. We do have a six percent hourly swing that
18 LDC's hold for some of the services. But most of the
19 capacity is designed on non-ratable flow.

20 So having the LNG tank on the east end of the
21 system will be critical for us in terms of being able to
22 meet the non-ratable tank requirements for the shippers, as
23 well as the feature that was mentioned where the generators
24 coming on, say in the middle of the night, he does not know
25 where he is getting his gas yet, he hasn't made

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1 arrangements. And if he has the service on the release
2 basis with the LNG there, we're able to let him flow gas
3 for up to two hours knowing that he can go out and find gas
4 and make up his imbalances during the day or at the end of
5 the two hours we can take it out of the LNG tank as a no
6 notice supply and maintain our confidence, so. So it's
7 very much an integrated component of it.

8 MR. GOLDENBERG: So how does the release work
9 when the asset manager who holds the gas in the LNG
10 releases capacity, are they going to be releasing storage
11 with it? And there's going to be a sale of gas so that the
12 shipper now holds the gas in the LNG storage? I'm not sure
13 how the mechanics of the release will work.

14 MR. KRUSE: The service has been structured to
15 be releasable in segments so that to the extent the EDC's
16 want to release purely transportation from a given receipt
17 point to a delivery point, they'll get that component. If
18 they don't get the full package of the service in a release
19 basis, they won't have all of the features of it. So they
20 can just get transportation, no notice transportation. If
21 they want the no notice that the LNG provides, the
22 non-ratable guaranteed flexibility, they will need to work
23 out a release that is a pro rata share of the entire
24 service rather than just a segment service. But that is
25 something that the market and I think that the EDC's will

1 structure in their release efforts to one maximize
2 reliability and to maximize revenue collection for the
3 benefit of their customers.

4 MR. GOLDENBERG: Would the generators that want
5 to take advantage of the no notice service have to acquire
6 the gas that's in the LNG storage as well or a proportion
7 of the gas sufficient to cover that service?

8 MR. KRUSE: Well, I mean, a given generator I
9 guess could benefit from either buying that gas in the
10 secondary market, and we having it withdrawn, or if they
11 want that service and they want that control they're going
12 to need to require the rights in the storage tank as was
13 alluded to. But --

14 MR. GOLDENBERG: I had a question for the EDC's.
15 Before the Commission granted sort of the blanket exemption
16 for state retail access programs when they were just
17 starting up in Georgia Public Service, the Commission
18 actually required that the program be filed with the
19 Commission so that we could review how the capacity would
20 be allocated within the program. So if we granted
21 Algonquin's tariff and accept it, will you be willing to
22 file your programs so we can see exactly how you envision
23 dealing with all of these secondary market implications
24 that a lot of people have raised?

25 MR. McCAULEY: Yes, I think we'd be willing to

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1 do that, I think it would be a good idea for transparency.

2 MR. SPARBER: This is for Eversource. In
3 describing the role of the capacity manager program,
4 Eversource has stated that capacity manager will issue a
5 request for proposal to generators. And they also say that
6 the capacity manager will ensure the release is executed in
7 accordance with the energy Commission rules, including
8 pipeline posting notice requirements. What exactly does
9 that mean in terms of the issuance of the RFP and who
10 receives the RFP criteria for participating in the bidding
11 process, and basically the universe of potential bidders?

12 MR. DALY: If I could defer to my colleague here
13 who's more experienced on the scheduling side of the
14 business.

15 MR. McCAULEY: So as I said before, the RFP
16 would be issued to all of the generators in the region, and
17 then when we posted the prearranged shipper, FERC rules as
18 far as making sure that the flag is noted, that this is an
19 exempt release, and any other requirements from the
20 bulletin board as far as what is similar to what we do with
21 the escrow or managers themselves. So the part we're
22 asking for is really just the exemption similar to asset
23 managers and to escrows themselves, and then everything
24 else would adhere to traditional FERC capacity releases.

25 MR. SPARBER: In terms of the criteria for

1 participating in the bidding, I know you mentioned credit
2 before. Would the credit worthiness, or general credit
3 worthiness, rules apply in terms of the process is
4 qualified to bid?

5 MR. McCAULEY: From a credit perspective, I
6 think we would treat it just like capacity releases just
7 like LDC's do. The pipelines themselves go to FERC
8 requirements for order of shippers, and that would be done
9 -- I believe my thought was that that would be done by the
10 pipelines itself. There might be credit requirements from
11 -- if we do a bundled sale that real wouldn't pertain to
12 the capacity itself. But if it would be assets that would
13 be retained by the capacity manager and then made available
14 to the market through bundled sales.

15 MS. FERNANDEZ: Tom and Joe, who have been
16 waiting a very long time. You guys go ahead and ask your
17 questions. And then after you're done, we'll then come
18 back. So you guys go ahead and go first.

19 MR. LOCKETT: Tom Lockett from Tenaska. I have
20 three-pronged clarification request, all under the topic of
21 secondary markets. I think the first and third
22 clarification will probably be directed to the EDC's, and
23 the middle one probably to Spectra, but I will let you
24 figure that out.

25 First of all, I think I heard that the EDC's or

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1 their affiliated capacity manager would be the exclusive
2 party selling bundled sales, so I'd like to get a
3 clarification on that. I think it heard it was alluded to
4 that on an off-peak period that there could be PRS capacity
5 that may be available to the secondary market. I'd like to
6 just understand: Does that include non-generator, non-EDC
7 secondary markets, as your PRS tariff has proposed
8 specifies the definition of a shipper, so therefore it's a
9 primary shipper or a replacement shipper, would be an EDC
10 power generator? I just want to know how another party
11 might step into that.

12 And then the third prong is, the LDC's
13 currently enjoy the benefit of asset management
14 arrangements under Order 712. They receive money, they
15 receive a service, they have first call on capacity. I
16 don't think that there's been any issues of reliability.
17 If there are, that capacity could easily be recalled or the
18 assets management arrangement could be terminated.

19 I'd like some sense of how using that
20 methodology, especially in light of the fact that Spectra
21 has some 30-odd nomination schedules during a given gas
22 day, how using that same AMA methodology under Order 712,
23 how the service would be degraded for power generation?

24 MR. McCAULEY: As far as the first part, I
25 believe is your question about EDC's whether it be

1 exclusive bundled sales done by the EDC's. I would say no
2 to that. The EDC's may all choose to have one capacity
3 manager, they might elect their own capacity manager, they
4 might elect to manage the capacity themselves. So
5 depending on how each EDC decides to do in the region,
6 there can and probably most likely will be multiple sellers
7 of bundled sales capacity out there.

8 As you said in the off-peak period if
9 generators do take capacity for a while year and now
10 available to them and it's an off peak period, they'll be
11 able to use the capacity to make bundled sales in those
12 kind of cases. So I think that there will be multiple
13 participants out there that will have the ability to make
14 bundled sales. And you'll have to go back to the third
15 part about the asset manager. Could you repeat what that
16 question was? Because I didn't follow.

17 MR. LOCKETT: Only if using typical pretty
18 standard protocol right now, the LDC's issue RFP's for
19 asset management arrangements as defined in Order 712. The
20 capacity that they bought and that they're allocated to
21 this primary party was for their primary use, they have a
22 call option. They can call on it pursuant to whatever the
23 AMA agreement looks like. They call up hourly, daily,
24 monthly, it seems like, what have you. And I am just
25 wondering, given the fact that Algonquin has some 40-odd

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1 nomination opportunities in a given gas day, why a similar
2 mirror image process would not be available to power
3 generators and how might it be degrading power generation?
4 It seems like the system works right now for LDC's
5 reliability, recall option, the benefit to ratepayers are
6 all in place. Why wouldn't you take a similar path with
7 power generation and just let the market continue to work
8 efficiently and reliably?

9 MR. McCAULEY: I'm going to repeat the question
10 to make sure that I did understand it. So I think what
11 you're asking is release capacity to a generator who then
12 -- who can then select their own asset manager to manage
13 their capacity for themselves. And you're saying why not
14 have the same mechanisms today that the LDC's, is what
15 you're suggesting that the LDC's then have the ability to
16 recall the capacity if the asset manager for the generators
17 is not using it for the intent of generating electricity.

18 MR. LOCKETT: I'm not so sure it's the intent.
19 I'm going through mechanics -- I'm sorry I'm getting into
20 the weeds here -- but if an EDC releases it to a power
21 generator, a power generator rereleases it to an asset
22 manager who's going to economically get as much value out
23 of that capacity as possible. For some reason the power
24 generator is not able to obtain gas supply is dispatching
25 that particular unit, then I would see no reason why the

1 EDC couldn't recall that capacity, even though it's several
2 steps in that line, which is exactly the way it would
3 happen right now with an LDC. And I'm just confused as to
4 why you wouldn't follow a similar proven methodology in
5 terms of economic efficiency and reliability.

6 MR. DALY: I think we could, we could operate
7 like that under the program. A lot of the terms of the
8 capacity managers' operation in this has not been
9 finalized, if you like, with the states, I mean, we are
10 getting precedent agreements approved at the state level at
11 this point. When we get to and we have committed to work
12 with the states in terms of the form of that capacity
13 manager agreement, once we know what the rules of
14 engagement are that could be well within the scope of how
15 we operate it. We just haven't got to the weeds, if you
16 like, of that transaction at this point.

17 MR. LOCKETT: So if you did get to that sort of
18 end result, I think it comes back to also just the
19 definition of the shipper within the ERS tariff would have
20 to be changed, just some clarification on that. To be
21 something just beyond the exclusive EDC power generator,
22 there's other parties in the market.

23 MR. KRUSE: Well, in terms of ERS rate schedule,
24 it is an open access rate schedule today, there is no
25 limitation on who can be a shipper under ERS, it's open to

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1 anybody. The project that we're designing is of 900 a day
2 has been through various open seasons and solicitations
3 designed for EDC's to be released to it, but there's
4 nothing in the tariff itself that prevents an LDC and wants
5 ERS service from contracting under. It's just that nobody
6 has requested that service.

7 One concern that I would have, and the answer
8 unfortunately when you talk to dispatchers is always "it
9 depends", it depends on the day, it depends on what's
10 happened, but one of the challenges that we have is we
11 manage very much transient flows, non-ratable takes, to
12 power generators, to LDC's, but when we're talking about
13 power generators who will try to take as much as their
14 daily as fast as they can because that's their electric
15 requirements.

16 To the extent that that flexibility is being
17 utilized in the secondary market, it's not being used to
18 create electricity yet, it's being used to supply some
19 other need. Halfway through the day when the EDC's see
20 electric reliability need, recalling it at that point in
21 time may be recalling something that has already been
22 delivered from the system and we will be able to say, "I'm
23 sorry. The market that had it before has taken that
24 flexibility out of the Algonquin system and we have
25 therefore lost that no notice capability." It's just the

1 way the dynamics work.

2 So the fact that we have 42 nomination cycles
3 doesn't mean that halfway through the day you can call on
4 necessarily the entire service that RES provided if, in
5 fact, it was being used on a secondary basis for
6 nonelectric reliability purposes. So that is some of the
7 challenges I think that the EDC is going to have and the
8 program is: How do they reserve its capacity for
9 reliability? Because on a stressed-out reliability day if
10 you're a dispatcher, it's not about the price, it's not
11 about the money that's changing hands, it's about whether
12 gas is able to be delivered when you need at the rates you
13 need it. And that very well may beat saying, "I can't take
14 the high price today, I got to reserve it." That is
15 somewhat -- I bear with the EDC's, they have a tremendous
16 challenge of putting their reliability first. And I think
17 cost recovery is out there, but they're really out there to
18 preserve reliability.

19 MR. DALTON: Thank you, Joe Dalton, ENGIE gas
20 and LNG. I just want to offer an alternative answer to
21 Commissioner LaFleur's question asked many minutes ago now,
22 and I'm paraphrasing: Absent approval of this program, do
23 customers see more reliability in low cost? The answer is
24 yes. And in fact that happened. If we go back to the
25 chart that showed the wholesale cost of the winter of

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1 '13-'14 at 6.8 billion, people forget that the market
2 operated differently, people behaved differently, you had
3 -- you achieved a different result the following winter
4 that was nearly equally has cold. I think in one month it
5 was colder and over 100 inches of snow fell in New England.
6 So yes. In this past winter we've had record send out on
7 Valentine's Day, absent record cold and record sent out.
8 So I think the answer to that question is, yes, there are
9 alternatives to this notion.

10 Your second question was, who should bear the
11 risk? Well, we have the reconcile the fact that in a
12 number of these states' jurisdictions, electric ratepayers
13 have been expressly removed from taking on a risk of this
14 nature, which is why these issues are being contested
15 actively in notably Massachusetts and New Hampshire where
16 the state Restructuring Acts are very much in play with
17 respect to states that reconcile whether or not approval
18 can even be given to these programs.

19 MS. FERNANDEZ: John?

20 MR. RUDIAK: I had two questions. The first was
21 for Tim Brennan and the second was for Mr. Daly.

22 Tim, when you guys were talking about winter
23 price volatility and the electric markets, do the retail
24 customers, the customers of the EDC's, see that price
25 volatility in their bill?

1 MR. BRENNAN: Yeah, they do. Now, due to the
2 procurement methods in some of the co-laddering where we
3 might buy half the bulk service customer load, we might buy
4 for 12 months and then six months later do the other half,
5 so there's certain laddering at which caused sometimes the
6 delay of the wholesale market volatility and winter prices
7 hitting the retail bill. But what we did see, for example,
8 a few winters ago when the wholesale market, the winter
9 before had risen by about 90 percent, the supply side being
10 about half of the retail bill, it was the next winter where
11 we saw a 40 percent increase in the retail bill due to that
12 winter price volatility. And, again, there was some
13 mention about the following winter being better with double
14 the LNG, but we still paid by our calculations by 1.6
15 billion what by would have paid with the unconstrained
16 system and adequate infrastructure. And so even that
17 following winter, reacting to the not-quite-so volatile and
18 extreme prices due to different weather and additional LNG
19 imports, we saw only a 20 percent. I say "only", but we
20 still saw a 20 percent increase due directly to the
21 infrastructure inadequacies in the retail bill.

22 MR. RUDIAK: My question was more retail
23 electric customers pay an average price. Right? They
24 don't pay a daily price for electricity.

25 MR. BRENNAN: But the volatility and the average

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1 extreme prices we've seen over the winters all factor into
2 those bids that we often see in the retail bill. So
3 certain days, when it went to \$30 versus a \$3 availability
4 just a few hundred miles away, that winter might have
5 averaged \$13 on average higher all winter. So both the 30
6 and the average 13 all get figured in and the risk and the
7 expected price of those taking over our load-serving
8 obligations, both for our customers and the competitive
9 suppliers who are serving a lot of our industrial
10 customers. So it does, there is a lag, but all of that,
11 those average price increase we're seeing in the winter due
12 to infrastructure and the extreme volatility, it all gets
13 eventually shown and reflected in higher retail rates.

14 MR. RUDIAK: Next question is for Mr. Daly.
15 James, you said the RFP that resulted in your current
16 contract that you're seeking approval at that state level
17 that went out on October 23rd 2015.

18 MR. DALY: That's right.

19 MR. RUDIAK: If I'm correct that the Access
20 Northeast project started as a joint venture between
21 Northeast Utilities and Spectra, each owned 50 percent back
22 in 2014?

23 MR. DALY: Well, in terms of when it started,
24 yes. I can't tell you what percentages were talked about
25 because I don't work that side of the business, that's the

1 development side of the witness. I'm on the electric
2 distribution side, the LDC side. So in terms of putting
3 the project together, there were discussions that
4 eventually which led to 40 percent of ownership and
5 National Grid has a 20 percent ownership.

6 MR. RUDIAK: National Grid came in with their 20
7 percent in February 2015. Is that right?

8 MR. DALY: It came in later. I can't put a date
9 on it.

10 MR. RUDIAK: All right. Thank you.

11 MS. FERNANDEZ: I think we have one more staff
12 question.

13 MS. JAYARAMAN: I think in the case of the chart
14 that Algonquin, I think it's more of a question for you
15 all, but I'm just referring to this chart for the purpose
16 of: This kind of talks about northeast aggregation areas.
17 So in these aggregation areas there are multiple states or
18 generators from multiple states are covered. So one state
19 gets appointed, and then you kind of release the capacity,
20 how would you kind of create generators in that area that
21 are not within that particular state that are approved
22 program? And number 2, also in terms of electric
23 reliability as you mentioned when you were kind of
24 inquiring the cost, it also has a locational impact but you
25 do mention that you will release it equally for everyone.

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1 So for the actions, there might not be, I just want to get
2 some comments on it.

3 MR. DALY: Sure. In terms of the program itself
4 or the Access Northeast facility, we're entering into
5 present agreements and filing them at the states for
6 approval. So it's anticipated that, well, firstly, as an
7 objective we want as broad as participation from the states
8 that we can. So we have allocated a portion of that
9 project to each investor-owned utility in each state. Now,
10 there's nothing that we can't bind those entities to that,
11 we can't bind the state or the industry-owned utility. So
12 there's a process that each state is following to determine
13 whether it wants to participation the project or not. So
14 hopefully we will get enough participation -- and this is
15 not unique to this project, it's similar to gas LDC's
16 coming together to contract as well, it's a similar
17 process. So at the end of the day we'll have a number of
18 customers sign up for the service, and we have to make a
19 determination, the project has to make a determination --
20 to get built. And if -- there's a provision in those
21 presented agreements that there may be a reallocation of
22 capacity among the participants at the end of the day or
23 the project may get resized or it may get canceled
24 altogether if there isn't enough participation.

25 We need to go through that process to figure

1 out how much of it is going to get contracted through the
2 states. It is a laborious project. It is complicated,
3 because we have all these different state proceedings and
4 no state can tell the other one -- we're relying on what I
5 introduced in my first slide is that the New England
6 governors at that level want to participate in the
7 infrastructure project.

8 In terms of which state participates or not,
9 that's to be determined. But we don't envision that the
10 service would be allocated by state participation. So it
11 would be allocated to the market generally, and that would
12 benefit whatever -- whichever power generation chooses to
13 contract for that capacity. It could be in any state. So
14 you could have, for example, a state that decides not to
15 support this effort but have power generator that would be
16 participating in this. We want to make it
17 non-discriminatory that whatever generators are on whatever
18 pipelines, they can all participate in terms of seeking
19 this service. So we're not linking it back to which state
20 participates.

21 MS. JAYARAMAN: Thank you.

22 MS. FERNANDEZ: And with that, we're going to
23 break for lunch. Given the time that we've run over, we're
24 going to cut lunch a little short just to make sure we stay
25 on track and that every speaker gets to make their

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1 presentation. So if I could ask everyone to be back here
2 at 1:20. So I'm cutting lunch by 45 minutes, 1:20
3 reconvene.

4 Thank you.

5 (Recess.)

6 MS. FERNANDEZ: In the interest of time, we're
7 going to change things a little bit in terms of how we're
8 going to run the second half of the day and we are going to
9 just do presentation, presentation, presentation, save the
10 questions until the last speaker has spoken. So I ask if
11 any speakers just be prepared to follow one another, and
12 anyone who has questions to save your questions until the
13 last speaker.

14 So the first speaker in the second half of the
15 day is going to be John Rudiak.

16 MR. RUDIAK: Good afternoon. My name is John
17 Rudiak, I'm here on behalf of the New England LDC Group.
18 And I do have a presentation. Okay, thank you.

19 So our group is referred to as the New England
20 LDC's. We're been working together for decades before the
21 Federal Energy Regulatory Commission. So we're gas
22 utilities and we're here in the interest of reliability and
23 to offer a few comments with respect of our viewpoints. So
24 we're here from the perspective of serving residents and
25 commercial customers in a very constrained area. We

1 appreciate the opportunity to provide some comments today.

2 So with respect to the concept of Algonquin's
3 proposal itself, we're very supportive of the concept
4 underlying the proposed exemption from the capacity release
5 posting and bidding requirements primarily because of the
6 fact of the concept is supportive of reliability of adding
7 infrastructure into the region. We feel that over the last
8 11 years or so when we have been working on some of the
9 gas-electric coordination issues that the underlying issue
10 is really the infrastructure issue. And we've been trying
11 to get that raised and get it closer to a solution, and I
12 think Algonquin's proposal and the EDC model is a step in
13 the right direction to getting that done eventually.

14 In terms of the particular area that we're
15 operating in and kind of stepping back a little bit here,
16 the New England area is certainly perhaps the most capacity
17 constrained area in the United States. Previous speakers
18 talked about the prices of the constraints. We operate as
19 LDC's in terms of all of these constraints every day in
20 terms of restrictions, in terms of various factors of
21 limitations, in terms of operational flow, orders, et
22 cetera. And essentially when we stepped back based upon
23 our contracts that have been developed since the '50's in
24 terms of the infrastructure. And the system has evolved
25 over time, but still was not necessarily designed in any

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1 way to serve the electric generation demand.

2 So from our perspective, the current state of
3 gas-fire generations without capacity poses reliability
4 risks, posing reliability risks to electric customers and
5 to a certain extent the gas customers, because we're all
6 operating under a shared system. We have situations where
7 we have pressures, pressure concerns, rapid pressure
8 changes, et cetera, that we're concerned about. And we're
9 serving our residential and commercial customers who have
10 no dual fuel and essential service.

11 In terms of ongoing efforts, our group in
12 conjunction with the rest of the gas industry has been
13 focused on trying to work on these issues and problems for
14 quite a number of years. I was thinking about coming in
15 today that in September 2012 in Boston, we had a
16 discussion, not dissimilar to all to this in terms or what
17 is the underlying issue, et cetera. And from that point
18 there was various task forces and focus groups that evolved
19 and various studies were put forth, and all of them
20 concluded that there's an underlying infrastructure need
21 for electric generation in the region. And so that's just
22 the backdrop of where we're coming from in terms of our
23 perspective.

24 I want to mention a couple of things about the
25 New England region in particular. The LDC's themselves are

1 dependent upon on the design peak day for about one third
2 of our supply come from peak increases. So there's a very
3 significant limitation that's on pipeline capacity in the
4 region.

5 Another phenomenon that we've been increasingly
6 concerned about is the emergent repairs, the unplanned
7 maintenance, work sources that we've been experiencing over
8 the last three or four years, much more prevalent than
9 historical on the pipeline systems. Often there's
10 maintenances that are required that are sometimes in the
11 middle of the winter. We're in a situation where we've
12 just recently had a force majeure event that reduced our
13 supplies significantly intraday due to the Del Monte
14 unfortunate incident a couple of Fridays ago. And from my
15 companies, for example, we experiences a 90 percent
16 reduction on our deliverance of supply that day. And we're
17 not saying that that was in any way related to gas
18 electric, but it's an example of some of the warning
19 signals that we've been seeing with respect to the pipeline
20 infrastructure and the stresses on the pipeline
21 infrastructure and the limitations in terms of slack on the
22 system.

23 In terms of our own perspective, too, some of
24 our companies have been around since the 1800's, we have a
25 very long-term focus. We've not necessarily interested in

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1 short-term trading opportunities like that; our focus is
2 serving the customer in a reliable manner, today,
3 yesterday, next year, ten years from now, 25 years from
4 now, that's our focus.

5 So when we step back to the situation that we're
6 in right now -- and there was a question by Mr. Howe
7 earlier in terms of the development of electric generation
8 holding capacity -- well, in the 1990's I recall there was
9 a significant buildup of capacity built for electric
10 generations in the New England region that led to a lot of
11 debate about incremental rates and deposal rates, et
12 cetera, but there was a significant buildup in terms of
13 pipeline infrastructure at that point. Over time that has
14 all dwindled and, for example, my company and other of my
15 LDC colleagues have been contracting in lieu and stepped
16 into some of those contracts over the last 16 years.

17 So this is an issue that has been going on in
18 terms of the infrastructure issue since 2004, as Mr. Kruse
19 mentioned. From our perspective in terms of scheduling,
20 tremendous progress has been made in terms of communication
21 over the years. But the underlying issue of the
22 infrastructure, and the funding logjam that we call it, has
23 yet to be fully addressed. That's why we view the
24 Algonquin proposal it be a step in the right direction.

25 A couple of points with respect to the EDC model

1 in particular. I think as we look back over the last four
2 or five years and we think about the efforts to come up
3 with solutions toward the underlying infrastructure issue,
4 this EDC contract model has emerged. And we've been paying
5 some attention to the state reliability program in the
6 various states, obviously they're quite controversial. But
7 again, a step in the right direction.

8 In terms of a couple of other points with
9 respect to the particular section 14.16 that Algonquin has
10 proposed, why we think it's beneficial toward the region
11 and from a gas and electric perspective, is that it would
12 assist the functioning of the EDC model. Certainly,
13 there's been a lot of discussion this morning, certainly
14 the proposal is not perfect at this point. But again it's
15 a step in the right direction in terms of addressing the
16 underlying concerns.

17 In summary, our overall goal is to preserve and
18 enhance the reliability of service provided to our gas
19 customers and offsetting a significant benefit of the
20 proposal, though at Algonquin, is the reliability to
21 electric customers also.

22 We think that the Algonquin section 14.16
23 concept will support the construction of needed gas prices
24 and electric generators, and help to ensure that the new
25 capacity is used for this purpose. So the LDC's in the

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1 region have been the case that have signed up for the
2 recent projects in the area where some of the significant
3 supporters and subscribers to the Algonquin project in
4 Connecticut and recently-suspended Tennessee NED project
5 and the Atlantic Bridge project.

6 So our perspective is we think that when there
7 is a situation where firm needs are necessary, the
8 infrastructure is necessary and needs to be built to serve
9 that particular entity. We think that from a collective
10 perspective that the Algonquin filing and proposal is
11 definitely a step in the right direction.

12 Thank you.

13 MS. FERNANDEZ: Thank you, John.

14 MR. COYLE: Thank you. I don't have any
15 visuals. When I started working on this, it turned out
16 that my colleague in the AG's office Christina Blue wasn't
17 going to be able to make it. I kept coming from to a
18 speech that Warren Buffett's business partner Charlie
19 Monger gave Harvard Law School about 20 years ago called
20 the "Psychology of Human Misjudgment". And if you haven't
21 read it, I command it to your attention. Among those two,
22 a number of decision-making biases that humans have that
23 tend to lead to bad decisions. And I think as we walk
24 through, at least the AG's position on Algonquin's
25 exemption proposal, you'll see some of them at work.

1 Our basic take on this can be summarized in
2 three points: Number 1, the exemption proposal is
3 premature. The state programs in which it is supposed to
4 be an aid do not yet exist. They may never exist. They're
5 hotly contested, and I'll get to some data points on that
6 in the moment.

7 Number 2, in its present form the proposal is
8 discriminatory in the sense of an older line of Commission
9 cases I heard somebody earlier in the discussion on the
10 staff panel cite back to Georgia Public Service Commission.
11 And I think that this proposal exhibits the devices that
12 were noted in the original Georgia Public Service
13 Commission 107 FERC and left as unacceptable under various
14 rehearings.

15 The third thing, and I think this is sort of an
16 overarching point is, it's a mistake to try to second-guess
17 markets. Markets, as everybody knows in this group, are
18 complex things, they are the balancing of a lot of
19 interdependent forces. You have a traditional facilities
20 expansion model under the Natural Gas Act, most recently
21 reformulated I think in the pipeline certificate policy
22 statement. But expansions are market-driven. Merchant
23 generators are not asking you for this capacity, and you
24 need to ask yourself why.

25 Let me go back and now start with a couple of

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1 data points which I hope will be helpful to the Commission.
2 On the first point, prematurity, I would note that on May
3 5th, 2016, the Massachusetts Supreme Judicial Court heard
4 oral argument in Case Nos. SJC-1205-1 and 1205-2 under the
5 caption ENGIE Gas and LNG v. Department of Public
6 Utilities, which is a challenge to the Department of Public
7 Utilities' order of VPU order in 1537 that held that
8 electric distribution companies had the authority to
9 contract for gas pipeline capacity under Massachusetts law.

10 So that premise is at the moment contested in
11 state courts. The supreme judicial decision will issue its
12 decision on review in due course, but there's no current
13 deadline. I think a decision's expected probably after the
14 end of the September 1 suspension date in this case. The
15 currently ongoing VPU proceedings in Docket No. 15-181,
16 which are Eversource's application for approval of it's
17 what they call the precedent agreement or proceeding
18 agreements, would be acquisition of capacity on the Access
19 Northeast project, is currently on a suspended procedural
20 schedule with the hearing officer calling for amendments to
21 the procedural schedule, again will probably produce a
22 result maybe sometime in October in terms of a hearing
23 officer's report, and we really don't know when the VPU is
24 going to act on that. That delay also affects VPU No.
25 16-05, which is the National Grid operating company's

1 application for the same kind of approval. The
2 Massachusetts Electric and the Nantucket Electric in the
3 15181 docket is Eversource and its operating companies, N
4 Star and Western Mass Electric. So there's no driving
5 sense of urgency.

6 The proposal, as has been noted, refers to
7 state-supervised electric reliability programs, but you
8 don't know whether or not those programs are going to
9 exist. I neglected to mention the New Hampshire docket,
10 New Hampshire PC docket DE 16-241, which was filed by
11 Eversource Operating Company Public Service of New
12 Hampshire, in that case on April 28th, the New Hampshire
13 Office of Consumer Advocate filed a brief arguing that the
14 capacity acquisition program is equally unlawful under New
15 Hampshire law.

16 The next point that I wanted to offer also as a
17 data point, is -- I don't think it's a secret in the room
18 but I haven't heard it talked about in the course of the
19 proposal -- is that the project, in aid of which this
20 exemption is sought, is owned 60 percent by the utility
21 holding companies that are in effect of electric
22 distribution companies. The Eversource SEC110K report for
23 2014 states at page 12: "On September 6th, 2014, NU and
24 Spectra announces that Northeast; on February 18th NU
25 Spectra Energy and National Grid, as a codeveloper of the

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1 project for total ownership of 20 percent with Northeast
2 Utilities and Eversource, and Spectra Energy each owning 40
3 percent."

4 So there's a certain amount of opportunity here
5 for this venture, to put it as neutrally as I can. The
6 proposal is discriminatory in the sense that it creates a
7 class of customers, EDC's, which have a set of rights with
8 respect to the capacity that nobody else has.

9 Spectra has argued, Algonquin has argued, this
10 is fair because the retail electric customers are being
11 called unsupported. The problem is, as that line of
12 Commission precedent rooted in Georgia Public Service and
13 carried forward I think most recently in Order 809 -- I
14 can't remember the footnote, sorry -- anyway, retains
15 vitality in the anti-discrimination requirement, that you
16 can't have a preferential exemption from capacity bidding
17 requirements. And this is in its current formulation a
18 preferential exemption. Can you fix it? I don't know,
19 maybe.

20 One of the ideas we toyed with is the
21 possibility of requiring -- and I heard this discussed by
22 staff -- someone requiring this capacity out of release
23 paid maximum price for it. And the problem is you then get
24 into the sort of convoluted relationship between the
25 financial obligations of the electric distribution

1 companies' retail customers and the need to maximize cost
2 recovery there, and whether that capacity would be
3 optimally absorbed. It's a very complex business
4 arrangement because it takes decisions that Commission
5 policy generally commits to the marketplace out of the
6 marketplace.

7 Now, my third point is it does so in the context
8 of a claimed crisis of constraint on Metrogas
9 transportation system in New England, as to which there is
10 considerable debate whether or to what extent that system
11 is actually constrained. While Eversource has pointed to
12 an ICF study as part of their VPU filing, Mr. Daly averted
13 to in his remarks today, there are studies including one by
14 the analysis group done for the Attorney General's Office
15 which point to the opposite conclusion that the system is
16 not, in fact, currently constrained and won't be for some
17 time. There's another analysis by Skipping Stone, an
18 energy consultant and law foundation which comes to a
19 similar conclusion. I'd be happy to post those, file them,
20 tender them, if they're of any interest to the staff. But
21 I don't think it's wise to accept at face judgment the
22 notion, a topdown notion, that there is a problem with
23 infrastructure that the market is not telling you is a
24 problem.

25 Collateral to that point, I think you have

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1 received some input in this proceeding that indicates that
2 merchant generators in New England have adapted to the
3 demands of the natural gas transportation system. I noted,
4 for example, in the Calpine NRG and PSNG joint intervention
5 in this case, the authors of that intervention noted that
6 there are a number of pretty creative brokerage
7 arrangements for delivered gas that the merchant generators
8 use to circumvent the pipeline constraints. One of the --
9 again, going back to the Skipping Stone study -- there is
10 underutilization of liquefied natural gas capacity
11 currently to the system.

12 And finally, I think, although I was told not to
13 stray too far into the electric market, I wanted to offer
14 you one interesting data point about the effect of
15 something that the Commission had authorized back in 2014,
16 sorry, ISO New England pay for performance regime which
17 penalizes merchant generators with a capacity obligation
18 for not producing when called upon.

19 The penalty structure is fairly onerous. The
20 penalty starts as \$2,000 a megawatt hour for energy not
21 produced in 2018, June 1, 2018, power year, that ramps up
22 to \$5,455 a megawatt hour in 2024, and thereafter. That is
23 a serious incentive to make sure that if you go and take
24 supply obligation you have firm fuel.

25 One thing that the marketplace has done about

1 responding to that, aside from creative arrangements for
2 gas transportation, is that if you take a look at the last
3 two forward capacity auctions in New England, the
4 successful bidders for capacity supply obligations, fossil
5 fuel capacity, have with one exception installed dual fuel
6 units. That translates to -- and I can provide the units
7 and the names if you want -- but in FCA9 a total of 965
8 megawatts of new fossil fuel capacity of which
9 approximately 875 were dual fuel.

10 In capacity auction 10 just concluded back in
11 February there was a total of approximately 1,300 megawatts
12 of new fossil fuel-generating capacity, all of which was
13 dual fuel. Over the two most recent forward capacity
14 auctions, they've added a total of 2,268 megawatts, of
15 which 96 percent is dual fuel.

16 Why is that useful? I mean, it is useful to
17 you because you're being told by Algonquin that the price
18 signal that is supposed to incent or signal the need for
19 new pipeline capacity has been broken. And I think that
20 argument is fundamentally untenable in the context of the
21 Natural Gas Act. I'm referring to Algonquin's answer to
22 protest on page 12, and I'll quote it: "Price signals for
23 new pipeline capacity are currently broken due to the
24 separate ownership of generation transmission and
25 distribution."

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1 When customers are not willing to commit to
2 long-term firm pipeline capacity, despite the existence of
3 persistent peak period shortages, the appropriate signal
4 for Algonquin to expand is not protected."

5 I could say a lot of things about my friends
6 in the merchant generation business, but I'll say two in
7 this context: (1) They're not stupid; and (2) They don't
8 like to lose money.

9 I would suggest to you that what you're really
10 seeing here is, on the generation side, a financially
11 self-interested, market driven response to whatever
12 stimulus the merchant generators are encountering. But
13 they are responding, and they that's responding just fine.
14 It isn't a question of price signals being broken; it's a
15 question of price signals operating in a way that is not
16 understood in the context of a traditional topdown utility
17 planning and operation.

18 We're not dealing in a system of integrated
19 resource planning anymore, and that's the link that's been
20 broken. But it has not broken the market and it has not
21 broken the price signals, the price signals are just
22 operating, it hasn't been understood perfectly.

23 The idea that Algonquin's exemption proposal
24 somehow replaces the price signal that needs to come from
25 its market with a price signal that comes from EDC's I

1 think is a dubious proposition because I don't think that
2 the retail customers who are supposed to be the ultimate
3 beneficiaries of this have actually been heard. And that's
4 my job.

5 So I thank you for your attention.

6 MS. FERNANDEZ: Thank you, John.

7 Next, we have Craig Adams.

8 MR. ADAMS: First of all, I want to thank you
9 for the statement that merchant generation isn't stupid.

10 (Laughter)

11 As a fuel guy at a power company, it's rare to
12 be told I'm not stupid, so I really appreciate that.

13 Again, I'm Craig Adams. I'm director of gas
14 supply for Calpine Corporation. I appreciate the
15 opportunity to join you here today and give you some
16 perspective as to how merchants operate and gas procurement
17 in a deregulated world.

18 I just want to try to share our perspective so
19 that staff or any other interested parties might understand
20 the role of capacity release products hopefully play in our
21 market. So what I'm going to do here is, you know, rather
22 than speak to the merits of the Access Northeast project, I
23 want to speak specifically about -- I want to talk about
24 what Calpine does and why we think we have a unique
25 perspective to bring on gas procurement policies and things

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1 of that nature, and then speak specifically to the waiver
2 rather than to the merits of the overarching conversations
3 we've had.

4 So Calpine, we are -- we own and operate a
5 national fleet of gas-fire generation, we got significant
6 serial in all U.S. competitor power markets. As you can
7 see here, we have roughly 27 gigawatts in generation at
8 eight world locations. We got 17 gigawatts of combined
9 cycle generation. We're the largest in that market in the
10 U.S. We got 6,700 megawatts of combined heat and power, or
11 commonly known as co-generation, in the lower 48. We're
12 also the largest participant in that market segment. 2,900
13 megawatts in simple type of peakers.

14 In California, we've got just under 730
15 megawatts of renewable generation, that is geothermal in
16 Northern California. We're the largest geothermal producer
17 in the country. The average age of our fleet is about 11
18 years, average heat rate for the fleet is about 7,400 BTU
19 per kilowatt.

20 We generated last year just under 115 megawatt
21 hours in 2015 under, I think, conditions anyone would be
22 challenged to disagree were challenging. We operate in
23 three geographic segments of roughly equal size.

24 We've got 7,400 megawatts out West, including
25 725 megawatts in geothermal. We've got 900 more megawatts

1 in Ercott. And then the East, which is everything east of
2 the Rockies including our Canadian assets, is 10,400
3 megawatts of generation. We're the largest gas-powered
4 generator in the country. We're the largest industrial
5 consumer of natural gas. We consume an average of 2.4 BCF
6 per day, day in and day out. In 2015, we burned 878
7 million cubic feet of gas.

8 Our total cost on gas supply was about \$4.5
9 billion, approximately 200 million of which was direct
10 transportation storage cost, almost every case that falls
11 directly to our bottom line.

12 Natural gas is the primary fuel for our entire
13 fleet, we use renewables out West, and we have significant
14 backup capability in the East using ultra-load sulphur
15 diesel. Now, I want to qualify that statement by
16 reinforcing that it is ultra-load sulfur diesel that is the
17 same fuel that is used to fuel over-the-road trucking. The
18 oil when you traditionally refer to an oil-fired
19 generation, you're talking about residual fuel. And we
20 have no residual fuel on our fleet, at least none -- be
21 have a small unit in Delaware that never runs. But the
22 realities of dual fuel facilities now using ultra-load
23 sulphur diesel as compared to the bad old days of RFC are
24 significantly different.

25 So, continuing on, again -- I got ahead of

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1 myself here -- we manage all of our commercial operations
2 from our Houston trading port. Just to give you a point of
3 reference: If the gas desk were an independent marketing
4 entity, we'd be a top-15 marketer by size. Effectively,
5 we're a top-15 aggregator with one customer, our power
6 front desk. We're currently active on about 40 pipelines
7 with interstate and intrastate and monitor virtually every
8 interstate and pipeline in the country on a regulatory
9 perspective.

10 How do we fuel our fleet? Well, since we're a
11 gas-only generator, we have to have a particular degree of
12 expertise in gas procurement, logistics, and optimization.
13 I use that order very specifically because optimization is
14 not the first thing on our mind. Fueling the fleet in the
15 most efficient manner is why my group exists.

16 There's a wide variety of commercial products
17 and structures that we use to fuel the fleet and to manage
18 our risk. We will buy gas on any number of different
19 vendors. We've got some mid-term about three to five
20 years. Day-ahead and generally the most common products,
21 and then we also buy intraday.

22 Now, I want to qualify that by pointing out
23 that in most cases, and in every case in New England, we're
24 in a fairly significant amount of risk when we go out and
25 buy gas for turn, because in almost every case power clears

1 on a day-ahead basis, if not real-time. So we're talking
2 some risks by locking gas up for, for instance, the month
3 of June, unless there is an over-the-counter market that
4 allows us to manage that power risk.

5 It's rarely the case that there's enough
6 liquidity in the marketplace for us to buy all of our gas
7 needs forward and match that power risk, but that's one of
8 the educated risks that a merchant generator has to take.

9 We also use backup fuel fairly regularly, and I
10 mentioned sulphur diesel. I'm going to nod my head down at
11 the end of the table to Repsol and ENGIE, they both play
12 vital roles in how we manage our fuel obligations in New
13 England. We do have some transportation and storage
14 services that are managed internally, but the largest
15 source of our supply in New England is firm-delivered
16 supply.

17 So what is firm-delivered supply? For the most
18 part in New England, we're buying a delivered product.
19 While Mr. Kruse said that only 8 percent of the firm
20 transportation on Algonquin serves the generators, I think
21 that would be a point that would have relevance if it were
22 true that there were not other transportation holders in
23 the marketplace such as Repsol, such as third-party
24 markers, and also if the LDC burn gas every day; neither
25 one of those is the case.

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1 The most common -- we really have two mixes of
2 suppliers in New England: Third parties that have capacity
3 but aren't necessarily are LDC's, again, I'll point to
4 Repsol and ENGIE. Now, we have some fairly significant
5 inhouse experience with asset management. Calpine does not
6 get involved with asset management directly. We have had
7 some conversations with asset managers such as Tenaska,
8 Sequence, VP, about how we could partner up with them. We
9 feel like we would provide a unique value opportunity in
10 that regard because, as I mentioned, we burn a lot of gas.

11 So to the degree that an asset manager is
12 bidding to manage a suite of assets on behalf of utility,
13 we can provide the asset manager with a certain value that
14 they can monetize the off peak piece of that fairly
15 effectively. Now, I say off-peak because that capacity is
16 only available if it's not needed by the incumbent utility.
17 We understand that. The asset manager understands that.
18 The generator can only use capacity that goes unused by the
19 LDC. If we can't be served by such capacity, we make the
20 decision to go out and buy spot-delivered gas or burn oil,
21 and bid the unit into the ISO accordingly. Again, I
22 appreciate Mr. Coyle alluding to the fact that we do
23 actually try to think ahead and try to think about these
24 things a little strategically.

25 The term "interruptible services," I cannot

1 remember the last time we scheduled IT other than for
2 something that was to correct either a cleanup mechanism
3 post-cycle or about something that was not a significant
4 part of our portfolio, it hasn't been for quite some time.
5 Our procurement strategy changed in real-time. We will
6 ramp a plant up and down based on orders from ISO New
7 England. We will reset our offers to the degree that we
8 can as gas supply, prices change in intraday markets, we
9 keep ISO New England informed of those decisions in
10 real-time. Every plant is different every day. So we try
11 to stay ahead of that by monitoring forward price dynamics.
12 We got our own inhouse meteorology staff that actually does
13 a pretty good job of keeping us on top of the weather
14 changes and allows us to be proactive in supply planning.

15 So with that being said, let's proceed to our
16 New England assets. I know that the organization NESCO has
17 been mentioned more than once here. We have worked very
18 closely with NESCO; I've given them presentations both at
19 the NESCO level and at the independent state level several
20 times. So we are happy to work with them.

21 As far as our New England fleet, we have three
22 of the newest combined cycles of facilities in the world.
23 There are 1,500 megawatts of maximum gas loads with about
24 400,000 decaterms per day. The minimum can and has been
25 zero, not due to constraint, due to market conditions. So

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1 what that means is that power prices have been so low that
2 it has not been economic for us to run any generation for
3 fuel. That's another dynamic of being a merchant
4 generator.

5 The first facility we have in the upper
6 left-hand corner is our Upper Circuit. This is a 552
7 megawatt two-by-one combined cycle facility just west of
8 the airport in Bangor, Maine. That facility went
9 commercial in 2001. Calpine bought those and built the
10 project and has owned it ever since. Fuel for this plant
11 comes from the joint facilities of Maritimes and Portland
12 Natural Gas Transmission. We have dedicated a lateral from
13 Maine natural gas to max load of 90,000 a day. I have been
14 responsible for this plant for the last four years, and
15 prior to that had looked to see how the plant was fueled.
16 The amount of the gas has been delivered to that plant for
17 the most part, I would say 95 percent of it has been
18 delivered on firm contracts held by third parties, Repsol
19 in particular; and then we have a long-term relationship
20 with a marketer out of Canada that brings the gas across
21 the top out of PGTS. Cray Energy Center on the top-right
22 corner, this is the newest piece of our fleet, we just
23 acquired it in early 2016. 745 megawatts and two-by-one
24 combined cycle facility just west of the airport in
25 Manchester, New Hampshire. I promise we don't use airports

1 as a primary siting tool, that's just where these two
2 happen to be.

3 (Laughter)

4 We get -- AES built this plant. We acquired it
5 early this year from the projects owners, a group of
6 private equity companies. This plant is fueled by
7 Tennessee Gas via a dedicated lateral from Liberty
8 Utilities with a maximum load of 130,000 a day. This plant
9 does not have dual fuel, so we do hold firm transportation
10 on Tennessee Service Plant.

11 Finally, we've got Foreriver Energy Center down
12 on the bottom left-hand corner. This is a 731 megawatt
13 two-by-one facility plant southeast of Boston. The plant
14 went commercial in 2003. We acquired it in late 2014.
15 This is fueled directly from Algonquin via -- we're one of
16 the southernmost meters on hub line, have a max load of
17 120,000 a day. We have -- I wish we had this much diesel
18 storage everywhere, because we've got 4.5 million gallons
19 onsite and then have access to a waterborne terminal with
20 spray guns across the ship channel. So we have access to
21 all of the backup fuel we would ever need. Because we're
22 in Algonquin, we're actually able to get a discount in the
23 index.

24 We also have a retail provider that has
25 recently become active in New England, Champion Energy

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1 Service, retail, commercial, and industrial marketer active
2 in Maine, Connecticut, and Massachusetts and again, we play
3 a very significant part of our supply mix, both tactically
4 and in the day-to-day market and long-term.

5 So with that being said, let me kind of draw
6 this up into a conclusion. We appreciate that this
7 proposal is tangential to the broader New England
8 dialogues, and that is ongoing. First, is this individual
9 pipeline capacity needed? I don't -- I can't answer that
10 question, but I can point out that we've participated in
11 all three open seasons offered by Algonquin at least
12 informally, Algonquin incremental market and Access
13 Northeast. We've not been able to reach terms with Spectra
14 because they weren't selling a project that we could
15 necessarily fit into our business model.

16 Is the goal to increase reliability or decrease
17 prices if additional pipeline is needed? I'm not really
18 convinced that the retail choice programs are the proper
19 analogue for this, but I'm open to suggestions. Who pays
20 for the pipeline capacity and how do we get allocated to
21 the generators via reliability mechanism?

22 That being said, the only issue before the
23 Commission in this docket is whether the proposed tariff
24 modifications to provide Algonquin with a waiver of
25 capacity release rules is necessary.

1 Calpine believes, our experience has
2 demonstrated that the missing tools provided by capacity
3 release and the template provided via Order 712 are more
4 than adequate to address any concerns raised by Algonquin,
5 and by inference, the electric distribution companies. The
6 existing rules provide a liquid and transparent market for
7 pipeline capacity with broad participation.

8 The rules as they exist now are
9 non-discriminatory. They have a well-established record of
10 functionality and involved industry-wide standards. This
11 labor would impede the performance of a market if all
12 energy engaged, even tangentially, in the remaining gas
13 supply. These were not a barrier to construction in new
14 pipeline projects. These projects must stand on their own
15 economic merits, none of the many pipeline projects
16 implemented or proposed recently, including the Algonquin
17 projects that have already entered construction or have
18 been built.

19 A pipeline proposed built without this
20 proposed waiver would mitigate pipeline constraints,
21 therefore, reducing basic differentials and price
22 volatility. This waiver is therefore not needed to provide
23 benefits to electric customers. Further, the proposed
24 capacity would be available only to a subset of mutual
25 generators, those who would be served directly by

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1 Algonquin. This would clearly establish a significant
2 price disparity between generators served by Algonquin and
3 that goes to other regional pipeline or directly by LNG.
4 This is inconsistent with the manner in which prices are
5 formed in a uniform cleared power market.

6 In summary, Calpine believes strongly that labor
7 should be rejected. We are happy to confer with Algonquin,
8 the electric distribution companies, or any other
9 interested party to discuss the dynamics of the fuel
10 procurement in the East and explore ways to further improve
11 the tools we all use to provide reliable and cost-effective
12 gas power from New England.

13 I thank you for your time.

14 MS. FERNANDEZ: Thank you, Craig.

15 Next, we have Joe Dalton from ENGIE.

16 MR. DALTON: Joe Dalton, ENGIE Gas and LNG.
17 Commissioner and staff, thank for the opportunity to let us
18 share thoughts of ENGIE with you on this issue today. Like
19 Mr. Coyle, I do not have a prepared presentation. Like
20 Mr. Coyle, some of his very legitimate points are very
21 similar to the points that I was going to raise, so that
22 will reduce the time that I will need to make this
23 presentation as well.

24 What I thought I would do was just a little
25 bit of background on ENGIE and how we came to be interested

1 in this topic, a little bit of additional color on one of
2 our principal concerns which is that this is premature.
3 And then our view of the capacity release program
4 generally.

5 So ENGIE gas and LNG imports liquefied natural
6 gas into the import terminal up in Massachusetts. For gas
7 that pre-gasified or vaporized gas and liquid, and we can
8 do that simultaneously. We have 3.4 BCF of storage onsite.
9 Our install re-gasification capacity is 1 BCF a day, and we
10 can do 100 trucks for 100,000 mmBPU's. Our maximum single
11 day send out to the Algonquin system is in excess of
12 276,000. Our maximum delivery day to the system is in
13 excess of 737,000 mmBPU's.

14 We can process 210 BCF of LNG per annum. We
15 connect directly into the two existing interstate natural
16 gas systems serving New England, the Tennessee system, and
17 the Algonquin system. We also directly connect into
18 National Grid's distribution system to the Boston gas
19 system, and we have a direct connection to the Exelon
20 Mystic Power Station. And we serve this systems, as has
21 been discussed, moving gas from east to west, so on a
22 back-haul basis. So that's a wrinkle in the discussion of
23 constraints that are coming into the system. We can
24 actually move gas into that direction. And on peak days we
25 tend to be able to move more of it on a back-haul basis.

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1 And our send-out can be varied from an hourly rate from
2 zero to 31,000 mmBPU's per hour, and we can also back a no
3 notice service out of our facility.

4 So we have kind of unique capabilities. The
5 back-haul access to the system gives us a perspective where
6 we have a great deal of concern about the fact that this
7 request to serve similar customers with similar needs in a
8 highly preferential way reduces our ability to serve those
9 same customers and reduces our market. With respect to the
10 notion that this is a premature issue, I would note that in
11 addition to the filings Mr. Coyle referenced, there is also
12 yet to be introduced a request for proposals from the
13 Department of Energy and Environmental Protection in
14 Connecticut or the Public Regulatory Authority. So
15 Connecticut has yet to enter into discussions on the issue.
16 But the characterization that states in determining how
17 much of this capacity they want is also premature. The
18 very legality of whether or not they can access this
19 program is at stake.

20 In New Hampshire, for instance, in the order
21 issuing in the New Hampshire PNC Order 25860 issued on
22 January 19th, the Commission, and I quote, said: "It is
23 clear to the Commission from a review of the staff reports,
24 stakeholder comments, and ancillary materials made publicly
25 available through this investigation that no consensus

1 exists regarding the potential legality of such an
2 acquisition of gas capacity by New Hampshire EDC." And
3 then goes on to say that they would bifurcate the process
4 and in describing the first phase of the process, the
5 Commission would review briefs submitted by the petitioner
6 EDC, staff, and other parties, regarding whether such
7 capacity procurement is allowed under New Hampshire law.
8 If the Commission were to rule against the legality of such
9 acquisition, the petition would be dismissed.

10 So when we talk about this issue being
11 premature, it's not really in the abstract. And as
12 Mr. Coyle referenced just last Thursday at the Supreme
13 Judicial Court, there was a very active litigation
14 occurring with respect to whether or not, in fact, the
15 Massachusetts Department of Public Utilities has the
16 authority under existing laws and in exercise of that
17 authority would be consistent with the Restructuring Act to
18 have sustained its assertion of its authority under those
19 provisions.

20 So again, I would just note that I don't think
21 these are abstract concepts. These are important
22 considerations for you in your deliberations on this
23 matter.

24 And the final thing I would say I think on
25 this is just that -- as an entity that moves natural gas

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1 over these pipes on a back-haul basis to serve the same
2 customers as being contemplated in this request, we feel
3 pretty strongly that special access provided through this
4 waiver to subsidized capacity is not good for consumers, is
5 not good for a well functioning market, and is not good for
6 participants like ENGIE that rely on fair and impartial
7 treatment as participants in these markets. And I've
8 intentionally kept it brief so that we can stay on target.

9 Thank you for your time.

10 MS. FERNANDEZ: Thank you, Joe.

11 Next, we have Kathleen Barron from Exelon.

12 MS. BARRON: Thank you. We do appreciate the
13 Commission scheduling this conference. And I think one of
14 the reasons that it's important is because this has been
15 portrayed as sort of a one-off kind of thing, it's limited
16 its target, it's narrow. But if it is approved here, it is
17 a reflection that it can be approved across the country as
18 more gas generation comes on line. So it's very important
19 to do what you're doing here today and dig into what are
20 the details and is it really necessary?

21 I'm here on behalf of Exelon. Like Calpine, a
22 major generator in the U.S., also a major utility company
23 in the U.S. In New England, we have 2,500 megawatts of
24 generation, we're a major competitive retailer serving
25 loads and a significant gas marketer.

1 I'm going to address two issues, one is the
2 narrow issue of the waiver itself, whether it's justified
3 on this record; and then more broadly, I'll say a few
4 things about the potential underlying state programs and
5 how they could affect both the market -- and I think
6 conflated those two topics and I'd like to keep them
7 separate.

8 On the issue of the waiver, I think it is a
9 very, very narrow question for you. If the waiver is not,
10 it's not going to stop the pipeline expansion. According
11 to the EDC and the statements they made in the state
12 proceedings, they will go ahead with or without the waiver.
13 The programs that you heard are not yet finalized, so
14 therefore there is no condition in the state program to
15 have this waiver in place. In the Massachusetts case in
16 particular, there was a motion to stay filed in that case
17 pending the outcome of this case. And in response, both
18 National Grid and Eversource said that although the
19 discriminatory releases are preferred, they're not required
20 for them to invest in the pipeline explanation.

21 So in our view that means there is no exigency
22 to this situation that requires a Commission to display
23 what its policy has been for a long time and policy that
24 worked quite hard to develop. It's also notable that there
25 are no states in the docket asking for the labor while they

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1 sort out the legality of their state programs they easily
2 could have come in and asked the Commission to grant the
3 waiver in the event that the state programs go forward.
4 None of them did that. The only thing the state
5 represented here is telling you to stop.

6 So I think that's an important point to
7 acknowledge as well. So in our view, there has been no
8 reason presented to change the policy now. When the
9 Commission has looked at changing its capacity release, it
10 has done so using a rulemaking process with a whole lot of
11 attention to the details of the program being examined and
12 sorted out over a long period of time. That has not
13 happened here.

14 And so our view is that the waiver should be
15 rejected and that the state programs should continue to
16 proceed in the state commissions. And if there is a need
17 for the waiver down the road after the details have been
18 sorted out, then the companies can re-file for it.

19 As I said, I also would like to take a few
20 minutes to talk about the potential state programs and
21 offer a few points about how to think about their effect on
22 the wholesale market. The Commission isn't doing anything
23 about the state programs of course. It's more than just a
24 waiver question. But it is, I think, relevant to start to
25 think about that. The first point is that the premise of

1 the program seems to be that electric generators are not
2 going to buy expensive firm transport.

3 I think Anna, your question got to this
4 directly, this is not a question of timing of mechanics,
5 this is one of price. And the point is it is too
6 expensive, we should make it less expensive by having the
7 EDC's customers pay the capacity in running the generators
8 at a deeply discounted price. So let's test that.

9 What do we know about what gas ultimately will
10 contract for firm capacity? We heard a lot today about the
11 multiple types of options that are available to customers
12 -- generators to obtain firm delivery from marketers.
13 Pay-for-performance has not taken effect yet, so we don't
14 have sufficient data to know whether that program will
15 incentivize gas generators to sign up. The only thing I
16 think we do know is that to the extent there is a waiver
17 granted here that they most likely are not going to sign
18 up, because if they think there's going to be below-market
19 capacity available from EDC's then they'll wait to see what
20 that looks like.

21 If we were to conclude, however, that gas
22 generators are not sufficiently investing in firm transport
23 and we simultaneously think that there should be more
24 investment in pipeline expansion even after the Access
25 Northeast is complete, then what should we do about that?

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1 And it seems to me that there are a couple of options, and
2 I thought I'd use the language Chairman Bay used in his
3 descent of the PJM capacity performance base, as you might
4 be very familiar with. He talked about things from the
5 perspective of carrots and sticks.

6 So we could create a carrot or two, or we
7 create a stick or two, or we could do both. And so this
8 really takes you to question of what's going on in the
9 electric markets that could change that incentive about the
10 generators. And there's two points to make here, one is in
11 the capacity market side where currently there is no way to
12 recover from capacity costs for gas transportation capacity
13 costs in the electric capacity market. Both costs would
14 not be included in a bid selected to a pipeline now and
15 want to contract for firm capacity. And likewise, because
16 of the nature of the energy market, there's no opportunity
17 to recover in the energy market firm capacity cost
18 generators are required, they're variable costs there, so
19 an investment in firm transport is not able to be reflected
20 in an energy bid. Those two things could be changed or one
21 of them could be changed in the nature of a carrot, in the
22 nature of a stick. Of course, I know as Mr. Daly pointed
23 out, we have very significant performance penalties that
24 will take effect in 2018. Those penalties could be
25 increased if the Commission or the ISO or other market

1 participants think they were not sufficient, they could go
2 up.

3 But the point here is if the electric rules, if
4 there's a problem with them we should address the problem
5 with the electric rules, not create exceptions to the gas
6 rules. One of the points, the point of course of
7 pay-per-performance, was to put the risk of non-performance
8 on generators on customers, and the state programs sort of
9 flipped that and put the cost of the pipeline expansion on
10 customers instead.

11 The second point is that the effect on the
12 market of pushing through new pipeline capacity if there
13 isn't sufficient interest on the part of the parties
14 investing in that capacity of price is necessary so that it
15 is significant. We've operated this market on the
16 understanding that a price signal for a new capacity is
17 going to reveal itself when it's necessary, and if there is
18 no price signal then you shouldn't be investing but
19 subsidizing the capacity. I heard Commissioner LaFleur
20 compare this as sort of the methadone clinic of subsidy
21 arguments, once you subsidize one pipeline or one
22 infrastructure, then there won't be merchant investment the
23 next time around without another subsidy and that's the
24 case here.

25 Given that the under-recoveries of the

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1 expansion will be recovered from customers, the EDC's do
2 not have the same incentive to demand the highest possible
3 price, hence they are asking for a waiver to allow
4 generators to pay less. And cognitive of this reality,
5 generators in turn have little incentive to offer for the
6 capacity because they're sheltered from competing in the
7 market from other market participants.

8 And another point is that the discriminatory
9 release rules, since they bar generated from rereleasing
10 the capacity as we have discussed this morning, that could
11 further depress the price because the generators don't have
12 any recourse of reselling that capacity, so they're not
13 going to have an incentive to bid very high for it.

14 We also wanted to note, and this is reflected
15 in the record, that building more pipeline subsidies is
16 going to undermine the diversity of the marketplace. It
17 can target for existing base load state of the market, new
18 LNG sources to come. Here we always talk about wanting to
19 decrease over reliance on natural gas generation, but by
20 providing such a strong advantage here, this will push
21 others out of the market. At the moment, we have 9
22 gigawatts and growing to 11 gigawatts of dual fuel
23 capacity. We have had lowest energy price year last year
24 since competition began. These were all -- if you look at
25 it from that perspective -- good developments, we're going

1 in the right direction, and we want to keep that push
2 going. And despite all of that, there actually is
3 investment in pipeline capacity we've talked about today,
4 we're not seeing any in this waiver to achieve it, but
5 Algonquin is developing a couple of projects, Connecticut
6 expansion is in development. So it's not true that we
7 don't have any market signals for new capacity coming in.

8 The last point is really just the bigger picture
9 going back to the basic strategy of the state programs in
10 thinking that firm transport is too expensive and trying to
11 make that cheaper. To state the obvious, these programs
12 are not the only attempts by states to change the economics
13 of the markets they care about. Commission has stated this
14 issue in a number of jurisdictions in Ohio, Maryland and
15 New Jersey. When there is an attempt like this to change a
16 market design that the Commission has approved its market
17 redesign, but when the Commission has already taken a
18 number of steps in the winter reliability program, its gas
19 generator fuel policy is a good reason to let those
20 policies work and not second-guess them.

21 So I look forward to questions.

22 MS. FERNANDEZ: Thanks, Kathleen.

23 Next, we have Vince Morrissette.

24 MR. MORRISSETTE: We've got handouts, too, if
25 whoever wants a paper copy of it, we'll have some.

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1 Thank you, Commission, for allowing us to be
2 here today and express Repsol's concerns and express our
3 opinions on the proposed gas release and the EDC's. I'm
4 going to go through this fairly quickly; I know I can get
5 through it under 15 minutes. Some of the information has
6 already been covered. But anyway, here we go.

7 Proceed straight to slide 4. I'm going to give
8 you a background on what Repsol's position is in the
9 Northeast U.S. and why we're interested in this issue.
10 Repsol owns all the capacity at the Canon Port LNG area and
11 St. John and New Brunswick and BCF capacity. The facility
12 has 10 BCF of storage. We have 730,000 capacity of gas
13 through Maritime's pipeline into Algonquin and Tennessee.
14 We have been in service since 2009, have been actively
15 trading in the region since 2008. The peak send out today
16 of about 950,000 decaterms a day. We also, last year,
17 implemented a power-trading group, and we are currently
18 tolling at these plants in the New England region, with a
19 vest interest in power trader and gas in that region.

20 Just to talk specifically about the past
21 utilization on AGC: AGC currently has west-to-east
22 capacity of approximately 1,350 decaterms a day. The only
23 fees we've heard on vast majority of that capacity, and
24 always have, they utilize all of that capacity on peak
25 winter days during the rest of the season primarily in the

1 summer when demand is low they only utilize about 20 to 30
2 percent of that. So you can have in excess of 1,000
3 decaterms a day of capacity available for the discretionary
4 markets which is primarily power, so keep these numbers in
5 mind.

6 On peak winter days, the market relies on
7 back-feed supply for these discretionary markets, primarily
8 once again Power Gen. So every LNG, Canon Port LNG,
9 Portland Natural Gas, other indigenous supply on Maritime
10 that support the Northeast Gateway offshore facility. And
11 all of those sources have been very successful over the
12 last several years, peak demand providing supply to the
13 market in lieu of existing BCF and aggregate in many
14 situations.

15 With respect to capacity growth on Algonquin,
16 talking about how much capacity is needed, currently have
17 the aim project under construction, that it's going to
18 bring 300.2 a day of new capacity on Algonquin. The
19 Atlantic Bridge project is under review, that's 136,000;
20 once again, both of those are primarily supported by the
21 LDC's. I think both of those will certainly go into
22 service. That's a total of 478,000 a day of new capacity
23 with the, of course, ANE project with another 900,000 on
24 top of that.

25 As we've heard in the current forward-capacity

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1 market auctions, there's been about 2,300 megawatts that
2 have cleared through the current auction -- I have "2,700"
3 there, I think that's a typo. But anyway, that represents
4 about 500,000 dekatherms a day of demand if all of those
5 units peaked at once.

6 So given this, you've got 407,000 a day of new
7 capacity coming, it's going to be already added to the
8 system. You've got very, very limited growth potential in
9 the overall electricity market. Granted, gas has taken a
10 bigger portion of that, but I don't know how long it will
11 continue to grow at that pace. It seems like the primary
12 impact of ANE will be to create a lot of additional excess,
13 unutilized expensive capacity that's going to diminish the
14 value of the existing capacity on Algonquin. And that's
15 where the capacity release rules really come into play.

16 You've already seen this graph, once again the
17 900,000 represents about 5,000 megawatts of aggregation
18 areas that they could find. Going to the next page, and
19 this is really the crux of my presentation, this page shows
20 the actual innovate nominations on Algonquin going back
21 five years, five years, five winters essentially. The band
22 in red there at the bottom, that represents the
23 residential, commercial industrial demand, primarily the
24 LDC load. The grand power generation was -- the first sold
25 red line represents that 1,350,000 of capacity on

1 Algonquin. When you go beyond that line you are exceeding
2 the capacity, you see the squiggly black line above that,
3 that represents those back-feed supply sources feeding the
4 system. Then I've superimposed the expansion projects on
5 there. The first dotted line, the blue dotted line,
6 represents the AIM project, 342,000 a day; next 136,000 of
7 the Atlantic Bridge project, that's the orange dotted line;
8 and finally you go to the top dotted green line, that
9 represents that ANE capacity. The shaded red area is right
10 below the red line, that's the available capacity that is
11 currently unutilized during the summer.

12 Granted, during the summer they have
13 maintenance outages and other things on a short-term basis
14 to limit their capacity. But overall that shows the
15 available capacity. If you'll note on the green there, the
16 max power gen load in the summer has been somewhere between
17 700,000 and 800,000 a day on a peak basis. Keep in mind
18 once again we're adding 900,000 and proposing that 900,000
19 give them preferential right to capacity release. That's
20 very significant.

21 In the winter once again the back feed supply
22 sources are able to compensate for that. And you've got
23 the additional 486,000 a day of new capacity coming on
24 line. So I think, number 1, it's premature to provide this
25 exemption, getting the cart way ahead of the horse, as far

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1 as where the Access Northeast project is in its current
2 state of development. And then, number 2, at the very
3 least, that would diminish the capacity or the value of
4 that existing capacity on the system.

5 Going on to slide 9, this is looking at the
6 current spread between Central N3 and ADC which represents
7 the market value on capacity of Algonquin. The N3 prices
8 is essentially that price at Lambertville where gas comes
9 into the farthest western inlet to Algonquin, and of course
10 the Algonquin price represents the market price in
11 Algonquin. So you're looking at an average basis, if you
12 will, of 88 cents per decaterm from 2008 and on. Solving
13 an 88-cent problem with probably at least two dollars worth
14 of capacity doesn't seem to be the best economic decision.
15 And also putting all this additional capacity in the market
16 is supposed to of course reduce that basis, which would
17 reduce the value by that capacity obviously.

18 So it begs the question once again: If that
19 goes forward and if those results happen, why do you need a
20 preferential capacity release mechanism for the EDC
21 capacity holders? Why isn't it just thrown in with the
22 same trunks with all of the other available capacity on the
23 system?

24 Going on to slide 10, and I've covered a few of
25 these. But once again, the pros of exemption for the EDC's

1 gives the New England preference over the existing capacity
2 on ADC which certainly is keeping the value of that. Key
3 questions are whether or not generators will be caused to
4 take assignment of the more expensive aid in the capacity
5 in lieu of that what's available in the current market. In
6 other words, like I showed earlier, you got that peak of
7 about 700, 800,000 a day in the summer, that represents all
8 of the demand on ADT power gen, that will grow a little bit
9 or maybe significantly, regardless there's plenty of
10 capacity there for it. So for those generators, instead of
11 going to the open market and getting that capacity that's
12 existing today, are they going to be forced to utilize that
13 next prong that ANE capacity or the Access Northeast
14 capacity at a higher price? Why aren't they just thrown in
15 the same pool of capacity and let the market once again
16 determine which capacity gets released to them and at what
17 price?

18 It's hard to envision a scenario given the
19 excessive amount of capacities being added where actually
20 the generators believe that much capacity of the market, in
21 general will need that much capacity for the foreseeable
22 future.

23 Finally, going on to slide 11, some brief
24 conclusions . Since you have ample capacity that exists to
25 serve the discretionary markets if Access Northeast is

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1 implemented, the EDC's that hold this capacity should
2 certainly be subject to the same capacity release rules as
3 all of the other capacity holders. The proposed EDC
4 capacity release exemption appears to enhance the
5 subsidization of the EDC's in the current capacity holders,
6 which is primarily the LDC's since capacity will not be
7 released via competitive market-based mechanism or at least
8 there's not enough definition around it today to determine
9 that.

10 The capacity release mechanism also
11 essentially eliminates cost-effective peak day gas required
12 from the markets, that would be the LNG supplier, the
13 back-feed suppliers if you will, which, in turn, could
14 increase the overall cost of the electricity to the market.

15 Finally, competitive and transparent markets
16 are the foundation of New England's gas and electric
17 markets. So giving any party preferential treatment in the
18 capacity release market will disrupt the open-market
19 process.

20 And those are my comments. Thank you again for
21 allowing us to speak today.

22 MS. FERNANDEZ: Thank you, Vince.

23 Our last presentation is Tom Lockett with
24 Tenaska.

25 MR. LOCKETT: Thank you very much for the

1 opportunity to speak today. It's greatly appreciated,
2 thank you.

3 I'll tell you a little bit about Tenaska, I
4 know we're time deprived a little bit so I'll move quickly
5 through those first two slides.

6 First off, Tenaska is about the fifth largest
7 marketer in North America. We have about 8 BCF a day, we
8 hold transportation in over 30 inter- and intrastate
9 pipelines. We manage about 125 BCF of storage. We trade
10 with in excess of 740 counterparties, and we have last year
11 about 162,000 transactions. It's very important to notice
12 that most of those transactions today had transactions, but
13 a very large percentage -- and I don't know the number, but
14 a very large percentage -- are intraday going through those
15 various power gen-type cycles of late nominations, not
16 day-ahead.

17 In terms of Tenaska marketing ventures
18 specifically, we manage in -- we're not a trading shop,
19 we're a physical supply chain management company; it's very
20 important to notice that because we're not out there
21 trading. We manage customer transport in accordance with
22 FERC Order 712, we're both generators and LDC's and
23 industrials.

24 We maximize the asset optimization value for
25 these customers and we pay them a large amount of money for

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1 the right to do that. And that money, especially when it
2 comes to LDC's, imitates what we believe to be EDC's, does
3 have the ability to trickle down to the ratepayer.

4 We own and operate about 6.7 gigawatts of
5 power generation that is ours, under our control and
6 ownership. And we manage an additional 16.3 gigawatts of
7 third-party generation. So we're very familiar with the
8 generation market.

9 So this slide is only two bullets but it's
10 actually very, very important. Tenaska is neutral on the
11 plan EDC-supported pipeline expansion project. Let me
12 restate that: Tenaska is agnostic as to whether or not we
13 put incremental steel in the ground or not. What we do
14 have an issue with is the proposed exemptions from the
15 Commission's capacity released regulations. These
16 regulations are well-established and work fine; if it isn't
17 broken, it doesn't need to be fixed in our opinion.

18 We believe the proposed exemption is premature,
19 it's unnecessary in result of construction on both
20 competition and reduced market efficiency. The electric
21 reliability service programs have not been approved by the
22 state regulators and the EDC's have acknowledged that the
23 benefits of proposed pipeline conduct will still be
24 realized even absent these proposed restrictions. It's a
25 very, very important take-away here.

1 The ratepayer will still receive lower power
2 cost, the economy will get a benefit in that regard without
3 these pipeline rerelease restrictions. Based on our
4 limited details to date, a number of questions have been
5 asked -- I realize things are still evolving -- but based
6 on the information that we where is obtained, the capacity
7 will only be releasable to power generators or held by the
8 EDC's themselves. Power generators, and we've talked to a
9 lot, power generations whose core business is converting
10 gas to electricity cannot rerelease to an optimizer and
11 cannot sell to third-party marketers in an off-peak period;
12 again, that's our understanding on the details to date.
13 But if you looked at a hypothetical scenario and not
14 unrealistic where a power generator-combined cycle is
15 burning five by 16, meaning Monday through Friday 16 hours
16 a day on peak, and those off peak-hours including Saturday
17 and Sunday and holidays that that gas would not be
18 available to hold up gas markets.

19 How ironic would that be on a 10 degree
20 Fahrenheit day of 50 degree day and that gas would not be
21 available to other gas customers who might need it.
22 Proposed tariffs limit access competition transparency:
23 They're inflexible. We believe that they may have
24 restrictions on segmentation, on our receipt point access,
25 and in general, like I just described, third-party sales

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1 transactions.

2 Power generators cannot reallocate capacity
3 even if the suppliers are not available, the primary point
4 of the uneconomic if other cheaper, say, mid-month points
5 of receipt gas, supply gas, come to bear, or if the gas
6 prices that they're burning exceed their ultimate fuel, the
7 capacity has to be used. This is based on the limited
8 information that we've heard, we've been told but it seems
9 like a very inflexible proposal.

10 If you look at this slide, it's a little complex
11 but it's really not. It's the Algonquin system. It's the
12 entire system. It goes up to the Boston area, say 10,000
13 decaterms just for example, you could do segmentation, the
14 economic and operational efficiency, you could break that
15 into various pieces and make sales of 30-, 40-, 50,000
16 mmBPU's of capacity with 10,000 mmBPU's total. That's a
17 very effective, cost effective, use of utilization of that
18 capacity. Who benefits? The ratepayer benefits. Because
19 in most cases this capacity is being provided by an LDC,
20 that LDC is being paid well through an asset management
21 arrangement, and many of those dollars, depends on which
22 state you're in, trickle down to the ratepayer.

23 Under the proposed tariff the restriction
24 optimization would reduce the value to the ratepayer. You
25 can see in this case it goes from one point to one point,

1 from a receipt point from a power gen without any of that
2 secondary market optimization; the ratepayer suffers.

3 In conclusion, we think that the filing should
4 be rejected. There's no justification for this exemption.
5 When and if the electric reliability supply plans get
6 developed by the states, we can come back and reexplore
7 this and re-discuss this. But also the burden must be on
8 the pipeline to establish the need for waiver, and we don't
9 feel that's been effectively presented. Thank you, I look
10 forward to your questions.

11 MS. FERNANDEZ: Thanks, Tom.

12 And now we're going to open it up to questions.

13 First, does Commissioner LaFleur have any
14 questions?

15 COMMISSIONER LaFLEUR: Well, thank you. I do
16 have a couple questions that have been nagging at me that
17 I'll try to frame as a question.

18 Mr. Coyle, thank you for saying that you agree
19 that the electric and gas markets are working. I'm a huge
20 believer that markets are a good way to attract and
21 allocate resources to serve customers. There's been a
22 thing, a sentence that's been repeated so many times, I've
23 even said it myself a burp of times, that there's a
24 structural issue between the gas and the electric market
25 was the theory, that the gas market are really not

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1 attracting investment with people making 10- to 15-year
2 confidence in the electric market, only day-ahead,
3 three-year-ahead capacity awardance with structural
4 disconnect. And this big, new customer of natural gas, the
5 generation industry, bearing in mind that these green lines
6 grow a lot when some of the plans that are no longer
7 burning natural gas are no longer in New England, the bug,
8 new customer is given. So who's going to step up and make
9 them is the debate that's gone around and around? And the
10 ISO is going to put up the money, and that was the EDC's,
11 that's the latest idea that the EDC's are going to put up
12 the money. And the concept of this whole debate is that
13 the generators would say, "My God, this is awesome, we
14 don't have to put up the money, someone's putting up the
15 money. This is great."

16 So I guess, Mr. Adams, you're in the unlucky
17 position of really being the only pure gas generator here.
18 The electric customers are stepping forward, at least in
19 this proposal, to help build a pipeline to make these lines
20 go up so there'd be more gas in New England.

21 MR. ADAMS: Yes.

22 COMMISSIONER LaFLEUR: In and of itself, is that
23 good for the generators? Do you propose the project?
24 Mr. Lockett said he was agnostic, I mean I don't mean to
25 cite him or whatever. But the idea of the structure, is it

1 just the waiver that you oppose, the exemption, or is there
2 some way they could protect their customers that you could
3 live with? Because the generators are missing in this
4 debate as a source. They're the ones they're supposed to
5 be all for.

6 So I'm interested if you could tease out your
7 view as little more of if you think there is that
8 disconnect and someone has to step up and build pipelines?
9 And if so, is it just this specific proposal that's before
10 us? Is there any way we can work through this? Sorry that
11 you don't have a bunch of other pure generators next to you
12 who don't also sell gas to answer it.

13 MR. ADAMS: We have a unique role in this space,
14 which is why I'm glad that I was allowed to participate. I
15 agree with Tom Lockett that we're agnostic as to whether
16 Access Northeast gets built or not. The waiver in and of
17 itself concerns me because, again, the existing tools we
18 have to manage secondary capacity work and they work well.
19 I don't think this waiver is needed to incent/to promote
20 the price signal to get built. And you're right, you would
21 think that at its core generators like Calpine, all other
22 things being equal, would be in support of the capacity.
23 The problem is the capacity only solves one leg of the
24 puzzle.

25 As I mentioned before in my question to

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1 Mr. Kruse, I have a question about where we buy gas when?
2 That's a tactical problem that can easily be addressed but
3 it's something to think about. But at the end of the day I
4 don't really see how the purchase of pipeline capacity by
5 the EDC's translates directly into customer relief for the
6 electric ratepayers. Now, if this were part of a more
7 comprehensive structure that was where an EDC desired to
8 purchase some block of power from Calpine for a certain
9 period of time, then perhaps we could justify the capacity
10 in and of itself. But right now this has the capability of
11 being a nontransparent addition to the marketplace and just
12 a complication in the market that, although it has its
13 warts and pimples, the market seems to work relatively now
14 under the structure right now.

15 COMMISSIONER LaFLEUR: All right, thank you.
16 And the idea of buying a hunk from Calpine and then having
17 to get -- that would be kind of honest re-regulation.
18 Right?

19 MR. ADAMS: Exactly. And that's another concern
20 that I have with it. There's a whole lot of stuff going on
21 here that strikes me as being good from one perspective but
22 being damaging to the evolution of the deregulated
23 ISO-driven market on another. So I fully understand the
24 price signals that the pipelines seek to receive. I spent
25 the first part of my career at Transco and I proudly refer

1 to myself as a recovering pipelayer. And then I've spent
2 some time at LNG land, I spent some time managing access
3 for all the facilities here, bought a plant from Kathleen.
4 So I've got all sorts of different angles to come at this
5 from. But at the end of the day the market we have works,
6 I will point out that even during the polar vortex the
7 lights stay on. I will not disagree that the prices were
8 extraordinary. I'll point out that the people who
9 received, the parties that received the windfalls in that
10 case were the people who held pipeline capacity, not the
11 generators. Generators like Calpine that have a capacity
12 supply obligation from the ISO, we have some latitude as to
13 how we bid in the units and what prices we pay for fuel,
14 but if we get out of whack with our reference price then we
15 get mitigated.

16 So despite some of the things I've heard and
17 read particularly in the New England press, we're not
18 reaping windfalls here. Please look at our stock price.
19 We just want a level playing field that allows us to
20 compete heads' up with looking at things through our own
21 particular lens.

22 COMMISSIONER LaFLEUR: Thank you. Turning to
23 something that might be a little easier, if anything is in
24 this space. I want to tease out a little more the argument
25 that several people have made that it's premature for the

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1 Commission to act. We seem to have a lot of situations
2 where a state commission is looking at some aspect of a
3 problem and we're looking at another aspect of a problem,
4 or sometimes the same aspect of the problem from a
5 different lens, and we're being told to act or don't act or
6 wait for them or don't wait for them. And I am a little
7 worried that we get in a loop until we don't want to act
8 until we hear from the states and they don't want to act
9 until they hear from us. So for those of who you that
10 think it is premature for us to act, how would you have it
11 play out? Should we wait until the state proceedings are
12 over? And do you think they're going to be looking up at
13 us? Or should we just kind of close the docket in advance
14 until the states have said something? Because that's
15 always a little bit of a -- you can get a little bit of a
16 chicken and an egg.

17 Thank you.

18 MR. DALY: May I? Since some of the entities
19 that are here, just to put it on the table, some of the
20 entities are arguing for delay are the same ones that are
21 intervening in our State proceedings and telling the states
22 that it's premature to operate there either because FERC
23 has an egg. So they're shaping up this do-nothing loop I
24 think it is. And that's inappropriate. I think, and what
25 we need is the agency that has jurisdiction to take action

1 in an appropriate timeframe, that it needs to do it and
2 have considered debate like this here, but then take action
3 so we can move forward. The difficulty with the New
4 England states in particular is they have six different
5 jurisdictions. And I find a good dynamic is, if one moves,
6 the others will start to move as well. And somebody needs
7 to take a leadership position, and then they do tend to get
8 in line. So I do think there's that opportunity. I think
9 if FERC can opine on this and get that out of the way, we
10 have some definition on the solution, and I would urge the
11 FERC to do just that.

12 MS. BARRON: I think that our recommendation, as
13 I said, is to reject it. In this circumstance it's not
14 necessary for the extension of the program and it's not
15 clear that the program's going to be approved. If they get
16 approved and if there is a situation in the future where
17 the pipelines want to re-urge the request for the waiver,
18 then our position is it should be done on an industry-wide
19 basis, that it's too important to just do it on a one-off
20 basis. And that if you're going to consider an exemption
21 of this magnitude that you should do it under sort of the
22 considered process when we do the AMA.

23 MR. ADAMS: Can I follow up on that real quick?
24 From Calpine's perspective -- and, again, given the long
25 history that we professionally have with managing assets --

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1 the entire construct of capacity being released through the
2 jurisdictional process in tiny bite-sized pieces for tiny
3 bite sizes of the day is too clunky, it won't work. The
4 best way for this process to get to, to go from the EDC's
5 and to the generators, is through Order 712 asset
6 management structure. That is designed to handle processes
7 like this, and it works seamlessly. So we think strongly
8 that 712 is the ideal tool for this, and as a result it's
9 not a question of acting on the waiver prematurely, it's a
10 question of the waiver being necessary at all.

11 COMMISSIONER LaFLEUR: I know Mr. Coyle has been
12 trying to say something.

13 MR. COYLE: Just two points in my response. The
14 first one is that your pipeline release regulations work.
15 We've heard that point before. There isn't an deficiency
16 in the price signal, okay. To the extent that you were to
17 entertain this proposal at all, and to get to your real
18 question what should be do about it, I think the correct
19 answer in context is you should reject this proposal
20 without prejudice because if you're writing a blank check
21 in substance for state programs that don't exist, those
22 programs may or may not come forth on the basis of that
23 blank check and you'll all of a sudden find yourself in a
24 space where I have found myself somewhat uncomfortable with
25 an amicus briefing in Hughes versus Talon Energy. There's

1 a preemption issue down the road to the extent that the
2 State programs interfere with the Commission's capacity
3 release mechanisms, which is one of the you preferred and I
4 think effective tools.

5 So the place to let it start, if it's going to
6 start, is to have a fully developed state program if the
7 states really want to shackle retail electric customers to
8 pipeline connection. As the State Commission, he can
9 pronounce that if that's what they want to do. Again, I
10 think, as I've come to understand this Commission's
11 perspective talking about agnosticism, that's a value
12 judgment that you can make at a state level. If they can
13 find a way to make it work for their constituencies, great,
14 bring it here. Then you can thrash out the extent to which
15 there is a preemption problem. We've got the cart way
16 before the horse here the way it's been presented.

17 MR. RUDIAK: And just to be clear, as with some
18 of the others have said, we think this is a bad idea. We
19 think it's unduly discriminatory and sets up a weighted
20 preference in an unhealthy way. We also think it's helpful
21 to have an appreciation that it's not a -- the notion of
22 what's happening in the states isn't just how much do they
23 want, it's can they even do it. So it's a data point.
24 Would action here help clear some of that? Sure. I think
25 the overhang of what happens next, it's paralysis of

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1 analysis to a certain extent. Everyone's waiting to see if
2 there's going to be some huge subsidy going in the mix, and
3 as a consequence maybe that's what's impeding otherwise
4 market-based development with these projects.

5 So to the extent, it's helpful to provide some
6 clarity in this regard, but that may be useful in the
7 context of those other deliberations. But it's also
8 important to take note that they're happening and that
9 there's a big question that all of those individual states
10 are dealing with as well.

11 COMMISSIONER LaFLEUR: Thank you all. I
12 appreciate the specificity of your suggestions.

13 Anna?

14 MS. FERNANDEZ: Richard, did you want to state
15 something?

16 MR. KRUSE: Just a different perspective, I
17 think, deferring these questions, length or state of action
18 that need developed. We're on a multitrack state, federal
19 regulatory approval process as we speak. And if you wait
20 until the state crafts it, then you bring it. If it's not
21 constructed the way you want it to be constructed, you've
22 set the project back six, -seven months, because all of a
23 sudden we're going back to the states, we're going back
24 through the analysis. Is the state willing to approve this
25 program?

1 So if there's elements of this program based on
2 the comments today, we certainly have heard a lot of
3 diverse use regarding the appropriateness of it. But if
4 there's elements of this that is acceptable to the
5 Commission subject to tweaks, it will help the process. It
6 will help the debate at the state level, even for that
7 matter ultimately here at the Commission again for us to
8 know what are the limits that we can go in this area
9 because the EDC's are trying to figure out how to protect
10 their retail customers. And the one thing I would submit
11 that is abundantly clear is that the infrastructure is
12 constrained on a west-east basis. Certainly, there are
13 options from the east and they play a vital role currently.
14 But to the extent the marketplace want to access lower cost
15 to policy, go ahead, there are constraints. And those
16 constraints are resulting in an outcome that is inefficient
17 from the consumers. The consumers are paying more for the
18 electricity than what the EDC's, based on their studies
19 where they need to if we had had that infrastructure. So
20 ultimately the consumers are being hurt by this delay. So
21 if you have got it, we welcome it. If we can tweak it to
22 address the Commission's concern, we think Algonquin as
23 well as the EDC's are eager to hear those tweaks. But we
24 need some guidance from the Commission as soon as possible.

25 MS. FERNANDEZ: Any staff questions?

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1 MR. GOLDENBERG: I have a question. On the gas
2 side, when I first started working here the local
3 distribution company had bought all the gas, there were no
4 retail marketers, and as much gas as the state you see
5 authorized they were allowed to buy. And then when retail
6 marketing started on the state level, we crafted an
7 exemption to keep that same capacity within the State. And
8 I'm not sure why this is any different where various New
9 England states, the EDC's if they were
10 vertically-integrated, they could have pot this capacity
11 and used it for themselves. Now they're forced to
12 unbundle. On the gas side, is this any different than it
13 is on the retail access side and a local distribution
14 company. I don't think people have really talked about
15 that very much.

16 MR. BRENNAN: I guess I was going to say it does
17 confuse the issue a bit because the generators unable to
18 make those long-term commitments that either a
19 vertically-integrated utility would have made. The
20 generators we know, making it for various reasons, are not
21 willing to or able to. They may potentially be able to
22 recover some of these costs, at least if they're a new
23 resource, in the forward capacity market. There is some
24 indexing, a lot of the transportation daily and the western
25 side of the energy market. But that long-term commitment

1 is missing.

2 So what we have here is the EDC's, due to their
3 reliability in pricing concerns for the markets that are
4 affecting their customers, are the ones stepping forward
5 saying, "We can do what can normally be done." And all
6 what we're really asking, if you think this through, we do
7 this a slightly different way: Allow us that opportunity
8 to use it for the purpose it was purchased primarily; to
9 the extent we don't need it for that purpose, we will
10 release it in the normal capacity load. It's just that
11 we're in the middle of being the first to make it available
12 to the generators on a targeted basis because we have an
13 extra step in the middle there due to the way these markets
14 have turned out and the lack of anyone else being able to
15 step up directly to solve the reliability and pricing
16 concerns. Those concerns are real. The generators can say
17 the lights haven't gone out, but -- and they may not in the
18 near term, but we have 4,000 megawatts that will be
19 retiring within the next five years, we have another 6,000
20 that will potentially be retiring.

21 We look at the Internet connection queue of
22 8,000 megawatts of resources, gas-fired, the others are
23 renewables which will require more gas to back them up. So
24 the definition of "reliability" isn't right now whether the
25 lights go out the capacity lingers, but if you even switch

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1 to dual fuel capability and all of a sudden you lose both a
2 generator and a transmission or maybe some hydro from the
3 north stops flowing because of the issue of the winter in
4 Canada, that's a reliability concern and that's what we
5 should be protecting as with additional infrastructure of
6 gas. It's not enough to say there's no reliability or
7 problem because the lights haven't gone out so far.

8 MR. DALY: But it's exactly analogous to the
9 LDC's situation where the LDC's are allocating their
10 capacity to their in-use customers. In this case, the
11 EDC's are allocating the capacity to power generators who
12 are the customers that serve the electric load. So it's
13 quite analogous in our view. There was talk of having the
14 LDC's contract for their capacity, and some people have
15 even said that. I believe Mr. Coyle's client has said
16 that. But we saw a closer link between the EDC's, their
17 customers, and the power generators to do it through that
18 route rather than the LDC route. But that looked like a
19 more justifiable expenditure on behalf of electric
20 customers than bringing in the LDC customers who wouldn't
21 really have the same alignment of interest, should I call
22 it. But I see it as very analogous.

23 MS. BARRON: I think your question highlights
24 why this is so important. We made this decision to
25 unbundle to have competition. The assumption is that the

1 generator is going to incur the cost that it needs to to be
2 able to meet its capacity obligations at the least possible
3 price. And right now they're telling you they don't need
4 to buy firm capacity from Algonquin as they can use the
5 products that are in the market already, and they're
6 investing in dual fuel, I mean, that is the technology
7 that's coming in through the capacity market, not even
8 happened at the last auction. So we're getting competitive
9 generation coming and they can use oil during the powers as
10 needed when the gas prices reflect the flow, and that's the
11 economic choice made on behalf of the market. And that's
12 the model that the Commission and the states chose. So if
13 we're going to shift to a different model, we have to open
14 up a broader conversation, as Craig said. But it's not
15 that they're not interested in it, it's not economic
16 potentially.

17 MR. COYLE: Charlie Monger's first rule: Make
18 sure you understand what the incentives are and that
19 they're correctly aligned, okay. The difference between
20 allowing the LDC's to reclaim the pipe capacity in the
21 context of their retail access program, where you have a
22 consistent function across the industry is a whole lot
23 different than saying, "I'm going to make electric retail
24 customers pay for gas pipe," which we're then going to
25 somehow figure out how to manage when the people who

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1 produce the electricity are saying, "We don't need it."
2 And to say, "Well, okay, maybe we're just going to
3 partially rely on market price signals in this context" is
4 crazy. You're undertaking in substance a partial vertical
5 reintegration. And it really doesn't make a great deal of
6 sense because the ultimate end user, the merchant
7 generator, is saying, I don't need it, I will let you know
8 if I do but I don't right now. And your statutory mandate
9 under the Natural Gas Act requires you to some extent to
10 rely on a market price signal for facilities explanation.

11 MR. GOLDENBERG: Isn't that similar to the fact
12 that retail access programs on the gas side, the LDC
13 contracts for the capacity, they just hand it out to the
14 marketers, they don't even go so far as to have the various
15 marketers bid for the capacity. They just hand it out to
16 the marketers in proportion to their retail customers and
17 the marketers compete solely on the basis of gas prices.
18 At least in this case, the EDC's are at least proposing to
19 release the capacity to the generators who bid the highest.
20 So it seems like that's an improvement over the retail
21 access program in a sense.

22 MR. COYLE: I don't think so. There's a
23 significant difference on the facility can measure demand
24 on its system. And the acuity with which electric
25 distribution companies can calculate the gas capacity

1 that's required to support merchant generation. You want
2 the difference in a nutshell, I think that's it.

3 MR. GOLDENBERG: I have a question for Tenaska.
4 Do you sell firm gas to generators? And if so, what kind
5 of capacity do you have to require in order to provide that
6 service?

7 MR. LOCKETT: Yes, the answer is yes, we do sell
8 to generators. And it would be a capacity required to an
9 asset management arrangement with that generator or
10 potentially with an LDC or potentially something that we'll
11 bid on separately in the market just through the electronic
12 bulletin board. We're not really making those deliveries
13 with interruptible transportation at all.

14 MR. GOLDENBERG: Do you have your own firm
15 contract going on there?

16 MR. LOCKETT: No, we do not. No.

17 MR. GOLDENBERG: Were you interested in any of
18 these projects by Algonquin? Did you see a need to supply
19 firm gas to generators that you needed firm transformation
20 on Algonquin?

21 MR. LOCKETT: Let me see if I can rephrase the
22 question. Was the question: Was Tenaska interested in
23 entering into proceeding agreements to buy capacity itself?

24 MR. GOLDENBERG: Yeah.

25 MR. LOCKETT: It's an interesting thought. The

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1 capital investment in term is way outside of our risk
2 tolerance. In 20-year terms, I would presume, in looking
3 at very, very large demand charges, and way outside the
4 ability to hedge any of those spreads. So we would not
5 have the risk appetite for this scale of project, no. We
6 would get it in the secondary market in volumes, in terms,
7 that are appropriate for what our current market position
8 and sales obligations might be.

9 MR. GOLDENBERG: But if New England is as short
10 of gas capacity as the ISO New England, then doesn't
11 somebody want to step up and buy firm transportation before
12 there can be a secondary market if it's really short?

13 MR. LOCKETT: You make a good point. But when
14 looking at a dollar-fifty/two dollars demand charges for X
15 month capacity for 20 years, that is a mammoth commercial
16 commitment that is outside what we would be looking at.
17 Now, if it were a three-year commitment, the answer might
18 be yes; if it was a five-year commitment we're probably on
19 the edge of that. But we look at what we buy gas for, what
20 we sell gas for, we're trying to hedge it for the
21 appropriate term. You can't do it to those contracts,
22 especially with three years down it road and they have a
23 20-year term after that, it's just way to risky for us. If
24 we had power generation, we might look at it. But we don't
25 have any power generation in ISO New England.

1 MR. RUDIAK: The question of firm gas, it's very
2 important to look at the physical infrastructure into this
3 region we're talking about. I just want to quickly
4 summarize for everybody. So the LDC's have a peak day of
5 about 4.2 BCF. There's 2.7 BCF of capacity. That's the
6 constraint capacity that's trying to go from the Marcellus
7 forward. On top of that, the LDC's have 1.4 BCF of LNG
8 peaking. So that confirms essentially the LDC's design
9 peak and the infrastructure is pretty well matched. Now,
10 on top of that there's electric generation demand, and
11 those numbers can range from 1 BCF to 2 BCF, depending upon
12 the assumption of dual fuel. The reality is we have a
13 winter reliability problem in New England. That gas -- I
14 know Mr. Lockett and others have talked about the firm
15 marketer contracts et cetera -- the reality is most of that
16 gas, and we can even confirm that with the LNG importers
17 here, comes from LNG imports. There's not necessarily
18 anything wrong with that necessarily, but it does expose
19 the system to a couple of risks: It exposes the system to
20 whether or not LNG importers, at their discretion, are
21 going to import supply at any particular time, whether or
22 not the transportation arrangements are going to be in
23 place or not; and it exposes a system to the world price of
24 LNG. But the reality of the physical situation here, the
25 New England region is highly dependent on electric

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1 generation systems, natural gas is highly dependent upon
2 LNG imports, it's the physical reality. So the fundamental
3 question is: Does the waiver and a proposal to bolster the
4 infrastructure from the Marcellus, is that in the policy
5 interest, is that in the public interest of the New England
6 region to avoid or reduce the risk associated with world
7 LNG, LNG supply and availability for other risk factors or
8 not?

9 We also know how difficult it is to add
10 capacity in the New England region. We see the FERC has
11 ordered the constitution pipeline, they issued a
12 certificate. So the Tennessee-Connecticut project, those
13 certificates have been issued. None of them have any
14 near-term likelihood that they're going to be going into
15 effect.

16 So in terms of adding capacity into this region,
17 it takes a long time, it's really difficult and so the
18 longer we wait, the more we're going to have this concern
19 of higher and higher dependence on LNG imports, which is
20 not necessarily a bad thing necessarily if the supply is
21 always going to be there and it's always going to be there
22 at a very low price, et cetera. But it's a risk, and it's
23 a risk associated with physical infrastructure as the
24 numbers that John Coyle was just describing. There's a
25 very minimum amount of oil infrastructure. And the EDC's

1 proposals are generally designed to assist in bolstering
2 that forwarding capacity. That's the infrastructure issue;
3 it's not a back-haul issue, it's a forward-haul issue.

4 MS. FERNANDEZ: Richard next and then Tim.

5 MR. KRUSE: Just to comment on firm. "Firm" is
6 a very slipperier concept. We have through the Commission
7 initiatives made firm into primary firm, secondary firm
8 with in-pass, secondary firm out of path. And on a
9 scheduling basis, the only thing that's committed that the
10 pipeline can guarantee is if you submit your timeliness for
11 a primary receipt point and a primary delivery point, that
12 is firm. Everything else is interruptible. It may be
13 scheduled under a primary firm contract, but if you're not
14 going from the design receipt point to the design delivery
15 point, there's a chance that it will not be scheduled.
16 That is why when we look at what is being delivered on a
17 firm basis we're looking at primary delivery points,
18 primary receipt points, those are the power plants that
19 have that lined up. Everything else, given our
20 constraints, yes, they're moving under a firm
21 contract, but it is secondary, it is interruptible until it
22 is scheduled. And if it doesn't get scheduled because of
23 pipeline constraints, we have no obligation to go forward.
24 So that's the risk. Any time the LDC's schedule up their
25 firm contracts, they know what those receipt points are and

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1 they can count on it if they submit it timely. What's
2 left, the leftovers, is what is fuelling the gas-fired
3 generators. And it is a winter peak problem. And back
4 halls encounter constraints also. A lot of our generators
5 are down laterals that become forward-hauls. So it is on
6 Algonquin almost impossible to go anywhere to a marketplace
7 without actually being a forward haul at some point. So
8 there's constraints.

9 We've talked about a lot of constraints coming
10 from the West, but there's some constraints on the laterals
11 also. That's not to say that the power generators don't
12 "buy firm gas." But if they don't get the gas, we can't
13 provide it to them. We're operating at the limits of our
14 system capability. I can't emphasize that too much. I
15 mean, we are scheduling the system from the West to the
16 East to the maximum extent possible. And anything above
17 that, we're totally dependent on gas coming in on the east.
18 And even then, during peak winter conditions, we're tight
19 from that standpoint. So there's a severe infrastructure
20 problem. You just heard from Tenaska why some of the major
21 marketing firms are not able to step forward and sign up
22 for capacity. The EDC's are willing to do that because
23 they see the benefits for the consumers, and ultimately the
24 benefit for their retail organizations. But we're not
25 questioning the intelligence of anyone here. This is a

1 risky business and a capital intensive business and we're
2 confident that everyone is trying to operate in their own
3 best self-interest. But in the process, we need to make
4 sure that the market that we have here is working for the
5 benefit of the consumers and right now we would submit that
6 it's not.

7 MR. HOWE: When the EDC's get the capacity and
8 they have this energy reliability service, is their
9 capacity manager going to be able to release pipeline
10 ground service from a primary receipt point to a primary
11 delivery point to electric generators?

12 MR. RUDIAK: Yes.

13 MR. BRENNAN: I just wanted to emphasize the
14 point to the system that secondary firm is then available
15 from is released to LDC's capacity. But to get to that
16 point you have to get the LDC's to procure that capacity
17 for their customers to make sure they don't need it for
18 their customers, the competitive suppliers don't need it to
19 serve those customers that are being served by the
20 competitive suppliers. The LDC's have a right to the
21 impact capacity for their customers' need before it's
22 released to people like Mr. Lockett at Tenaska can use that
23 capacity and release to a secondary firm to the secondary
24 market. And all that's at issue here is very analogous,
25 it's the EDC's buying on behalf of their electric customers

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1 ultimately, having an opportunity to first make sure that
2 that gas can be used by the generators supplier and
3 customers ultimately. To the extent it's not and it's not
4 needed and reliability is fine, it's again released to be
5 used by others in the secondary market.

6 MS. FERNANDEZ: Vince and then Joe.

7 MR. MORRISSETTE: I just wanted to clarify a few
8 comments on the LNG. First and foremost, we sell gas, we
9 don't sell LNG, and we sell it at gas prices, regional gas
10 prices. So we have a firm obligation to deliver. We will
11 ensure that we have gas supply to back it up, whether it be
12 LNG in our tank or some other source of gas supply. We
13 hold primary firm on Maritimes which gets us into Algonquin
14 and Tennessee. We can get back haul -- or it's not even
15 called "back haul" anymore -- we can get capacity from east
16 to west on Tennessee or Algonquin on a very reliable basis.
17 We don't hold it long-term because it doesn't make economic
18 sense to do so.

19 We currently have 25-year agreements in place
20 for Brunswick and Maritimes and Canon Port capacity to the
21 tune of about almost a million dollars a day in capacity
22 charts. We pay well over \$300 million a year and we're at
23 risk of that; we don't pass it through to anybody, we're at
24 risk for it. It's just based on the commodity we buy and
25 the commodity we sell.

1 So we are very aware of buying capacity that
2 the market doesn't need, underutilized capacity, all of
3 those concepts, we live that every day. We operate at
4 about probably now a 20 percent utilization factor. So,
5 and the supply in Maritimes, as you know, the indigenous
6 fleet is decreasing, so that actually may be going down a
7 little bit. So to clarify that, because we do here that a
8 lot, that we're exposed to the international LNG prices, et
9 cetera. Those are declining, they're very low right now:
10 Europe's currently under four dollars; Asia's under five
11 dollars. That is expected to continue for the foreseeable
12 future. There are a lot of LNG facilities, new supplies
13 coming on line in the U.S. and elsewhere that will keep
14 that price down. LNG supply is far outpacing LNG demand as
15 far as growth goes.

16 So we don't see the LNG being any bigger risk
17 than gas prices in the U.S. Indigenous supplies, just by
18 comparison you've got roughly a 40 percent increase in LNG
19 supply coming up on the world market, it's a 35-a-day BCF
20 market. We have about 13 BCF coming on line in the next
21 two years by 2018. That's almost, from a proportional
22 standpoint, what happened with the Marcellus. So if you
23 don't believe in LNG then you probably shouldn't believe in
24 Marcellus either. But the supply is there, and will be
25 there, and it's going to be cheap going forward and it

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1 would be a shame not to use it as an effective portion of
2 the New England gas supply market. Once again, just want
3 to clarify that.

4 Thank you.

5 MR. DALTON: I agree with just about everything
6 he said. I would associate myself with those remarks. I
7 would also note, again, this came up with respect to and in
8 the context to the electricity market, as I noted in an
9 answer to the Commissioner earlier, we saw real evidence of
10 the impact that LNG can have in the winters of '13-'14 and
11 '14 and '15 where the level of imports nearly doubled and
12 prices reduced by billions of dollars. Energist advisors,
13 since we have done -- I think you've heard of just about
14 every report except for this one -- so I commend to you a
15 report done by Energist advisors, which the end conclusion
16 is that much of this can be solved through contracting, not
17 necessarily construction, so.

18 MR. HOWE: Do you have firm transportation
19 contracts on Algonquin?

20 MR. DALTON: We do.

21 MS. FERNANDEZ: I have a question. Several I
22 think some folks in the audience, and other people in the
23 panel, this is directed to the EDC's, have said that you've
24 made statements elsewhere saying that you intend to proceed
25 with this project absent a waiver. And I know the folks

1 have spoken for you. Is that correct?

2 MR. DALY: If I may? That question was given to
3 us in our proceeding in Massachusetts. And the answer we
4 gave, and it's in the testimony we filed so we were very
5 upfront about this. We said this waiver request is part of
6 what we're looking for because it better aligns the
7 causation with the benefits. And asked then would you go
8 ahead with the project without that waiver? Our answer
9 was: We think it was important for the states, we put it
10 in there because the states were looking for that. It
11 helped them in justifying having their EDC's contact for
12 gas transportation because that hasn't been done in the
13 deregulated world. As someone pointed out, this was normal
14 business in the market industry, and still is in many parts
15 of the country. So that's business as usual.

16 So the issue here is how New England has
17 re-regulated, if I can call it that, or has implemented its
18 competitive marketplace where the EDC's have not been in
19 the fuel contracting business or the transportation
20 business really.

21 So the states saw that as a way to link
22 incurring these costs and ensuring that it goes back to the
23 power generation sector in the first place and then to the
24 general market after that. So it was important to the
25 states that we pursue this. Would the project go ahead?

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1 That depends on what the states approve. So the states
2 haven't approved any of these contracts yet. And I think
3 it would be helpful for them to give them clarity in terms
4 of what the FERC's intention is or it could support what
5 they want to do, or if FERC decides no, we don't want to do
6 this because we have other considerations in the
7 marketplace, then the states need to take that into
8 consideration when they're looking into the EDC's in these
9 contracts, but ultimately would go back to the states as to
10 whether they support the EDC's going forward with a general
11 release of capacity versus a targeted release. I think it
12 helps. That doesn't mean they might not change their mind
13 and decide not to do it, I mean, not all the states are
14 aligned on what needs to be done here, so it's important
15 that we get as many states on board as possible to support
16 the program under the terms that we think are important to
17 them.

18 MR. BRENNAN: I would just say that National
19 Grid from the start of this, again as James said, we
20 believe it is important to at least some of the states
21 also, and ultimately we have a right in the contract and
22 the precedent agreements to decide to whether we need to or
23 will go forward it. And I'll tell you that even --
24 obviously, we're going to take a lot of the states'
25 position into account, but I think National Grid itself is

1 not committed to moving forward at this point without those
2 contracts. That's a decision that we have to see if we're
3 comfortable with once this is settled.

4 MR. GOLDENBERG: For the EDC's, I didn't see
5 much on how you were going or planning to arrange your
6 asset manager. Are you going to use the traditional
7 approach where the asset manager is going to pay you for
8 the capacity at least something? Or are you going to be
9 essentially paying a fee to the asset manager to manage the
10 capacity?

11 Do you have any insight into how that is
12 supposed to work?

13 MR. DALY: Yes, we see this asset manager, it's
14 really an administrative position in terms of allocating
15 capacity. Asset managers generally are paying us for them
16 to give them a position on the pipeline, to give them
17 capacity on pipelines. So they pay us and then they go and
18 remarket that capacity for their own benefit. This we see
19 as capacity manager is really an administrator to allocate
20 the capacity to the marketplace and maximize the revenue
21 back to our customers, not to themselves. So that's the
22 overall view of it. And in terms of what the components
23 may be, we still have to work out with the states but it's
24 not a trading position. We want an entity that's more
25 administrative in terms of getting that capacity going.

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1 MR. GOLDENBERG: So the assets manager is
2 actually going to hold the asset? It will be bundled sales
3 in the event the generator didn't need the capacity. But
4 that would mean that somebody would have to hold gas
5 contracts.

6 Would that be the asset manager or would that
7 be you?

8 MR. DALY: That could be the EDC and have the
9 asset manager manage it. It's a question of it's a credit
10 facility, it's how much credit and capital tied up in that
11 big asset. So right now I think the EDC's would retain
12 that. If in this structure there's an entity that comes
13 forward that's of sufficient capital strength, it's better
14 for them to have it, we'll consider that. But we don't
15 have to have it with the asset manager.

16 MR. GOLDENBERG: Would the EDC's have gas supply
17 contracts as well so that you can put gas in the LNG and
18 you could make a bundled sale and use it?

19 MR. DALY: Well, we see the LNG tanks need to be
20 filled up, so that predominantly would be purchased
21 probably at City Gate prices filled up during the off-peak
22 period and then made available at peak period, or whatever
23 is a critical need on the system. And the sale of that
24 asset, as I said earlier, is probably going to be at city
25 gate prices, that's our proposal. Who actually holds the

1 title to that capacity, I don't think it matters for the
2 function of the market much who does it, whether the EDC's
3 still hold onto it and have somebody else administer it, or
4 we have somebody else, a substantial financial entity with
5 a high financial rating that actually takes title to it and
6 then hands it back to us. So under our asset management
7 agreements we do allow the asset manager to take all of
8 that, but then hands us back the assets full with LNG at
9 the end of their contract term. So we can do it either
10 way.

11 MR. HOWE: The asset manager, are you actually
12 going to do it past your release to the asset manager under
13 the waiver request in order to do an asset manager time
14 release? Or is the asset manager really going to be just
15 your agent while you continue to hold the capacity?

16 MR. DALY: I think we can do it either way.
17 There's an accomodation in the marketplace that works
18 better, and people think there's an efficiency one way or
19 the other, we're open to hear that. I think we can do it
20 either way.

21 MR. HOWE: Do you have any insight or
22 expectation at this stage as to how much of this capacity
23 would be released for like the one year and two years and
24 three years in advance, or as opposed to how much would be
25 held for daily, intraday releases or bundled sales?

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1 MR. DALY: That's a good question. We're going
2 to have to solicit the market and find out, I mean, you
3 heard from one marketer their appetite for going long, if
4 you like, is multiyear, maybe one, two, three years. So we
5 think there's a demand for that level of service, as well
6 as seasonal service. We're also seeing some demand from
7 new power generation. So all the new power generation in
8 New England is virtually gas-fired generation. And the
9 people who are building those plans and looking for finance
10 are being asked by their banks where are they going to get
11 firm capacity, because they don't want to be subject to
12 let's say pay-for-performance penalties under that. So
13 there's a demand emerging from that market. But like a lot
14 of the marketers have said here they're not interested in
15 going 20 years. So we can get the capacity into the market
16 by going 20 years, but they're looking at something like
17 forward capacity market is three years forward and one year
18 commitment. So they may have interest in doing four years
19 forward with only one year after that to support there so
20 they would have firm capacity. But, like a lot of
21 marketers and generators, their desire to go longer just
22 isn't there, so the demand, the customers just aren't there
23 in the quantity needed to get a project like this built.
24 So that's the role we would fulfill and then release it
25 back on under shorter terms to be determined what the

1 duration of all of those are based on the demand from the
2 marketplace. That's work we still have to do, we're not
3 there yet in terms of this whole project, but that's our
4 intention.

5 MR. GOLDENBERG: But as I understand Mr.
6 Lockett's point earlier was that the structure, they would
7 not be able to buy that capacity, and that's what he's
8 asking for. If he's willing to go out three to five years
9 but he's not eligible under the tariff provision to buy it,
10 he'd have to get it after you did your generator auction if
11 there's anything left over.

12 MR. DALY: Yes.

13 MR. GOLDENBERG: But if a generator wants to buy
14 from a marketer, their marketer isn't eligible.

15 MR. DALY: Our first allocation is the
16 generation and then after that to other marketers. I think
17 in terms of if generation isn't using it, if generation's
18 not using it and they want to release it to the
19 marketplace, I mean, then that's something we can consider.
20 What works for the marketplace better if people have a
21 better proposal for it or if the Commission wants to
22 condition certain parts of this in view they see works
23 better with the marketplace, then we'll have to consider
24 that. We've made a proposal, so that's what we're asking
25 for. If the market sees it differently and we get that

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1 acknowledged that there's better ways to make it work, we
2 will consider it.

3 MS. FERNANDEZ: Are there any other questions?

4 MR. ADAMS: Can I make one comment? James is
5 spot on that generators like ourselves, it's one thing for
6 us to be asked to make a 20-year commitment at a price that
7 is -- that has no correlation to value to what an
8 independent generator would do. It is entirely feasible
9 for us to, should the Access Northeast project go ahead,
10 for James Daly and Calpine to negotiate a deal whereby we
11 took capacity for three to five years. That's easily done,
12 I don't think the waiver is necessary to achieve a
13 transaction structure like that.

14 MR. COYLE: In answer to your earlier question,
15 Anna, that you had heard people say that the EDC's would
16 move forward with Access Northeast regardless of whether or
17 not the waiver was granted. In this proceeding, the Exelon
18 next year attached as attachment A, the application VPU
19 15-181, Mr. Daly's testimony is the first exhibit to that,
20 Exhibit EBGJGB1. And the question and answer on page 74 of
21 that testimony, lines 1 through 15, is the source of
22 statements that the EDC's have said they've move forward
23 without the exemption.

24 MR. LOCKETT: In the hypothetical scenario that
25 Tenaska or any other marketing company would get the

1 capacity through a capacity release, it's still not clear
2 to me if the electric reliability service rate schedule has
3 defined as "shipper", "generator" or "EDC". That's all it
4 is, it's no other party. I'm neither, it's not clear to me
5 how exactly I would be able to qualify as shipper and
6 therefore I can take on that release. If you could clarify
7 that.

8 MR. KRUSE: Just a clarification, if I release
9 the capacity to you, the rate schedule is not prohibited to
10 you. You're entitled to take the capacity if it's released
11 to you.

12 MR. LOCKETT: I believe the definition includes
13 "replacement shipper" as well, does it not?

14 MR. KRUSE: Yes.

15 MR. LOCKETT: If I'm neither, the EDC nor a
16 generator, I'm not sure I qualify as being a shipper.

17 MR. KRUSE: If the capacity is released to you,
18 you can take service under ERS. There is no limitation on
19 you being a generator or an EDC and reschedule ERS as
20 currently drafted. It is an open access rate schedule
21 available to anybody. You can sign up for it, we have a
22 confined proceeding agreement. If you want capacity now,
23 you can sign up. But in terms of what we're talking about
24 here, if the EDC's, through their program or outside their
25 program pursuant to the Commission rules, released it to a

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1 marketer, they are a qualified shipper under ERS.

2 MR. HOWE: For the EDC's, in your comments, I
3 would ask the same thing I asked of Algonquin, and you
4 might coordinate, and that would be a history of each of
5 the restructuring proceedings in the five New England
6 states that did restructuring in the late '90's as to what
7 gas-fired generation was held by the EDC's at that time,
8 what transportation contracts were held to the extent you
9 can get the contract demands under those contracts, what
10 happened to the contracts in the restructuring proceedings,
11 and then what happened to those contracts thereafter?

12 MR. RUDIAK: I had a question for my colleagues
13 on the panel, particularly Mr. Adams and Ms. Barron. With
14 respect to the circumstances that -- this is regarding the
15 structural differences between the gas and electrical
16 industry. In terms of any circumstances that would cause
17 you an incentive to sign on for a long-term pipeline
18 capacity, are there any circumstances whatsoever that you
19 can envision or that you can describe? And if so, what are
20 they?

21 MR. ADAMS: Well, John, the first thing is the
22 big issue we have that keeps us from subscribing to
23 capacity for the terms that Spectra is offering for their
24 own good, we have to have some sort of guarantee on power
25 revenue over the same period of time. It's difficult for

1 me to go to our shareholders and say, "I want to commit to
2 20 years of pipeline capacity" if I don't have an offset on
3 revenue. Now, let me also kind of tweak that a little bit,
4 because one of the -- just thinking generically, I don't
5 want to get into confidential information -- but in the
6 context of what of the plants that we've looked at in the
7 past and adding FT, we had the opportunity to pick up FT
8 and we'll say it was -- let's just say would it cost us \$25
9 million a year for 20 years. So you do the math, that's
10 half a billion dollars to meet the pipe supply capacity
11 obligation. That capacity from point A to point B was
12 probably in the money for the visible part of the curve,
13 which is as Tom said is three to five years. But I could
14 go out and spend \$50 million and put in an oil tank and
15 that's a one-time expense. That math is pretty compelling.

16 MS. BARRON: The only thing I would add is to
17 the point Craig made earlier to dual fuel. The only point
18 I would add is I don't think any of us up here would
19 necessarily expect a guarantee of revenues. We don't get
20 guaranteed revenues, we don't have rate regulation. But we
21 do need to have some reasonable, foreseeable market price
22 signal that we're going to be able to recover that cost.
23 And right now prices just don't justify it.

24 MS. FERNANDEZ: I think Frank has a question.
25 Kamala has a question.

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1 MS. JAYARAMAN: I'm kind of curious in terms of
2 supplier of gas, you said it's noneconomic in the sense of
3 to see what is economic incentive to procure long-term
4 capacity?

5 MR. MORRISSETTE: For the generators or from an
6 economic standpoint?

7 MS. JAYARAMAN: No, for you when you said there
8 was not --

9 MR. MORRISSETTE: Oh. On the market from
10 Tennessee to Algonquin coming from east to west, it's
11 readily available. So for us to take it for 20 years
12 versus just taking it for the month we need it, the season
13 we need it, a year or through in some cases an AMA, that's
14 how we procure it. We can get it on as as-needed basis, or
15 more or less on an as-needed basis on those pipes in the
16 direction we're flowing. Now, if we had a commitment to
17 serve somebody on one of those pipes, a long-term
18 commitment, then we would certainly procure the capacity to
19 meet that commitment.

20 MS. JAYARAMAN: So currently you don't have a
21 need for it.

22 Do you have plenty of capacity?

23 MR. MORRISSETTE: We can get it if we need it.
24 If we have a firm delivery obligation on those pipes, we
25 can simply get capacity from Maritimes, from the Maritimes

1 interconnect to those points on Algonquin or Tennessee.

2 MS. JAYARAMAN: Thank you.

3 MS. FERNANDEZ: And I think we're getting close
4 to the end here. Staff would like to take five minutes to
5 talk amongst ourselves, and then we'll come back and talk
6 about initial and reply comment deadlines, and if we have
7 any further data requests. Just give us five minutes.

8 COMMISSIONER LaFLEUR: I probably won't come
9 back after the five minutes. So I just wanted to say thank
10 you to everyone.

11 MS. FERNANDEZ: Thanks, Commissioner.

12 (Whereupon a short recess is taken.)

13 MS. FERNANDEZ: I think we're ready to wrap it
14 up. First, I'd like to thank the speakers here today for
15 all the information they've provided, it was a very
16 helpful, thank you very much. Thank you to the members in
17 the audience for all the information, their questions. So
18 Michael has a request for information that he'd like to ask
19 before we break.

20 MR. GOLDENBERG: Yes, I'd like to ask Algonquin
21 to provide any information they have on short-term
22 non-biddable releases, the quantity of those releases as
23 compared to daily or monthly releases just so we get an
24 idea of what the release market is like for intraday
25 releases.

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1 MS. FERNANDEZ: Also, if you cited to a study or
2 referred to a study here today, it would be helpful if you
3 want to rely on that in your comments that you include a
4 cite to that study in your comments.

5 MR. HOWE: A link.

6 MS. FERNANDEZ: Sure, a link.

7 So we would like to propose for comments that
8 initial comments be due May 31st, it's a little bit more
9 than 20 days, it's like the Tuesday after the holiday.
10 Sorry. And then reply comments would be due ten days after
11 that on June 10th. And we'll issue, if that sounds like a
12 reasonable timeframe for folks. Let me know if that sound
13 absolutely unworkable right now, please, otherwise, we'll
14 issue a notice after this conference is over with those
15 timelines.

16 Is that unworkable for anyone of the parties
17 here?

18 Well, I think that's it, then. Thank you again
19 everyone, and this concludes our technical conference.

20 (Whereupon the FERC technical conference held on
21 Monday, May 9, 2016, was concluded at 3:45 p.m.)

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