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June 2, 2015

Mr. Alexander Speidel
Staff Attorney/Hearings Examiner
New Hampshire Public Utilities Commission
21 S. Fruit St., Suite 10
Concord, N.H. 03301-2429

Re: Investigation into Potential Approaches to Mitigate Wholesale Electricity Prices

Algonquin Gas Transmission, LLC (“Algonquin”) and Spectra Energy Partners, LP (“Spectra Energy”), as one of the co-developers of the Access Northeast Project (“Access Northeast”), appreciate the opportunity to provide comments to the New Hampshire Public Utilities Commission (“Commission”) Staff in the captioned matter.¹ As set forth herein, Access Northeast is the preferred solution to mitigate high winter electricity prices and to maintain electric reliability in New England. Access Northeast is a tailored, regional solution to expand existing natural gas infrastructure to supply New England’s gas-fired generation facilities with the goal of reducing electric price volatility and increasing electric reliability in New England. As further discussed in our comments below, a study done by ICF International (“ICF Study”), estimates that “a project like Access Northeast could save New England electric consumers \$780 million to \$1.2 billion per year over its first ten years of operation.”²

1. *Identification of the root cause of the high winter wholesale and/or retail electricity prices.*

The lack of adequate natural gas pipeline infrastructure to supply regional power generation results in higher prices and challenges electric reliability in New England. The demand for firm interstate pipeline capacity in New England is extremely competitive as a result of increased utilization of natural gas for home and commercial heating, industrial uses and electric generation. The increasing demand places additional burdens on infrastructure that is already constrained, as reflected in natural gas prices that historically have been higher in New England than in markets elsewhere in North America. As a result of this high demand for pipeline capacity, Algonquin’s system continues to set records for hourly, daily, monthly and annual deliveries on its system. The fact that there has been essentially no interruptible service scheduled on the Algonquin system for the past three years is further evidence of demand for additional pipeline infrastructure.³

The constrained infrastructure has a direct effect on power costs. Gas-fired generation is increasingly relied on as the marginal units in New England and natural gas-fired generators typically rely on interruptible and

¹ Northeast Utilities Service Company, a subsidiary of Eversource Energy, National Grid Transmission Service Corporation, an unregulated wholly owned subsidiary of National Grid USA, Spectra Energy Corp., and Spectra Energy are working to develop the Access Northeast Project.

² Access Northeast Project – Reliability Benefits and Energy Costs Savings to New England at 14, ICF International (Feb. 18, 2015) (“ICF Study”).

³ Some interruptible service may get scheduled for certain pockets of the system, but not on peak days.

released capacity to supply their facilities. When generators are unable to acquire firm capacity on the secondary market or schedule interruptible transportation, they are forced to acquire supply on the spot market. The same competition for the scarce interruptible pipeline capacity places upward pressure on spot prices for natural gas. As reflected in the ICF International study attached hereto as Attachment 1, there is a close correlation between natural gas prices and power prices.⁴ The higher natural gas spot market prices result in higher power costs, especially on pipeline peak days.

Notwithstanding the generators' inability to schedule transportation service during peak periods, generators have not sought to acquire firm mainline capacity. Algonquin has held multiple open seasons to expand its mainline capacity in the last several years through its Algonquin Incremental Expansion ("AIM"), Atlantic Bridge and Access Northeast projects. In each of these instances, generators have been unwilling or unable to commit to firm mainline capacity to bring natural gas to New England. Further, ISO-NE's efforts to elicit proper fuel assurance responses from generators through pay for performance changes in its most recent forward capacity auction has not resulted in any modification of generator contracting behavior on pipelines that would support additional pipeline infrastructure investment in the region. While pending pipeline projects by Spectra Energy or other interstate pipelines to serve gas utility and industrial customers could alleviate some of the existing system constraints, these projects likely will not have a significant impact on electric power pricing and reliability absent generator participation. Accordingly, an innovative solution is needed to address the lack of pipeline infrastructure supplying electric generators and related natural gas price volatility.

- 2. How the preferred solution results in lower wholesale and/or retail electricity prices for New Hampshire consumers. For example, if the preferred solution requires one or more New Hampshire EDCs to purchase firm pipeline capacity, explain in detail how that purchase translates into lower Locational Marginal Prices (LMPs) for wholesale electricity customers and eventually lower electric energy rates for retail customers. Identify all steps in the process and specify all assumptions.***

The construction of new natural gas infrastructure will provide New England wholesale generators with access to cheap domestic supplies thereby reducing capacity shortfalls and price volatility. As described above, the lack of natural gas infrastructure requires New England generators to rely on higher-priced spot markets. Access Northeast will combine firm natural gas transportation service and local storage facilities to provide reliable, firm transportation service with peak shaving capability to supply generators year-round and during peak periods. Further, the project will provide access to diverse supplies, including from Marcellus/Utica development in the Appalachian Basin, through Algonquin's existing interconnects with seven major interstate natural gas pipelines. Supply from the Appalachian Basin is among the lowest priced gas supply sources on the continent.⁵ Accordingly, avoiding volatile spot market pricing when capacity is scarce and enhancing access to low cost domestic supplies will benefit energy reliability and reduce winter electric prices in New England.

- 3. Whether the preferred solution is part of a regional solution to reduce wholesale electricity prices. If so, describe the regional solution and specify all approvals needed to ensure such solution moves forward.***

Access Northeast is a regional solution that expands existing pipeline and local storage facilities to reduce wholesale electricity prices throughout New England. Specifically, Access Northeast will deliver up to

⁴ ICF Study at 10.

⁵ Id. at 9.

900,000 dekatherms per day of natural gas for electric generation markets in five identified regional zones that directly connect to approximately 70% of New England's electric generation. These direct connections, which cannot be provided by other pipelines, are essential because they ensure that natural gas supply can be delivered to the generators' plants, thereby ensuring that the project will benefit electric markets. Access Northeast will require a certificate of public convenience and necessity from the Federal Energy Regulatory Commission ("FERC") and other federal and state approvals that are customary for the siting and construction of interstate pipeline facilities. Spectra Energy will also seek authorization from the FERC to implement Rate Schedule ERS (Energy Reliability Service) to provide reserved no-notice transportation service, which includes the following rights to ensure reliable and timely natural gas supply to New England generators: (i) firm pipeline capacity equal to the Maximum Daily Transportation Quantity; (ii) non-ratable delivery rights; (iii) the ability to commence delivery up to two hours without the commensurate supply in advance of flow; and (iv) hourly nomination changes using Spectra Energy's LINK® system. The Energy Reliability Service will ensure power generators have access to sufficient services to adapt to timely start up needs and enhance the ability for the electric grid to integrate renewable services. More information on the project can be found at www.AccessNortheastEnergy.com.

Spectra Energy and its co-developers have been working extensively with New England electric distribution companies, including Connecticut Light & Power Company d/b/a Eversource Energy, NSTAR Electric Company d/b/a Eversource Energy, Public Service Company of New Hampshire d/b/a Eversource Energy, Western Massachusetts Electric Company d/b/a Eversource Energy, Massachusetts Electric Company d/b/a National Grid, The Narragansett Electric Company d/b/a National Grid, Nantucket Electric Company d/b/a National Grid, and Central Maine Power Company, on this unique solution. Currently, the Access Northeast developers are negotiating precedent agreements with electric distribution companies that reflect over 80% of the market. The participation of the electric distribution companies and, in turn, the approvals of their respective state regulatory commissions, are essential to the success of Access Northeast as the preferred solution. Accordingly, approvals from the New England states' regulatory commissions are necessary to ensure this solution moves forward with the expected benefits to the region.⁶

4. ***For pipeline-based solutions, specify the firm pipeline capacity in Dth/day to be purchased by each EDC, the associated annual cost and the contract term, identify the pipeline project to which the estimated annual cost relates, provide the estimated benefit-cost ratio for such project and the projected reduction in wholesale and/or retail electricity prices.***

As discussed above, Access Northeast will be capable of delivering up to 900,000 dekatherms per day of natural gas to New England's electric generation which translates into 5,000 MW of power generation in the region. Such capacity will address generators' annual, as well as peak winter, needs. In addition, the project is scalable to meet the regional needs. Although the project scope is being defined and based on competitive negotiations, the ICF Study estimates that "a project like Access Northeast could save New England electric consumers \$780 million to \$1.2 billion per year over its first ten years of operation."⁷ This amount reflects an estimated \$54 million annual net savings to New Hampshire during a normal winter and up to \$189 million annual net savings to New Hampshire in a winter period similar to the 2013/14 winter. The Commission Staff should also consider that Access Northeast will reduce carbon emissions by displacing oil generation, and will minimize environmental and community impacts by maximizing the use of existing pipeline corridors and natural gas infrastructure and avoiding significant greenfield

⁶ Spectra Energy is the owner and operator of interstate natural gas pipelines and, as such, will defer to other commenters with expertise regarding the applicable state regulatory approvals.

⁷ ICF Study at 14.

developments in the region. With timely regulatory review and approval, this preferred solution could commence service, and the delivery of benefits to New England, as early as 2018.

5. ***For LNG-based solutions, describe the product/service offered, specify the quantity to be purchased by each EDC, the associated annual cost and the contract term, identify the storage facilities underlying the LNG product/service and their location(s), and provide the estimated benefit-cost ratio for such solution and the projected reduction in wholesale and/or retail electricity prices.***

As part of Access Northeast, Spectra Energy and its co-developers will utilize local LNG storage facilities to enable a “peak shaving” approach tailored to winter days, better matching the economic and environmental needs of the region. Spectra Energy is evaluating the locations for the LNG storage infrastructure but the benefits to be provided by Access Northeast are reflected in the response to item no. 4.

6. ***For energy efficiency-based solutions, provide the incremental winter kWh savings projection for each EDC for the ten year period beginning 2018 and the associated annual costs, identify the energy efficiency measures underlying the winter period kWh savings and related lifetime benefit-cost ratios and the projected reduction in wholesale and/or retail electricity prices.***

This question is not applicable to the Access Northeast proposal; however, in the long term, Access Northeast will put in place infrastructure which can be utilized to backstop intermittent renewables, such as wind and solar, thus enhancing electric reliability.

7. ***Whether the preferred solution will enhance reliability of the electric power system in New Hampshire and the region. If so, explain how the preferred solution enhances reliability.***

Access Northeast will provide year-round capacity to New England’s generators, including those in New Hampshire, which will help to ensure continuity of supply and facilitate gas-fired generators’ backstop of renewable resources. Further, on peak days, the project is uniquely positioned to deliver enhanced services to strategic natural gas-fired electric generation to enhance regional reliability.

8. ***Provide all studies that support the claimed: (i) benefit-cost ratio(s); (ii) reduction in wholesale and/or retail electricity prices and (iii) reliability enhancement.***

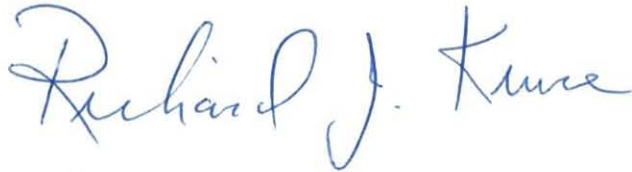
The ICF Study is included hereto as Attachment 1.

CONCLUSION

Access Northeast is a regional solution to add natural gas infrastructure that should reduce constraints and provide relief to consumers in New Hampshire by mitigating high electric prices. Access Northeast relies on the coordination between the project developers and New England electric distribution companies to secure firm transportation and peaking capability for generators that currently rely on interruptible capacity and therefore are subject to volatile spot market prices in times of capacity constraints. The ability of Access Northeast to provide a solution that will translate to significant cost savings for electric ratepayers in New Hampshire will depend on timely review and approval by this Commission of the regulatory mechanism necessary for the participation of the New Hampshire electric distribution companies.

We look forward to working with the Commission Staff in its efforts to mitigate wholesale electric prices in New England. Please contact Janice K. Devers, General Manager, Tariffs and Commercial Development at (713) 627-6170 or jkdevers@spectraenergy.com with any questions.

Sincerely,

A handwritten signature in blue ink that reads "Richard J. Kruse". The signature is written in a cursive style with a large initial "R".

Richard J. Kruse
Vice President, Rates and Regulatory Affairs
and FERC Chief Compliance Officer

Attachment



Access Northeast Project - Reliability Benefits and Energy Cost Savings to New England

Prepared for

Eversource Energy and Spectra Energy

Prepared by

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February 18, 2015



Disclaimer

This report reflects ICF's opinion and best judgment based upon the information available to it at the time of its preparation.

ICF's opinions are based upon historical relationships and expectations that ICF believes are reasonable. Some of the underlying assumptions, including those detailed explicitly or implicitly in this report, may not materialize because of unanticipated events and circumstances.

ICF's opinions could, and would, vary materially, should any of the above assumptions prove to be inaccurate.

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Introduction



ICF International (ICF) was engaged by Eversource Energy (Eversource) to provide an independent assessment of the potential impacts of the proposed Access Northeast gas infrastructure project (Access Northeast) on New England’s natural gas and electric markets. In particular, ICF’s analysis focuses on the impact that new infrastructure may have on regional gas and electricity prices, and the associated economic impacts on consumers.

New England has increased its reliance on natural gas-fired electricity generation in recent years. At present, approximately 50 percent of New England’s power comes from gas-fired generation; the projected retirements of regional nuclear and coal-fired generating facilities, which will be replaced in large part by new gas-fired generation, will further this trend.

The growth in new gas-fired generation raises important questions about the reliability of gas supplies to meet that demand. Of particular concern is whether the network of gas production, pipelines, and storage capacity serving New England will be adequate to supply power generators under winter peak gas demand conditions.¹ A 2014 ICF study for ISO-NE indicates a need for up to 1.1 Bcf/d of additional gas supply by 2020 to meet projected power plant fuel requirements on a design day.² This equates to roughly 5,700 MW of capacity, or up to approximately 30% of the region’s gas generation capacity.

Central to the issue is New England’s reliance on interruptible gas supplies for much of its power generation fuel supply. Unlike local gas distribution companies (LDCs), who contract for firm pipeline and storage services that assure gas supplies on the coldest of days, most gas-fired generators in New England contract for non-firm pipeline capacity and gas supplies to run their plants. This practice has worked in the past because interruptible pipeline capacity has been widely available during most times of the year. Going forward, natural gas-fired plants will shoulder much of the load presently served by retiring nuclear and coal plants. This means that winter season gas demand for power is growing. Without new gas infrastructure, relatively little pipeline capacity will be available for interruptible services in the winter months, as LDCs continue to utilize their firm capacity to meet heating demands.

The ICF study for ISO-NE indicates that without new firm sources of gas supplies, there is a rising probability of gas supply deficits occurring on a significant number of days throughout the winter³. A gas supply deficit⁴ is a serious threat to the reliable operation of the New England electric system that, under certain conditions, could result in costly electric system disruptions.

¹ Gas utilities typically define peak demand conditions in terms of “design-day” criteria, design day refers to the coldest weather conditions over a given time interval, such as 20 or 30 years.

² Assessment of New England’s Natural Gas Pipeline Capacity to Satisfy Short and Near-Term Electric Generation Needs: Phase II, page 21, Exhibit 4-6.

³ Ibid, page 5.

⁴ As described in more details later in this report, gas supply deficit is the amount that remaining gas firm supplies to meet power sector demand is less than the projected dispatch needs for gas-fired generation.

In a recent article for IEEE Power & Energy Magazine on conditions during the winter of 2013/14, ISO-NE stated that “subordinate contracts for gas transport were generally not available to power providers.”⁵ ISO-NE was able to avoid potential brownouts and blackouts during the winter of 2013/14 through the implementation of a number of measures, most notably its “Winter Reliability” program⁶.

In response to this emerging need for new firm gas services in New England, Spectra Energy and Eversource have proposed the Access Northeast project to provide scalable deliverability to Power Plant Aggregation Areas (PPAA) to directly serve power plants in order to reach the most efficient power plants on Spectra Energy’s Algonquin and Maritimes pipelines. According to the proposal, Access Northeast will provide new Electric Reliability Services (ERS) for firm transportation of natural gas and natural gas supply supported by regional storage facilities for their customers. This proposed service provides greater fuel certainty and performance flexibility for generators through reserved No Notice Transportation with an hourly supply option⁷. For its analysis, ICF has assumed that the project will add 500 MMcf/d pipeline capacity and 6 Bcf of peak supply through storage facilities with a maximum deliverability of 400 MMcf/d, starting in November 2018.

The need for natural gas infrastructure projects that introduce incremental firm natural gas supplies to New England or electric infrastructure projects that reduce the demand for natural gas during peak winter days is well documented. To that end, the New England Governors released a statement in December 2013 committing to support “investments in additional energy efficiency, renewable generation, natural gas pipelines, and electric transmission.”⁸ In the statement, Governor LePage of Maine expressed that New England’s “high energy prices drain family budgets and are a significant barrier to attracting business investment, especially in energy-intensive industries... This energy infrastructure initiative can bring these world-class resources to start powering New England industry and start saving money for families across our states.”

It is important to recognize that the economic benefits of new firm gas supplies will accrue to New England stakeholders even when conditions do not result in gas supply deficits or system disruptions. New England’s natural gas and electricity grids operate as efficient and transparent markets where energy prices can rise quickly in response to tightening supply conditions. For example, ICF estimates that New England’s 2013/2014 electric costs were approximately \$3.2 billion higher than the previous winter (December to March), caused largely by Polar Vortex cold weather episodes and the gas market price volatility that cascaded across the East.⁹ Grid operators successfully averted gas supply deficits and major system disruptions, but the economic burden on consumers was nonetheless substantial. ICF estimates that if the Access Northeast project had been in operation last year, New England could have saved \$2.5

⁵ Babula, M. & Petak, K. (2014). The Cold Truth, Managing Gas-Electric Integration: The ISO New England Experience. IEEE Power & Energy Magazine, November/December 2014, pp 20-28.

⁶ A collaboration between ISO New England and regional stakeholders, this project focused on developing a short-term, interim solution to filling a projected “reliability gap” of megawatt-hours (MWh) of energy that would be needed in the event of colder-than-normal weather during winter 2013/2014. The solutions included demand side response program, and incentives to encourage dual fuel and oil generation capabilities. The 2014/2015 winter reliability program includes a LNG component.

⁷ <http://www.spectraenergy.com/content/documents/Projects/NewEngland/Access-Northeast-Project-Brochure.pdf>

⁸ http://nescoe.com/uploads/New_England_Governors_Statement-Energy_12-5-13_final.pdf

⁹ As illustrated later in this report, electric prices in New England are strongly correlated to natural gas prices. High and volatile gas prices are quickly communicated to power markets.

billion last winter. The addition of firm gas supplies and transportation infrastructure can mitigate the risk of future energy price shocks, even during normal winters. As presented later in this report, ICF estimates that a project similar to Access Northeast, on average, could lower consumer energy costs by \$780 million to \$1.2 billion per year during the initial ten-years after it enters service in 2018.

Whether during an extreme year such as 2013/2014 or a normal weather year, ICF's analysis of regional energy price behavior indicate that the potential cost savings from having additional firm gas supplies in New England are well in excess of the annual cost of constructing and operating the infrastructure project.

Summary Findings and Conclusions

New England needs incremental firm natural gas supplies for the electric sector during winter months

In recent years, New England has steadily increased its reliance on natural gas fired generation as coal and nuclear power plants have been retired. As a result, the demand for natural gas from the power sector has increased, with the growth rates being greatest in the winter heating season when traditional heating demand for natural gas is also at its peak. This growing reliance on natural gas is expected to continue during the next few years with the retirement of additional nuclear, coal, and oil-fired capacity (e.g., Vermont Yankee, Brayton Point, and Mount Tom) and the addition of new gas-fired capacity (Footprint Power).

New England’s reliance on non-firm winter gas supplies poses increasing risks on electricity consumer costs

New England LDCs hold the vast majority of firm capacity rights on pipelines. In contrast, power generators typically rely on interruptible pipeline capacity and the spot natural gas market to procure supply. During peak winter demand periods, pipelines must prioritize gas deliveries first to firm customers, with any remaining capacity allocated to the highest bidders in the market. As evidenced by last winter’s record high prices, the resulting competition for scarce interruptible pipeline capacity (particularly during peak demand periods) places upward pressure on spot prices for natural gas. This caused regional wholesale electricity prices to soar, because those prices are set by bids from marginal generators, typically gas-fired units. Last winter, due to the existence of the ISO-NE Winter Reliability program, there were several days where the marginal price was set by oil-fired generation. Had this program not been in place, electric prices would have been even higher.

Diminishing New England gas supply sources increase consumer exposure to non-firm gas supplies

To supplement gas supplies transported by pipelines from US and Western Canadian fields, New England has historically relied on imports produced from smaller gas fields in offshore Atlantic Canada and liquefied natural gas (LNG) cargoes delivered to regional import terminals. Both of these supply sources have diminished in recent years, which will require New England to replace these sources simply to preserve the supply/demand status quo.

Atlantic Canada gas supplies have principally come from the Sable Offshore Energy Project (SOEP) off the coast of Nova Scotia. SOEP has experienced deep declines in production during the past few years and is expected to cease production completely within 10 years. A new offshore field called Deep Panuke commenced production in Q3 2013, but has had production issues resulting in numerous “shut-ins” of production, and has had higher than expected operating costs. Future gas exploration and production activity around Deep Panuke and other Nova Scotia gas fields is uncertain. Absent material changes in gas

exploration and production successes in the Maritimes, New England buyers will need to replace this portion of its fuel supplies.

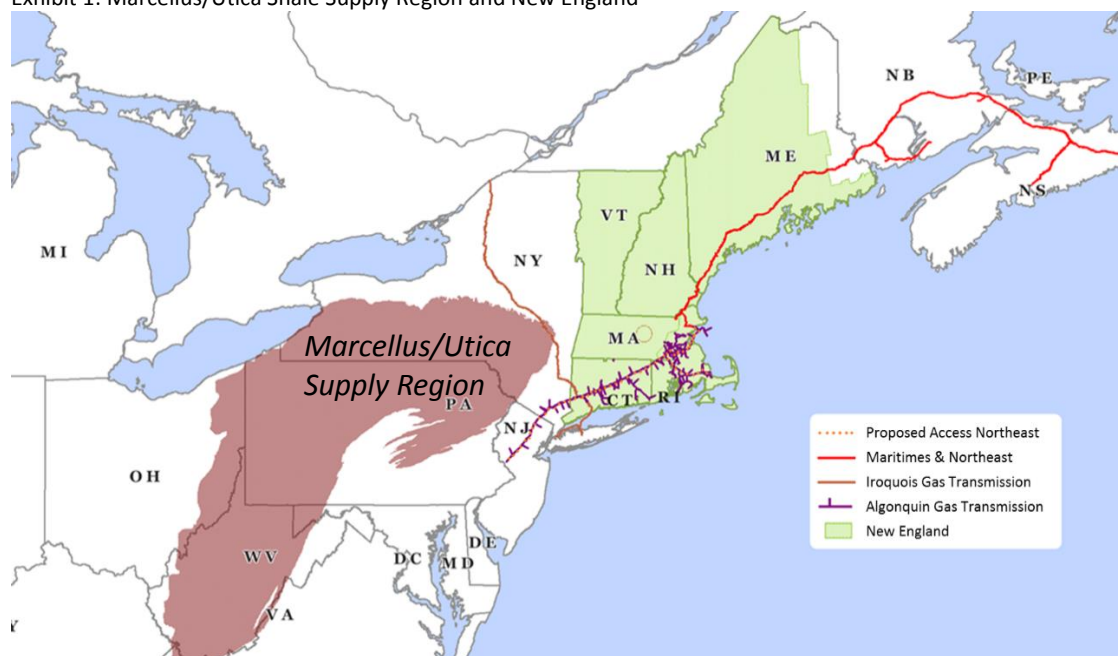
It is important to note that declining gas production in the Canadian Maritimes will likely prompt gas consumers in those provinces to turn to gas imports from New England to meet their heating and power generation needs.¹⁰ This would lead to increased competition for already scarce pipeline capacity and gas supply resources for New England.

New England’s access to gas supplies has become further constrained by the reduced frequency of firm cargoes at the regions’ LNG import terminals. LNG is a global commodity and importers to New England largely operate without firm contracts to sell to New England buyers, instead preferring to seek the highest prices available wherever that may be. As a result, New England must compete with the rest of the world to have LNG spot cargoes available on peak days. This can result in extremely high gas prices, or no gas at all, depending on the availability of spot cargoes. Even during the 2013-2014 winter, when spot prices spiked to \$78/MMBtu, very few spot cargoes were delivered into New England terminals.

Expected growth in the Marcellus/Utica production basins provides a reliable and economic supply source to New England and are located very close to the region

The Appalachian Basin was one of the first US oil and gas producing regions, and ICF expects that the Appalachian Basin’s role as supplier will continue to grow as production from the Marcellus/Utica shale region (Exhibit 1) increases from its current output of 17 Bcf/d to a projected 37 Bcf/d by 2035 (as shown by the right axis of Exhibit 2).

Exhibit 1: Marcellus/Utica Shale Supply Region and New England

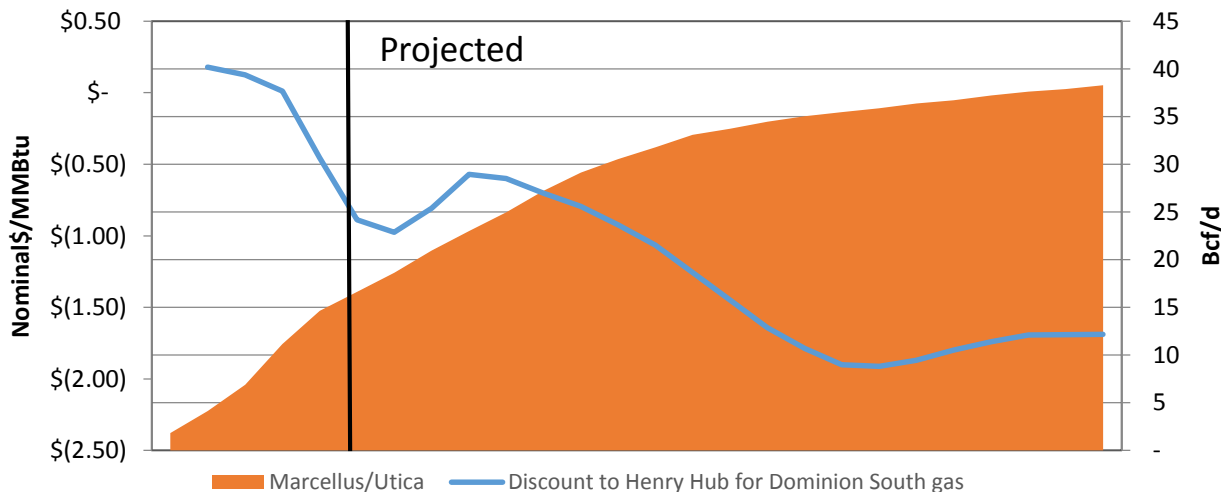


Source: ICF International, Ventyx

¹⁰ See also: “The Future of Natural Gas Supply for Nova Scotia”, ICF International, Prepared for Nova Scotia Department of Energy, March 28, 2013.

The dramatic increase in low-cost Appalachian Basin gas production has materially altered the relationship of the basin’s gas prices to other trading points across the North American market. As shown on the left axis of Exhibit 2, the price of natural gas in the Appalachian Basin (represented by the Dominion South pricing point) relative to the North American benchmark Henry Hub (Louisiana) price has plummeted nearly \$1.50/MMBtu from a premium to a discount of \$1.00. ICF projections show that, as a result of declining production costs, the discounted spread will widen further to more than \$1.50/MMBtu. At these prices, the Appalachian Basin is among the lowest priced gas supply sources on the continent.

Exhibit 2 - Historical and Projected Marcellus/Utica Production and Dominion South Point to Henry Hub Basis¹¹



Source: ICF International, SNL

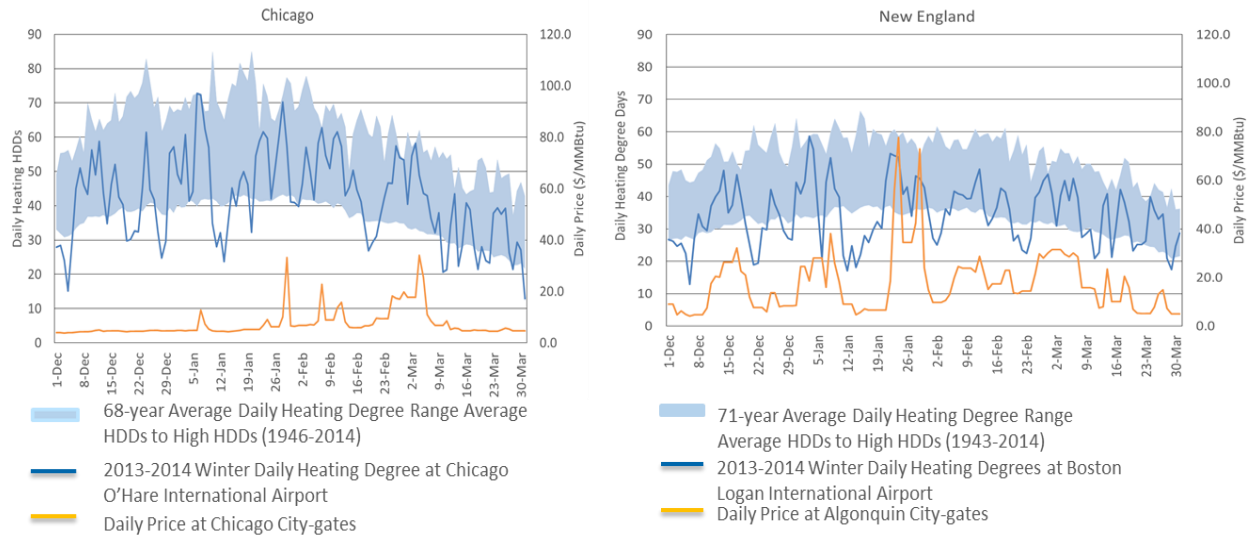
Lack of gas infrastructure to fuel power generation makes New England consumers especially vulnerable to cold weather situations

The consequences of New England’s growing dependence on non-firm pipeline capacity for gas-fired generation were made clear in the 2013-2014 winter. During the Polar Vortex episodes, power generation and heating demand for natural gas soared in the Midwest, Northeast, and Mid-Atlantic. Exhibit 3 shows the comparable weather and natural gas prices in New England and Midwest during this past winter. The US Midwest region experienced the coldest winter in more than 60 years. This is reflected by the actual daily heating degree days¹² (HDD), represented by the blue line which is repeatedly approaching the top of the blue shaded range representing the past 68 years. On the other hand, New England was only moderately colder than normal with the blue daily HDD line positioned mostly in the middle of the historical range. Natural gas prices in the Midwest, however, were much more stable than those in New England primarily because the Midwest has a multiplicity of supply source options and adequate pipeline capacity on several pipeline systems. This behavior signals the first consequence of New England’s winter gas capacity inadequacy - extremely high and volatile natural gas prices.

¹¹ Basis presented here is Dominion South Point price minus Henry Hub price.

¹² Heating Degree Days is calculated as 65 minus the average temperature of the day.

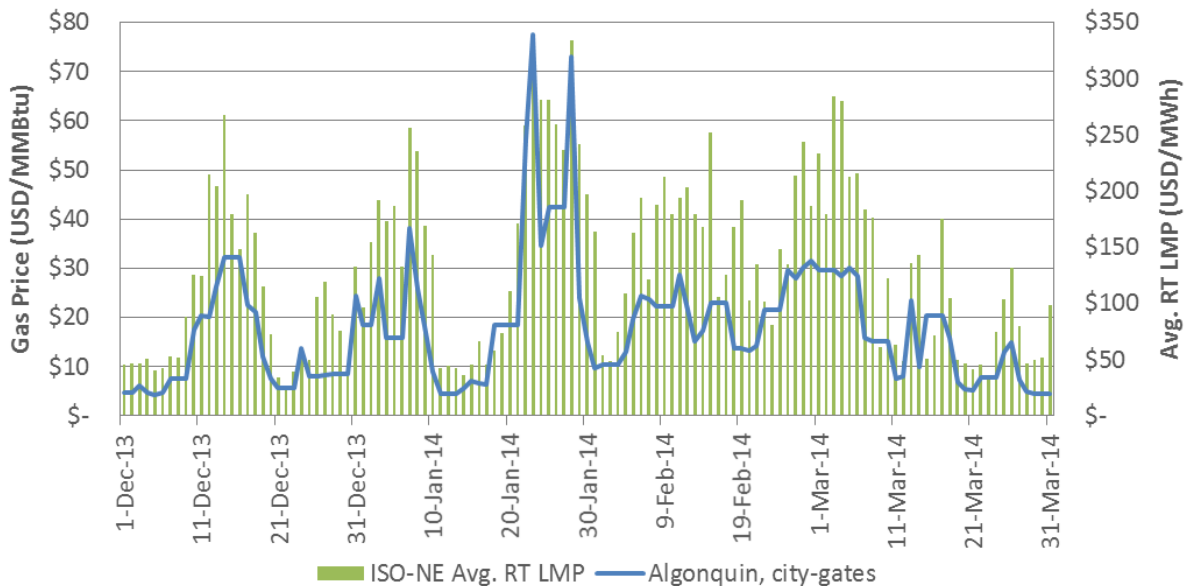
Exhibit 3: Winter 2013-2014 Natural Gas Spot Price Comparison



Source: ICF International, SNL, NOAA

Exhibit 4 shows the second and potentially more damaging consequence of the natural gas capacity inadequacy. In New England, power prices are closely correlated with natural gas prices, so electric prices last winter also reached unprecedented levels as a result of the natural gas price spikes. This tight correlation between gas and electric prices is expected to continue with the increasing dependency of the power grid on natural gas supply and delivery infrastructure.

Exhibit 4: Comparison of New England Gas and Wholesale Power Prices

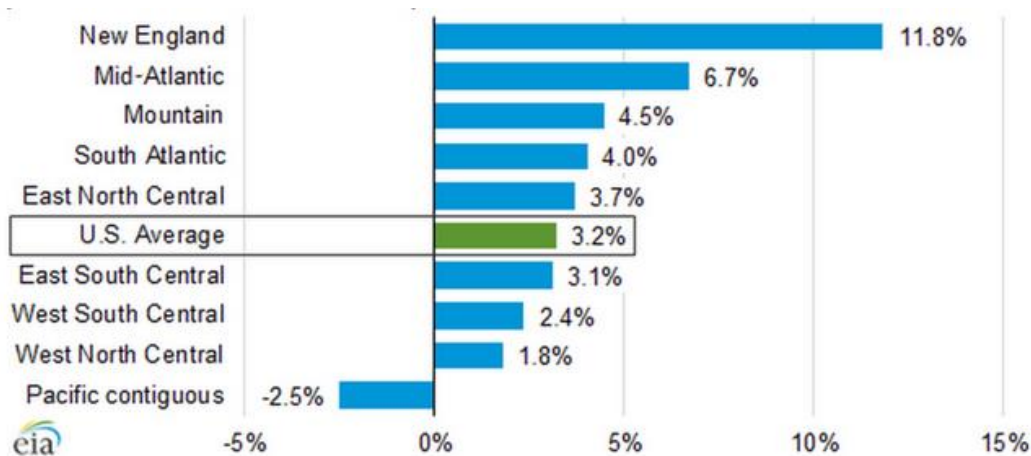


Source: ICF International, SNL

As a result, this extreme sensitivity to weather events may become very costly for New England’s electricity consumers if left unaddressed. For December 2013 through March 2014, New England paid an

estimated \$6.8 billion for wholesale power, \$3.2 billion above the prior year’s level. New England residential electric customers experienced the highest single-year growth rate in the country.

Exhibit 5: Percent Change in Average Residential Electricity Prices, First Half 2014 versus First Half 2013



Source: Energy Information Administration <http://www.eia.gov/todayinenergy/detail.cfm?id=17791>

In addition, almost all New England utilities have had a drastic increase in residential retail rates for the first half of 2015, with increases ranging from 7 to 100 percent, as shown in Exhibit 6.

Exhibit 6: Average Residential Electricity Rates – Energy Only

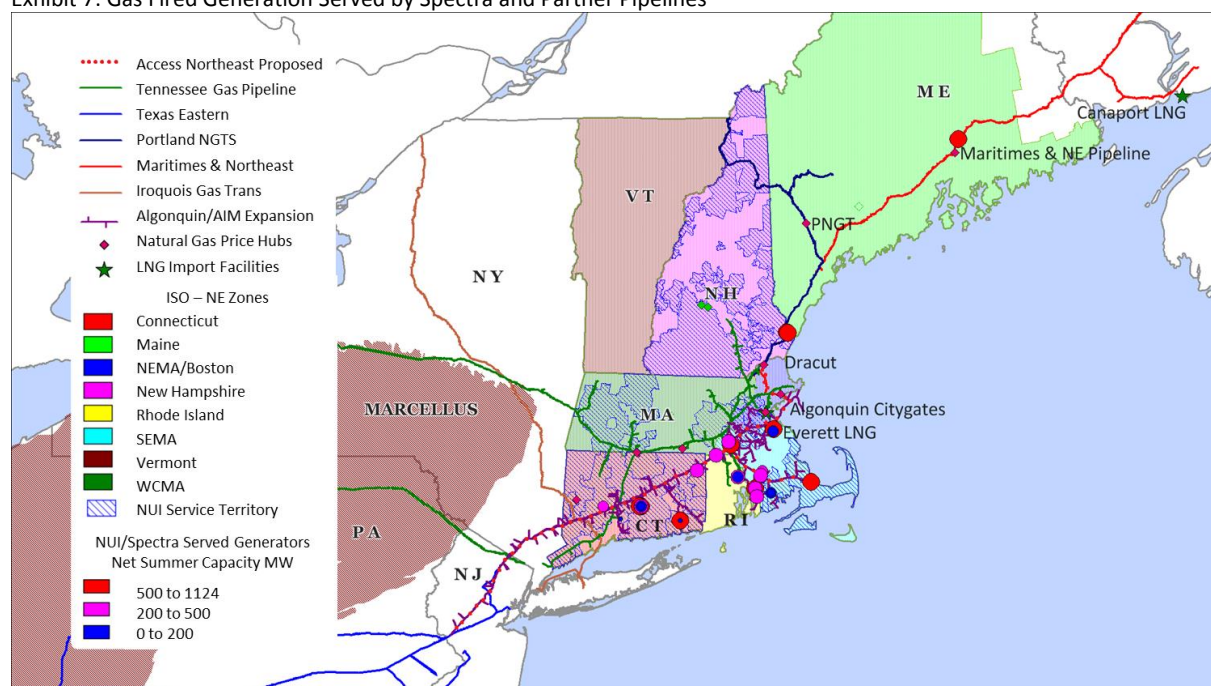
Residential Rates	Energy Rate (c/kWh)		% Change	Current Period
	Prior Rate	Current Rate		
Connecticut				
CL&P	10.0	12.5	25%	Jan '15 – Jun '15
United Illuminating	8.7	13.3	53%	Jan '15 – Jun '15
Massachusetts				
NSTAR	9.4	15.0	60%	Jan '15 – Jun '15
WMECO	8.8	14.0	58%	Jan '15 – Jun '15
National Grid	8.3	16.2	96%	Nov '14 – Apr '15
Fitchburg	8.5	14.1	66%	Dec '15- May '15
New Hampshire				
PSNH	9.9	10.6	7%	Jan '15 – Dec '15
Unitil	8.4	15.5	85%	Dec '14 – May '15
Liberty	7.7	15.5	100%	Nov '14- Apr '15
NH Elec Coop	9.0	11.6	29%	Oct '14 - Apr '15

Source: Eversource Energy

Access Northeast will enhance New England’s grid reliability, complement the ISO-NE’s market improvements to incentivize generation availability, and support the region’s renewable energy goals

To maintain electric system reliability and potentially prevent spikes in wholesale electricity prices, New England’s gas-fired electric generators will need access to firm, reliable and economic natural gas supplies, particularly during the winter months. Access Northeast is designed to supply a significant amount of new pipeline capacity to both existing power plants and proposed facilities and will provide access to domestically sourced peaking LNG supply during winter periods.¹³ This design will optimize the use of natural gas infrastructure by providing year-round access to more natural gas and, when demand for gas is low (typically, Spring, Summer and Fall) storing this domestic gas in regional LNG facilities to be used by electric generation during the Winter. Exhibit 7 shows that the proposed project can potentially serve 6,900 MW, or nearly 70 percent of the region’s existing natural gas fired power generation capacity interconnected to the pipeline system and operating without backup fuel capability.¹⁴ By providing secure fuel supplies to these generators, Access Northeast could improve electric reliability across the grid.

Exhibit 7: Gas Fired Generation Served by Spectra and Partner Pipelines



Source: Ventyx

The ISO-NE has developed a market enhancement that is intended to improve generation availability in order to mitigate the adverse consequences of reliability shortage events. This program is known as “Pay for Performance” (or Performance Incentives “PI”) and is planned to be implemented by ISO-NE on June 2018. Once the program is in place, severe penalties (\$2,000 increasing to \$5,455 /Mwh over time) will be levied on generation that is not available to run at its credited generation capacity level during a

¹³<http://www.spectraenergy.com/content/documents/Projects/NewEngland/Access-Northeast-Project-Brochure.pdf>

¹⁴ Data from Spectra Energy, which includes capacity served by ALQ, MN&P and Iroquois.

generation resource shortage. As ICF has pointed out, currently there could be insufficient firm fuel for as much as 5,700 MW of generation, which means that during winter shortage events the existing gas fired generation units could incur severe penalties if they are not able to dispatch. The infrastructure solution provided by Access Northeast and the Electric Reliability gas supply service, is capable of providing fuel for up to 5,000 MW and can provide this fuel to follow the hourly gas load variations of power plants. Access Northeast will, therefore, help ISO-NE meet its system reliability mandate and help generation avoid the PI shortage penalties.

In addition, New England states have ambitious goals for deployment of renewable generation. Due to the intermittent nature of wind and solar generation, additional quick response gas-fired generation is needed as renewables’ share of total generation increases. Once again, the Access Northeast will provide services that are designed specifically to follow the hourly gas load variations of power plants as electric load and gas fired generation dispatch fluctuates during the day. Access Northeast is also well positioned to provide fuel supplies to insure that generators have a fuel supply when renewable resources are not generating due to the intermittent and unpredictable nature of the resources.

New England could have saved \$2.5 billion in wholesale electric costs had a project like Access Northeast been in operation during the 2013 – 2014 winter

In addition to enhancing the area’s electric reliability, additional firm supplies created by a project like Access Northeast will significantly reduce regional gas and electricity prices, especially during winter months when lack of gas supply during peak days has led to high and volatile gas prices. ICF estimates that a project like Access Northeast could have eliminated gas and electric price spikes on 49 days during this past winter and saved \$2.5 billion in wholesale energy costs for New England’s electric consumers.

ICF has analyzed historical flow and price data for the “Polar Vortex winter” of 2013 - 2014 to illustrate the potential impacts that a project like Access Northeast could have had during the winter of 2013-2014. Daily load factors on pipelines serving New England from New York, namely Tennessee Gas Pipeline (Tennessee) and Algonquin, averaged 89 percent from December 2013 to March 2014, and load factors on price spike days frequently exceeded 95 percent. An additional 500 MMcf/d of capacity, such as is proposed by Access Northeast, could have reduced the average load factor to 75%. Additionally, the pipeline load factors on peak winter days could have been further reduced with Access Northeast’s proposed capability to use strategically located LNG injection points on the Spectra pipeline systems, as illustrated in Exhibit 8. When pipeline load factor is at or below 75% of capacity, New England natural gas price spikes and associated electric price spikes are much less likely to occur¹⁵.

Exhibit 8: Hypothetical Load Factor Reduction with Access Northeast

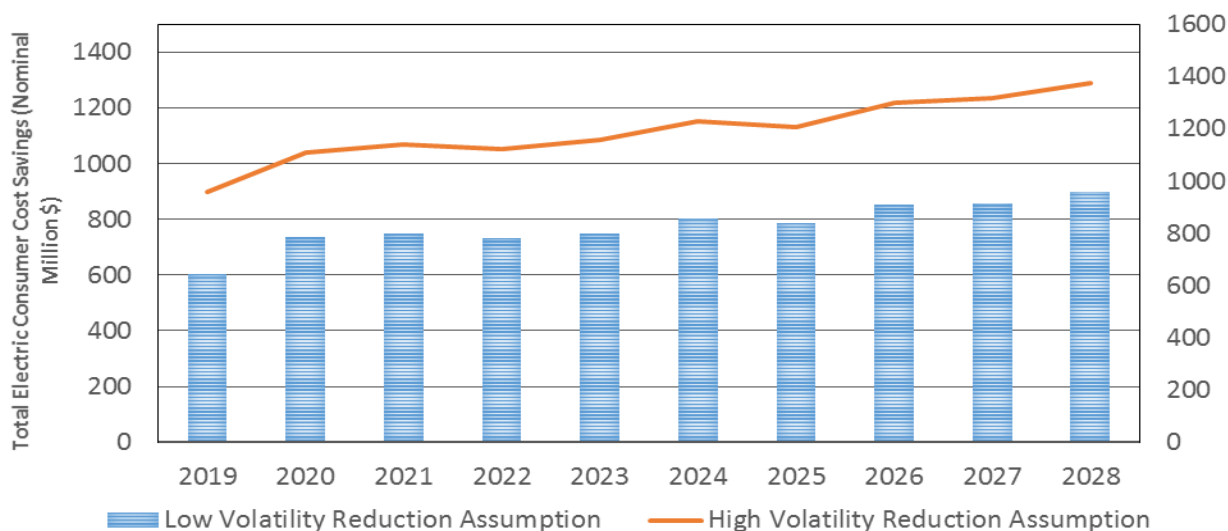
January 23, 2014						
Actual			Hypothetical with Access Northeast			
Flows MMcf/d	Capacity MMcf/d	Load Factor %	Capacity MMcf/d	Storage Dispatch MMcf/d	Reduced Flows MMcf/d	Load Factor %
2479	2761	90%	3261	83	2396	73%

¹⁵ Historical data analysis indicates that New England prices tend to spike up when pipeline load factors exceed 75% of existing infrastructure capacity, which is consistent with the conclusions of the NESCOE study.

A project like Access Northeast generates \$780 million to \$1.2 billion savings for New England Electric consumers under normal weather conditions

ICF estimates that, on average, a project like Access Northeast could save New England electric consumers \$780 million to \$1.2 billion per year over its first ten years of operation (2019 – 2028). Reduced wholesale energy prices resulting from reduced gas prices lower the cost of every MWh of energy consumed in the region, so all electric consumers will benefit from this cost reduction. It is critical to note, however, the price correlation between natural gas and power can only be realized if power plants have access to natural gas supply, which is a primary benefit that Access Northeast provides. Exhibit 9 shows that annual electric cost savings resulting with Access Northeast rises from \$600 million to \$1.4 billion over time.

Exhibit 9: New England Electric Consumer Cost Savings



Source: ICF International

The extreme price volatility of natural gas in winter was partly driven by generators’ lack of firm access to fuel. The volatile market price for gas on a daily basis results from the scarcity pricing effect where generation buyers were faced with little to no market liquidity (a “seller’s market”). ICF’s volatility analysis is intended to capture the asymmetric nature of the “gas for power” market in New England - prices can go very high, but tend to decline only modestly. ICF’s estimates of volatility reduction are conservative, by assuming that a project like Access Northeast results in “reduction” and not “elimination” of volatility, which could have resulted in larger economic benefits such as the \$2.5 billion estimated for the 2013-2014 winter.

In addition to the projected savings to consumers, an infrastructure project like Access Northeast will improve market liquidity by providing the infrastructure needed to ensure firm gas access for power generation and, therefore, create a more balanced and efficient “gas for power” market. The Access Northeast infrastructure will “de-bottleneck” the gas supply market for generation much like a transmission line removes market price separation along a constrained electric interface.

The annualized cost of the Access Northeast project assessed in this analysis is approximately \$400 million a year.¹⁶ ICF estimates that the project would potentially produce net savings of \$380 million to \$800 million a year to New England’s electric consumers. This estimate assumes that the project is constructed following the funding mechanism that the electric distribution companies proposed to NESCOE¹⁷. Under such a mechanism, New England’s electric consumers would bear the full cost of the electric portion of the project, so those costs are netted out of the total savings that ICF has estimated. However, the cost savings to consumers would be greater if projected revenues for pipeline reservation charges paid by electric generators were to be credited back to the consumers (as is proposed). ICF also estimates that the majority of the \$2.4 billion investment required for the project could be recovered from the cost savings realized from a single winter like 2013/14.

Access Northeast’s cost savings increase by more than 25% if extreme winter weather conditions occur along with a nuclear plant outage

ICF has assessed the benefits of Access Northeast under a “1-in-20 year” design winter and also assuming that 1,000 MWs of base load units are not available during the 2018-2019 winter (this is also a condition evaluated by ISO-NE and carries a high risk to electric reliability without new gas infrastructure). This results in more dramatic natural gas and wholesale electricity price reductions. ICF estimates that during the five-month winter period from November 2018 through March 2019, cost savings to the area’s electric customers would be approximately \$1.1 billion dollars, 25 percent higher than the high volatility reduction under normal weather conditions.

Access Northeast promotes greater reliability and mitigates the risks of costly electric grid disruption

The cost savings estimated by ICF in preparing this study and report focus solely on the benefits that additional infrastructure have on fuel supply costs and, in turn, the cost of producing electricity. Another and potentially much greater financial benefit is gained by avoiding potential direct and indirect economic consequences from disruptions to electric grid services. Although beyond the scope of this study, other sources have shown that disruptions to electric services can be multiples of the billions of dollars in fuel cost savings we identify.

¹⁶ ICF estimated the levelized cost for the power generation solution based on a \$2.4 billion capital investment requirement.

¹⁷ http://www.nescoe.com/uploads/GasforElectricReliabilityGraphic_April2014.pdf

Study Background

The ISO-NE Perspective

Over the past decade, the New England power market has experienced a rapid shift towards gas-fired generation, which has created challenges for ISO-NE regarding electric system reliability. Although the region has expanded pipeline infrastructure as demand from gas LDCs customers has grown, there has been no equivalent investment to ensure that gas is available for power plants as New England’s reliance on gas-fired generation has increased significantly. Generators’ lack of firm pipeline capacity contracts has been identified as a key risk by ISO-NE. Under the pipeline regulatory system imposed by FERC, interstate gas pipelines only build new or increased pipeline capacity if shippers are willing to commit to long-term firm contracts for the capacity rights. Without long-term firm contracts, pipeline capacity will not be added into New England.

LDCs contract for firm pipeline capacity based on potential peak day demand of their firm service customers under extreme winter weather conditions, referred to as a “design day” and buy their gas supplies under a portfolio of supply contracts and delivery points in the gas production areas served by their pipeline transport providers. Electrical generators in vertically integrated power markets (primarily in the Midwest, southern states, and some western states) will make long-term pipeline contracts because they are usually permitted to pass the costs of the capacity contracts through to their electric customers. However, in ISO/RTO markets like New England, generators are unwilling to take the risk of entering in long-term contracts absent any certainty that they will be able to recover those costs. As a result, most gas-fired generators in New England have made no long term commitment and rely on non-firm, interruptible capacity (IT) services and spot market purchases of natural gas supplies.

During the summer months, New England LDC loads are low and IT services are readily available. However, in the winter months (and particularly on cold winter days when firm LDC demand is highest), IT services become scarce, leading to sharp increases in regional spot gas prices and concerns about meeting minimum fuel requirements needed to avoid electric system disruptions. The 2013/14 Winter Reliability program encouraged oil and dual-fuel generation to stockpile oil reserves through out-of-market payments. With FERC approval, ISO-NE has implemented a similar Winter Reliability program for the winter of 2014/15. However, in its order approving the new 2014/15 program, FERC stated, “we expect ISO-NE to abide by its commitment to develop a long-term, market-based solution to address winter reliability issues.”¹⁸

As part of its effort to look for long-term solutions, ISO-NE has engaged ICF for three separate studies since 2011 to evaluate the availability of gas supplies to New England electric generators during peak winter demand periods through 2020. The three ICF studies are:

- 1) Assessment of New England’s Natural Gas Pipeline Capacity to Satisfy Short and Near-Term Electric Generation Needs (“Phase I”), analysis completed June 2012¹⁹

¹⁸ <http://www.ferc.gov/CalendarFiles/20140909165718-ER14-2407-000.pdf>

¹⁹ http://www.iso-ne.com/committees/comm_wkgrps/prtcnpts_comm/pac/reports/2012/gas_study_public_slides.pdf

- 2) Assessment of New England’s Natural Gas Pipeline Capacity to Satisfy Short and Near-Term Electric Generation Needs: Phase II (“Phase II”), analysis completed December 2013²⁰
- 3) Winter 2013/14 Benchmark and Revised Projections for New England Natural Gas Supplies and Demand (“Winter Benchmark”), analysis completed April 2014²¹

A similar analytic approach was used in the Phase I and Phase II studies. First, ICF evaluated the total gas supplies available to New England consumers (from firmly contracted interstate pipeline capacity, send out from LNG import terminals, and LDC-operated peak-shaving facilities) on a peak winter day. Next, ICF projected the aggregated design day firm load for the New England LDCs, based on data provided by the LDCs for use in the study and LDC filings with their state public service commissions. To arrive at gas supplies remaining for New England’s electric generators on a peak winter day, ICF subtracted the LDC firm design day load from the total regional gas supplies. Separately, ISO-NE modeled multiple scenarios for gas generation fuel requirements, based on various combinations of gas prices, projected electric load, availability of non-gas generation, and other variables. The ISO-NE projections for generator gas demand were compared to the remaining supply; where projected demand is greater than the remaining supply, this is referred to as a gas supply deficit. The Phase II study concluded that by the winter of 2019-2020, gas supply deficit would range from 250 to 1,100 MMcf/d under the Phase II Retirements scenarios, which did not include ISO-NE’s revised projections for electric load reductions due to energy efficiency.²² However, even in cases including new energy efficiency projections that reduce electric load growth and gas demand, the Phase II still projected gas supply deficits of from 200 to 800 MMcf/d.²³

For the most recent Winter Benchmark study, ISO-NE asked ICF to examine gas system performance during the winter of 2013/14 (particularly during the January 2014 polar vortex events), and based on this new data, revise its Phase II projections for New England natural gas supplies, firm LDC demand, and gas supplies remaining for electric generators. ICF collected data on daily pipeline flows throughout the winter, and the Northeast Gas Association (NGA) provided send out data from their member LDCs for four of the peak demand days in January. ISO-NE provided a total of nine new gas demand projections, based on its dispatch analysis using results from the latest Forward Capacity Auction (FCA 8), and various combinations of gas prices, load assumptions, and nuclear outages.

The cases ISO-NE deemed to be most relevant in the Winter Benchmark study were those using “extreme” (~\$23/MMBtu) gas prices, since these cases are most representative of spot prices observed in New England when gas supplies are constrained and oil-fired units frequently become the marginal supply.

²⁰ While the Phase II study was complete in 2013 and a draft report was issued in December 2013, the final version of the report was posted on ISO-NE on November 20, 2014; see: http://www.iso-ne.com/static-assets/documents/2014/11/final_icf_phii_gas_study_report_with_appendices_112014.pdf

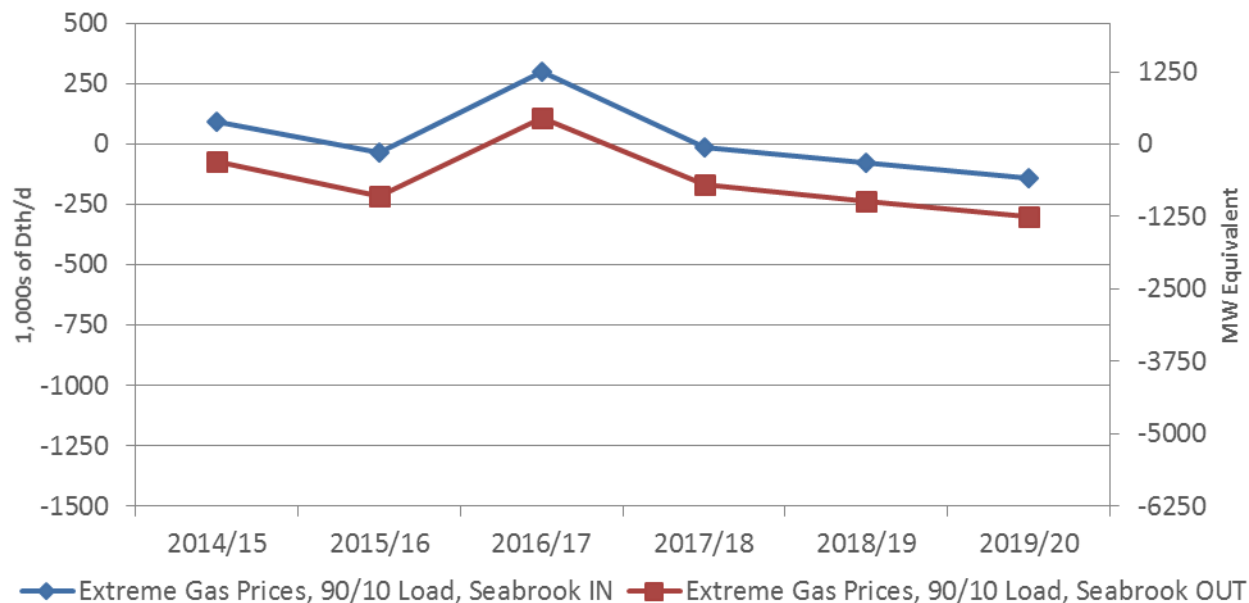
²¹ http://www.iso-ne.com/static-assets/documents/committees/comm_wkgrps/prtcnpts_comm/pac/mtrls/2014/apr292014/a3_icf_benchmarking_study.pdf

²² Assessment of New England’s Natural Gas Pipeline Capacity to Satisfy Short and Near Term Electric Generation Needs: Phase II, ICF International (2014), page 21, Exhibit 4-6.

²³ Ibid.

Exhibit 10 shows the projected gas deficits for peak winter days through the winter of 2019/20; points below 0 on the y-axis represent supply deficits.²⁴

Exhibit 10: Power Sector Winter Peak Day Supply Deficits



Source: ISO-NE Planning Advisory Committee presentation, April 29, 2014

Even assuming extreme gas prices and heavy reliance on older more expensive oil-fired generation, the electric system is still expected to have a gas deficit of between 140 and 300 MMcf/d (equivalent to 600 and 1,300 MW) by the winter of 2019/20, meaning electric system reliability will remain at risk without additional gas supplies into the region. As shown in the Phase II study, the supply gap is expected to be much larger if gas prices are less extreme. Gas supply to ISO-NE generation would need to provide an additional 1.1 Bcf/day in order to fuel as much as 5,700 MW of generation and allow for cost efficient and reliable operations.

With extreme gas prices at \$23/MMBtu and above many oil units are in merit, which reduces gas-fired generation, producing a “lower” deficit for natural gas fired generation capacity. However, while the ISO-NE dispatch analysis assumes oil supplies are available, experience from the winter of 2013/14 indicates that this might not be the case. Generators had stockpiled oil prior to winter (due to the ISO-NE Winter Reliability program requirements), but by February of 2014 most generators were down to two days of oil supplies. In a filing with FERC, ISO-NE stated that during this winter2013/14:

“Those [oil-fired generating stations] that tried to replenish their inventory reported difficulties in both procuring and transporting oil. Oil was unavailable given the increased demand from both the heating and power sectors and reduced supply following years of reduced demand. Even when oil was available, barges to transport the oil were in short supply due to high demand all along the East Coast. When they were

²⁴ The deficit reduction in the winter of 2016/17 is due to the planned Algonquin AIM and Tennessee Connecticut pipeline expansions in November 2016; these were the only pipeline capacity expansions assumed in the Winter Benchmark analysis.

available, barges had difficulties with frozen and shallow water conditions. Trucks were also limited, and commercial drivers’ license requirements restricted hours per day of work (although the license requirement was loosened in Massachusetts at the ISO’s request).”²⁵

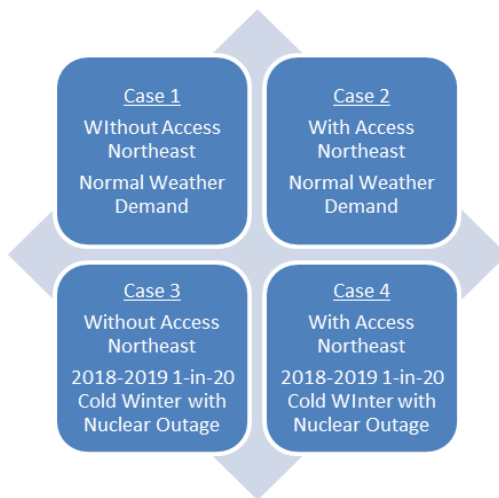
While ISO-NE’s Winter Reliability program encourages less reliance on gas-fired generation, the resulting increase in dependence on oil-fired generation can also present reliability risks, demonstrated by the difficulties replenishing oil supplies this past winter. Additionally, the increased dependence on oil-fired generation can result in high electricity rates to customers (such as those experienced during winter 2013/14) as summarized earlier in this report. Consistent with the design of the Access Northeast project, firm pipeline capacity, from both more firm transport from stable gas sources west of New England and access to supplemental LNG supplies from strategically located facilities in New England, will provide enhanced power supply reliability.

Purpose of This Study

The purpose of this study is to assess the impact to electric system reliability and estimate the potential cost savings to New England electric consumers from the proposed Access Northeast project.

ICF’s analyses focused on four model runs – one scenario assuming the average normal weather conditions from 2019 through 2028 with and without Access Northeast, and a second scenario assuming a 2018-2019 cold winter season with a large nuclear outage, as shown in Exhibit 11. ICF also provides qualitative assessments on the proposed project’s potential non-economic benefits, including enhancing the electric system reliability and supporting renewable generation.

Exhibit 11 : ICF Analysis Overview



ICF’s analyses and findings draw from years of experience consulting on North American natural gas and electric markets, and the proprietary software tools and data bases developed for that purpose. For this analysis, ICF utilized a suite of analytical tools –Gas Market Modeling (GMM®), ICF’s Integrated Planning

²⁵ ISO-NE ISO New England Inc., Docket No. ER14-2407-000 Winter 2014-15 Reliability Program (Part 1 of 2) http://www.iso-ne.com/regulatory/ferc/filings/2014/jul/er14-2407-000_win_rel_pro_7-11-2014.pdf

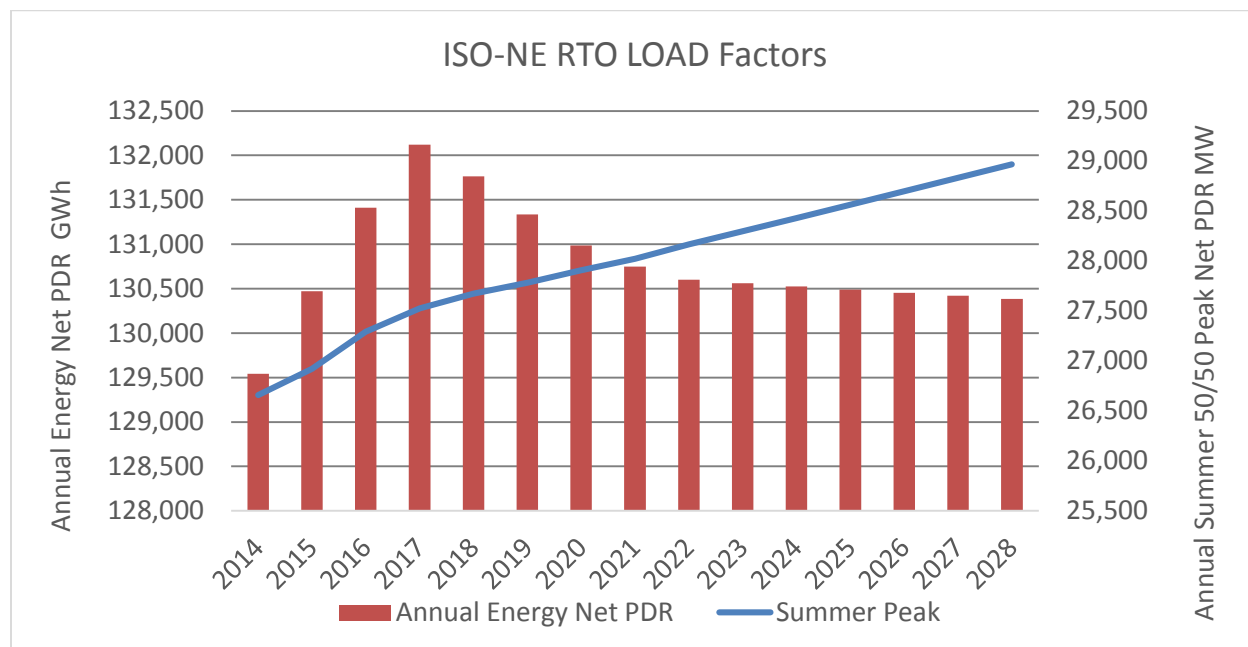
Model (IPM®), and GE’s Multi Area Production Simulation (MAPS) –through an iterative and integrated process.

Analytic Assumptions

Electric Load Growth

For electric load growth in New England, ICF utilizes the 2014 ISO-NE CELT report’s net of Passive Demand Response (“PDR”) energy load forecast extrapolated through 2028. The projection assumes that New England’s annual net energy load grows through 2017 and declines until 2023 and remains flat afterwards as seen in Exhibit 12. This load growth projection reflects significant amount of energy efficiency gains over time to offset the load growth resulted from population growth and economic developments.

Exhibit 12: ISO-NE RTO LOAD Factors



Source: ICF International

Capacity Retirements and Builds

In the analysis, ICF assumes that approximately 2,800 MW of coal, oil, and nuclear generation capacity in ISO – NE is retired by 2018 as shown in Exhibit 13.

Exhibit 13 – ISO – NE Firm Retirements

Plant Name	Capacity Type - Sub Type	Retirement Date	Capacity Modeled(MW)
Vermont Yankee	Nuclear - Nuclear	01-Oct-14	604
SALEM HARBOR	Coal, Oil/Gas Steam	30-May-14	581
Bridgeport Station	Oil/Gas Steam - Heavy Oil	01-Jan-17	130
Brayton PT	Oil/Gas Steam - Heavy Oil, Combustion Turbine, Coal	31-May-17	1500

Source: ICF International

For this analysis, ICF assumes that the Footprint Power facility (700 MW rating) comes online in January 2017. In addition, a 500 MW of combined cycle facility is assumed to be constructed in 2023 to replace retired capacities.

Renewables

ICF assumes all renewable portfolio standards (“RPS”) in the New England states are met according to the proposed timeline. For Massachusetts, the RPS requires 22 percent of energy from renewable resources by 2020 and an additional 1 percent each year thereafter. Connecticut, 27 percent by 2020; New Hampshire, 24.8 percent by 2025; Rhode Island, 16 percent by 2020 and Maine, 30 percent by 2020. ICF assumes 800 MW of wind will be built through 2028. 1,500 MW of solar and approximately 150 MW of landfill and biomass capacity will also be added to serve ISO-NE.

Environmental Regulations

For this analysis, ICF assumes that federal maximum achievable control technology (MACT) standards, consistent with those set by the Environmental Protection Agency (EPA) in its final mercury and air toxics standards (MATS) released on December 21, 2011, will be in place. ICF also assumes that the EPA will not have an alternative to current the Clean Air Interstate Rule (CAIR) regulations, and that CAIR remains in place through 2017. In 2018, ICF assumed standards tighten to the Cross State Air Pollution Rule (CSAPR) Phase II requirements. Furthermore, ICF considers a national CO₂ cap and trade program starting in 2020 at \$1/ton and increasing to \$16.6/ton by 2028. However, on the regional level, the analysis assumes the existing CO₂ market for Northeastern and Mid-Atlantic states²⁶ under the Regional Greenhouse Gas Initiative (“RGGI”) program remains in place²⁷ and is gradually integrated into the federal program.

ICF’s CO₂ forecast reflects a probability weighted assessment of several alternative GHG mitigation policies. Exhibit 14 shows the RGGI CO₂ expected allowance prices in New England increases from \$5.2/Ton to \$16.6/Ton by 2028.

²⁶ Includes MD, CT, DE, ME, MA, NH, RI, VT, and NY.

²⁷ RGGI CO₂ program is assumed to be subsumed by National CO₂ program by 2026. Inflation used beyond 2013 is 2.1% annually. Therefore the values presented here beyond 2025 are actually national CO₂ numbers.

Exhibit 14: Carbon Pricing Assumptions

Year	RGGI: CO ₂ Expected Allowance Prices (Nom\$/Ton)
2014	5.2
2015	6.3
2016	7.5
2017	8.9
2018	9.1
2019	9.3
2020	11.4
2021	11.6
2022	11.8
2023	12.1
2024	12.3
2025	12.6
2026	13.3
2027	14.9
2028	16.6

Source: ICF International

Impact on System Reliability

Access Northeast will increase ISO-NE's electric system reliability by directly providing firm natural gas fuel for gas fired power generators. As discussed earlier, the most recent ISO-NE study performed by ICF last year identified that potential capacity needs for the region range from 250 MMcf/d to 1.1 Bcf/d for peak winter days under different assumptions.

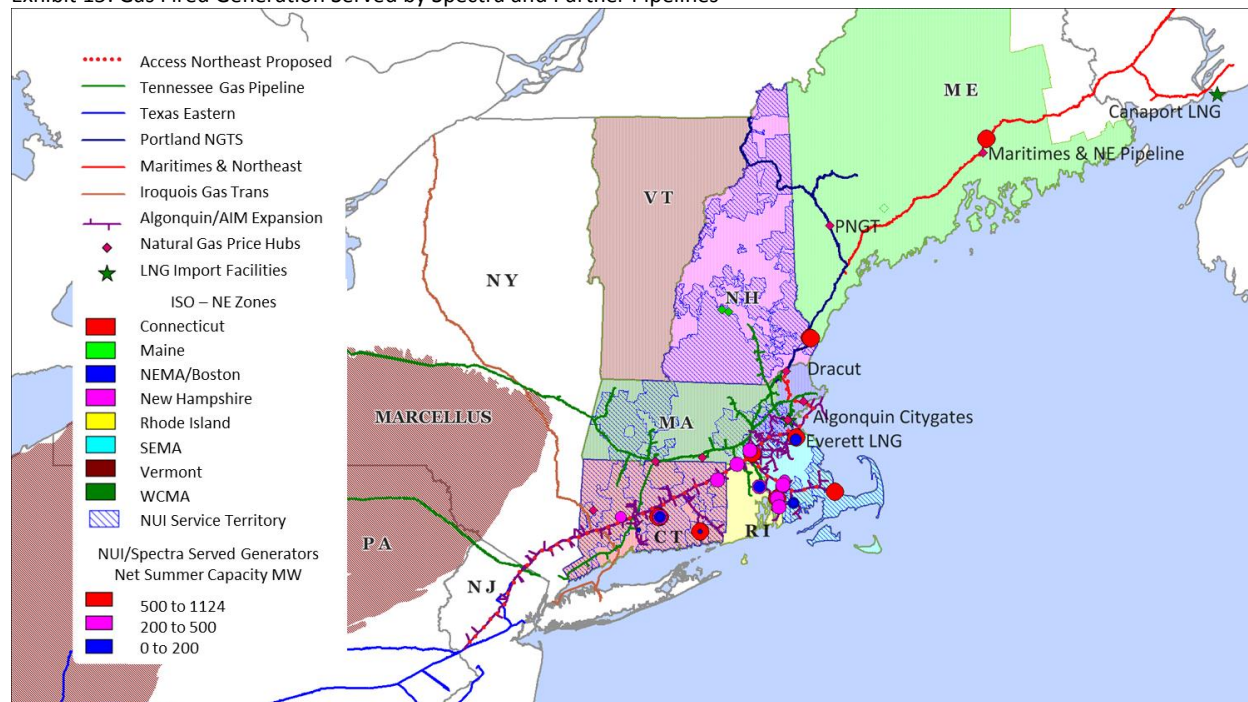
The Mass DOER study, recently completed by Synapse Energy, analyzed a suite of scenarios and concluded that in order to balance supply and demand for natural gas in Massachusetts in 2020, there is a hypothetical natural gas capacity need of 25 billion Btu per peak hour to 33 billion Btu per peak hour (0.6 Bcf per day to 0.8 Bcf per day).²⁸ The estimated need for pipeline capacity exists even under the low demand scenario with the assumption of a new transmission project that imports 2,400 MW of Canadian hydroelectric power into Massachusetts. The low demand scenario is based on the assumption that Massachusetts implements all of the alternative resources deemed technically and economically feasible and practically achievable.

To maintain electric system reliability and potentially prevent spikes in wholesale electricity prices, New England's gas-fired electric generators will need access to firm, reliable and economic natural gas supplies, particularly during the winter months. Access Northeast is designed to supply a significant amount of new pipeline capacity to both existing power plants and proposed facilities and will provide access to domestically sourced peaking LNG supply during winter periods. This design will optimize the use of existing natural gas infrastructure by providing year round access to more natural gas and, when demand for gas is low (typically, Spring, Summer and Fall) storing this domestic gas in regional LNG facilities to be used by electric generation during the Winter. Exhibit 15 shows that the proposed project can potentially serve 6,900 MW, or nearly 70 percent of the region's existing natural gas fired power generation capacity interconnected to the pipeline system and operating without backup fuel capability²⁹. By providing secure fuel supplies to these generators, Access Northeast could significantly improve electric reliability across the grid.

²⁸Massachusetts Low Demand Analysis, slide 28, <http://synapse-energy.com/project/massachusettslow-demand-analysis>.

²⁹ Including connections with ALQ, MN&P and Iroquois.

Exhibit 15: Gas Fired Generation Served by Spectra and Partner Pipelines



Source: Ventyx

The ISO-NE has developed a market enhancement that is intended to improve generation availability in order to mitigate the adverse consequences of reliability shortage events. This program is known as “Pay for Performance” (or Performance Incentives “PI”) and is planned to be implemented by ISO-NE on June 2018. Once the program is in place, severe penalties (\$2,000 increasing to \$5,455 /Mwh over time) will be levied on generation that is not available to run at its credited generation capacity level during a generation resource shortage. As ICF has pointed out, currently there could be insufficient firm fuel for as much as 5,700 MW of generation, which means that during winter shortage events the existing gas fired generation units could incur severe penalties if they are not able to dispatch. The infrastructure solution provided by Access Northeast and the Electric Reliability gas supply service, is capable of providing fuel for up to 5,000 MW and can provide this fuel to follow the hourly gas load variations of power plants. Access Northeast will, therefore, help ISO-NE meet its system reliability mandate and help generation avoid the PI shortage penalties.

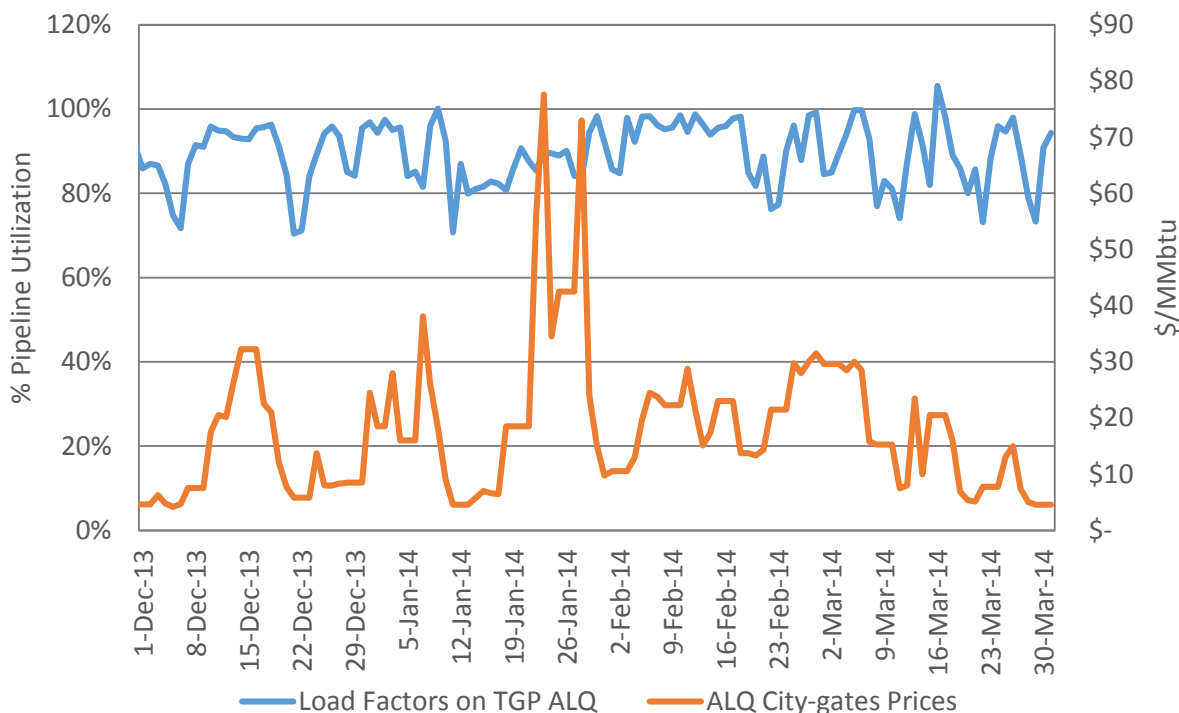
In addition, New England states have ambitious goals for deployment of renewable generation. Due to the intermittent nature of wind and solar generation, additional quick response gas-fired generation is needed as renewables’ share of total generation increases. Once again, the Access Northeast will provide services that are designed specifically to follow the hourly gas load variations of power plants as electric load and gas fired generation dispatch fluctuates during the day. Access Northeast is also well positioned to provide fuel supplies to insure that generators have a fuel supply when renewable resources are not generating due to the intermittent and unpredictable nature of the resources.

Hypothetical Impact of Project on Winter 2013/2014

ICF has analyzed historical flow and price data to illustrate the potential impacts that a project like Access Northeast could have had during the “polar vortex winter” of 2013-2014.

As shown in Exhibit 16, daily load factors on pipelines serving New England from New York - namely Tennessee Gas Pipeline (Tennessee) and Algonquin - averaged 89 percent from December 2013 to March 2014, and load factors on price spike days frequently exceeded 95 percent.

Exhibit 16: Daily Load Factors on TGP and ALQ during winter 2013-2014 and New England Natural Gas Prices

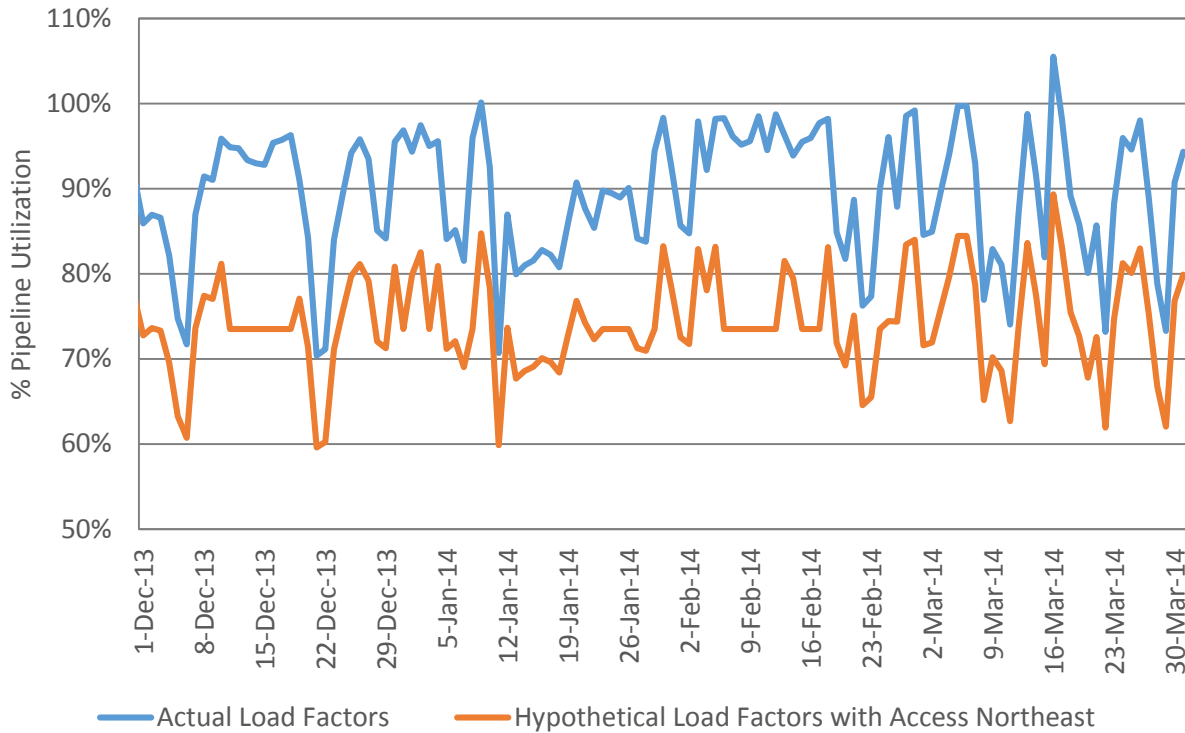


Source: ICF International, LCI

An additional 500 MMcf/d of capacity, such as is by Access Northeast analyzed in this study, could have reduced the load factors by increasing available capacity. Additionally, the dispatch of Access Northeast’s proposed LNG capabilities on peak winter days could have further reduced pipeline load factors. Exhibit 17 shows the actual load factor and the hypothetically reduced load factors for introducing the Access Northeast project. Based on the assumption that the gas price spikes and associated electric price spikes would be eliminated when pipeline load factors are at or below 75 percent³⁰, ICF estimates that a project like Access Northeast could have eliminated gas and electric price spikes on 49 days from December 2013 through March 2014, saving \$2.5 billion in wholesale energy costs for New England’s electric consumers.

³⁰ Historical data analysis indicates that New England prices tend to spike up when pipeline load factors exceed 75% of existing infrastructure capacity, which is consistent with findings of the NESCOE study.

Exhibit 17: Actual Pipeline Load Factors and Hypothetical Reduced Load Factors with Access Northeast



Source: ICF International

The estimated cost savings were extraordinary for winter 2013-2014, because the polar vortex conditions have impacted a very large US geographic area (including the Northeast, Southeast, and Mid-west simultaneously) that drove up the demand for natural gas throughout the natural gas transportation systems.

Cost Savings - Normal Weather Scenario

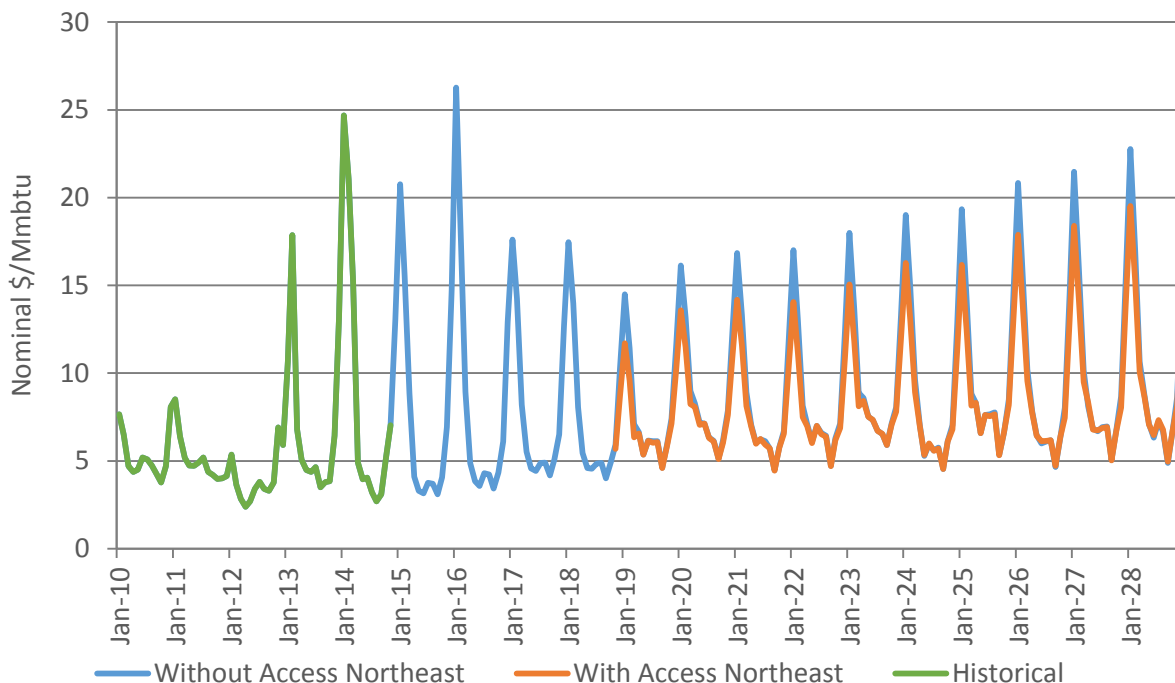
ICF estimates the economic impact of Access Northeast by running GMM and IPM models under normal weather conditions with and without Access Northeast and compares the difference between natural gas prices and electricity prices. The price reduction is used to calculate the market impact and potential cost savings to New England’s electric consumers before estimating savings from reduced price volatility. The project’s impact on natural gas price volatility and subsequent reduction to the electric price spikes are then estimated separately utilizing a statistical approach.

Natural Gas Price Impact (excluding volatility)

Exhibit 18 shows that without Access Northeast, under normal weather conditions, ICF projects gas prices in New England will briefly exceed the level reached in last winter. Incremental capacity expansions (such as AIM, Tennessee’s Connecticut Expansion, Spectra’s Atlantic Bridge, and other projects to meet LDCs’ load growth) will lower the price down to \$15/MMBtu. It then steadily increase over time and exceed \$20/MMBtu by January 2026 when more gas is needed for generation and supply from East Canada is no longer available. Access Northeast reduces January price by \$2.80 – 3.20/MMBtu for the entire study period.

Even before taking the impact of volatility into consideration, ICF projects that Access Northeast will significantly reduce natural gas prices during peak winter months. On average, peak winter month prices will be approximately \$3/MMBtu lower with Access Northeast.

Exhibit 18: New England Natural Gas Price Forecast (excluding volatility reduction benefits)

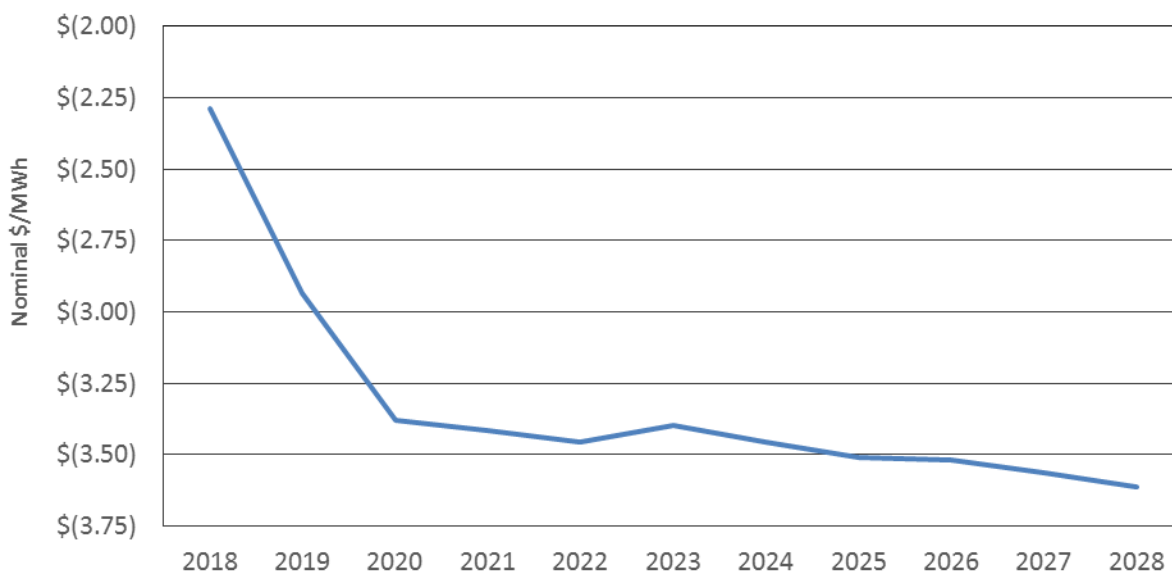


Source: ICF International, SNL

Electric Price Impact (excluding volatility)

Access Northeast is designed to provide firm gas supply to the gas fired power plants that are connected to the Spectra pipelines. The Spectra pipelines are already directly and indirectly connected to 70 percent of the gas fired generation plants that serve New England. Further, Spectra pipelines serve twice the number of efficient gas fired power plants than the other pipelines combined. Because Access Northeast along with interconnecting pipelines and regional storage assets will provide firm service to gas fired generators (even during severe winter conditions), the reduction in natural gas prices resulting from Access Northeast will result in a reduction of electricity prices. Exhibit 19 shows the energy price with Access Northeast minus the energy price without Access Northeast. Access Northeast reduces the New England annual average wholesale power price by \$2.25/MWh to \$3.50/MWh between 2019 and 2028, with substantial reduction as high as \$15/MWh during peak winter periods.

Exhibit 19: New England Annual Average Electric Price Reductions with Access Northeast (excluding volatility impact)



Source: ICF International

Consumer Cost Savings

ICF estimates the potential cost savings to New England’s electric consumers from reductions in average price levels and in natural gas and electric price volatility.

Cost Savings to Electric Consumers from Average Price Reduction

Analysis results presented above show that Access Northeast may reduce New England’s wholesale energy price by lowering the regional natural gas price and the fuel costs for gas fired power generation. ICF assumes that for this analysis that reductions in wholesale electricity prices provided by infrastructure solutions benefit all New England electric consumers. Annual cost savings to electric consumers are calculated as the reduction in New England’s wholesale energy prices multiplied by ISO-NE annual net energy load.

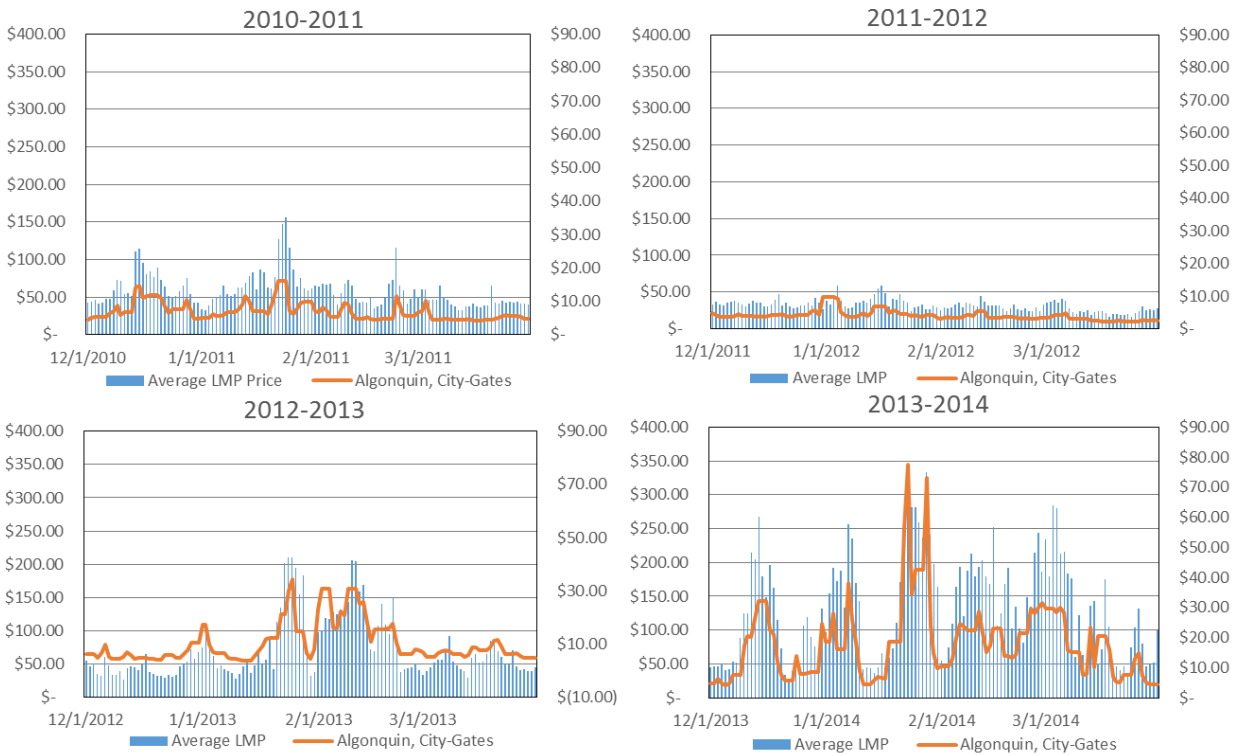
Benefits from Reduced Daily Gas Price Volatility

In addition to the overall price decreases that ICF derived using the GMM and IPM models, there are additional cost savings to natural gas and electric consumers due to reductions in daily natural gas and power price volatility.

For the purpose of this analysis, ICF assumes that Access Northeast will introduce 500 MMcf/d incremental gas supply capacity into New England year-round, and an additional 6 Bcf of winter supply (400 MMcf/d of send out from the LNG storage). Both serve to relieve the winter constraints recently experienced in New England. In addition to reducing monthly average prices captured by ICF’s GMM modeling analysis, the volatility of prices, i.e., the frequency and magnitude of price spikes, may be reduced. As New England’s power generators dispatch their gas generation based on daily fuel prices, reduction in natural gas price volatility may result in further reduction in natural gas prices.

For this study, ICF uses the frequency and magnitude of extraordinary price spikes as a proxy to measure the impact of volatility reductions. Exhibit 20 presents daily ALQ price and ISO-NE daily LMPs for the past four winters.

Exhibit 20: New England Power and Gas Price Correlation



Source: ICF International, SNL, ISO-NE

ICF estimates a range of the volatility reduction impacts by assuming two volatility reduction levels:

- Low Volatility Reduction Assumption - Frequency and size of price spikes were reduced by half from a moderate volatility market, similar to that experienced in the 2010-2011 or 2012-2013 winter;

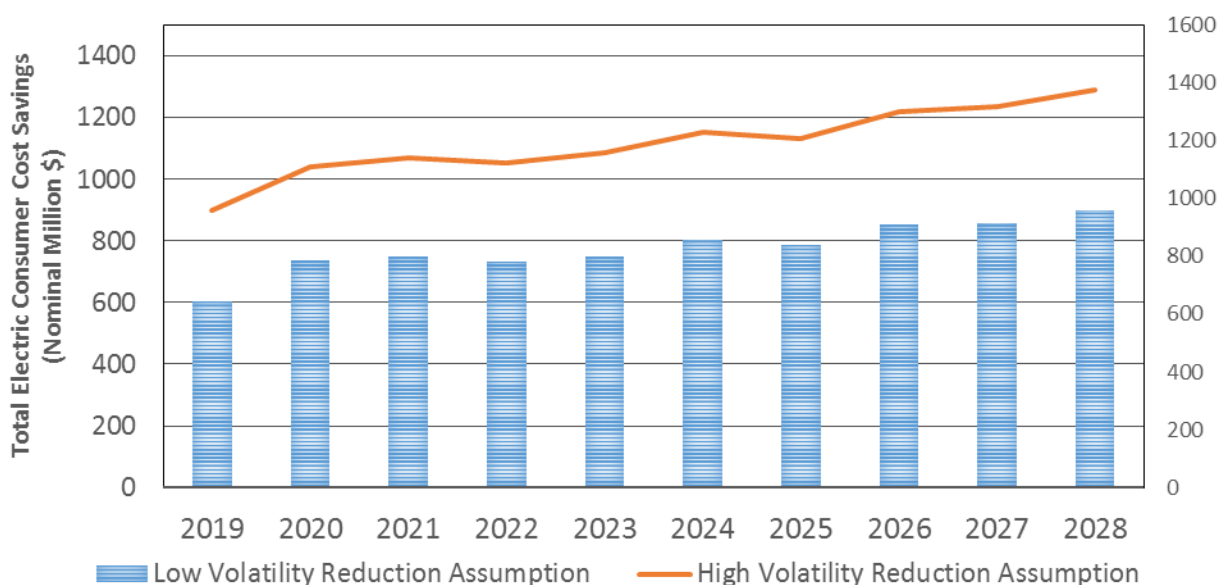
- High Volatility Reduction Assumption - Frequency and size of price spikes were reduced by half from a high volatility market, similar to that experienced in the 2013-2014 winter.

Both assumptions reflect a conservative scenario that a project like Access Northeast will result in “reduction” and not “elimination” of volatility. ICF estimates that additional eight percent reduction in natural gas prices for December and March using the low volatility assumption and 20 percent further price reduction using the high volatility assumption, which translate into an additional \$330 million and \$750 million a year of cost savings to electric consumers.

Total Estimated Impact to Consumers

With Access Northeast reducing prices of natural gas and thus reducing the price of wholesale power for New England consumers, Exhibit 21 shows that a project like Access Northeast could generate \$600 million to \$1.4 billion a year to New England electric consumers. The annual average cost savings to consumers for the 10-year period is \$780 million to \$1.2 billion for the low and high volatility assumption scenarios, respectively.

Exhibit 21: New England Electric Consumer Cost Savings



Source: ICF International

Cost Savings - Cold Weather and Nuclear Outage Scenario

ICF assessed the impact of Access Northeast by assuming that the winter of 2018-2019 is a “1-in-20 year design” winter and also experiences a large nuclear outage event. On the electric market, ICF also used the 90-10³¹ scenario from ISO-NE’s CELT report that has a significantly different peak energy load profile than under the normal weather conditions.

Weather and RCI Demand Assumptions

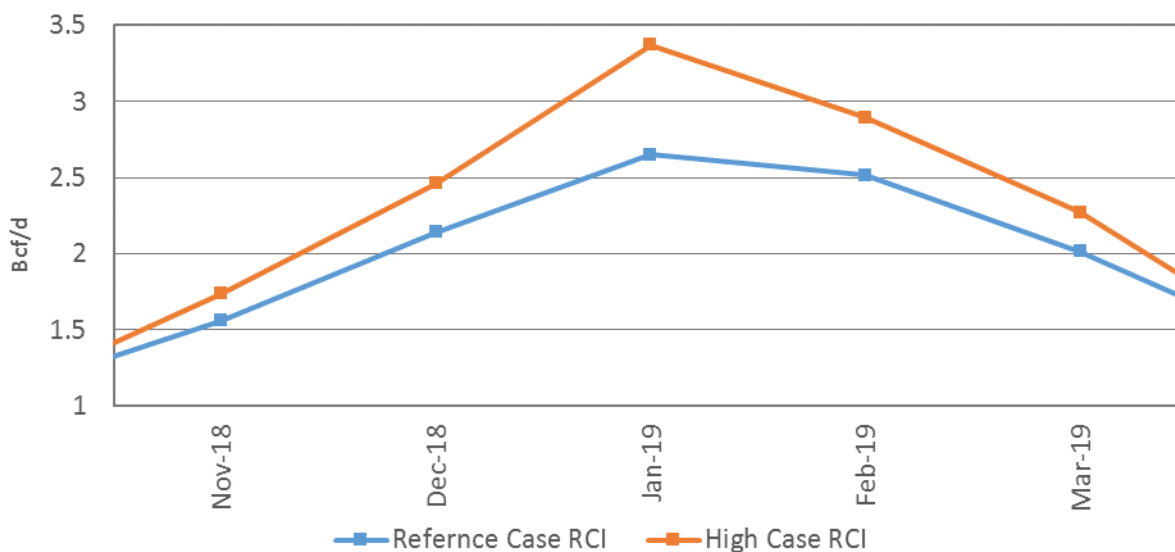
ICF utilized the design winter weather data provided by Eversource, to calibrate the design winter conditions in New England. Exhibit 22 shows that the design winter is, on average, 20 percent colder than normal winter conditions. Exhibit 23 shows that residential and commercial demand for the five winter months is 20 percent higher than under normal weather conditions.

Exhibit 22: Weather Assumptions

	Normal HDDs	1-20 Design HDDs	Design Winter Colder %
November	708	812	15%
December	1036	1188	15%
January	1222	1522	25%
February	1052	1207	15%
March	916	1051	15%

Source: Eversource, ICF International

Exhibit 23: RCI Demand Comparison - High Winter Case vs. Reference Winter Case



Source: ICF International

³¹ The 90/10 scenario refers to ISO-NE’s electric demand forecast where the probability of electric load (and therefore gas demand) exceeding the forecast is 10%. Therefore, a high electric load demand is estimated.

Price Impact and Cost Savings

Under the cold weather and nuclear outage scenario, Access Northeast is expected to have a more significant impact on natural gas and electric market. Exhibit 24 shows that on average (before taking volatility into consideration), natural gas price could be reduced by 23 percent and electric prices be reduced by 12 percent.

Exhibit 24: Colder than Normal Winter Scenario Power and Gas Price Results with and without Access Northeast (Excluding Volatility Impact)

	Natural Gas Prices (\$/MMBtu)			Power Prices (\$/MWh)		
	With Access Northeast	Without Access Northeast	Delta	With Access Northeast	Without Access Northeast	Delta
Nov-18	\$4.95	\$ 5.45	10%	\$40.80	\$43.57	7%
Dec-18	\$10.83	\$12.79	18%	\$52.31	\$56.96	9%
Jan-19	\$20.95	\$ 31.73	51%	\$81.19	\$98.65	22%
Feb-19	\$12.07	\$14.87	23%	\$60.99	\$68.93	13%
Mar-19	\$6.44	\$7.38	15%	\$53.67	\$58.05	8%

Source: ICF International

Under the cold weather and nuclear outage scenario, ICF assumes that Access Northeast could reduce the volatility by a level consistent with the high volatility reduction assumption. In total, Access Northeast could generate approximately \$1.1 billion cost savings to electric consumers in the five winter month period, 25 percent higher than under normal winter conditions. The average cost savings of the ten-year period, if assuming the 1-in-20 weather scenario and high volatility reduction, is approximately \$1.4 billion a year.

Cost / Benefits of Access Northeast

The portion of Access Northeast that will serve electric generation in New England, assumed in ICF’s analysis is estimated to cost \$2.4 billion. Assuming this translates into a \$400 million annual cost, after taking into account the return on the capital investment and O&M costs annually to operate the capacity, the estimated benefits of Access Northeast to New England exceed its costs in all scenarios.

Exhibit 25: Annual Access Northeast Cost and Benefits Summary

	Total Benefits	Net Benefits
Base Case Normal Weather	\$0.8 - \$1.2 billion	\$0.4 - \$0.8 billion
1-in-20 Weather	\$1.4 billion	\$1.0 billion
2013/2014 Extreme Winter	\$2.5 billion	\$2.1 billion

Source: ICF International

The net benefits to New England, ranging from \$0.4 billion to \$2.1 billion, assumes that New England’s electric consumers bear the full cost of the electric portion of the project, so those costs are netted out of the total savings that ICF has estimated. However, the cost savings to consumers would be greater if projected revenues for pipeline reservation charges paid by electric generators were to be credited back to the consumers as is proposed. We also estimate that the majority of the \$2.4 billion investment required for the project could be recovered from the cost savings in a single extreme winter similar to 2013/14.



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