THE NEW ENGLAND COUNCIL

March 4, 2014

The Honorable Cheryl LaFleur
Acting Chairman
Federal Energy Regulatory Commission
888 First Street NE, Room 1A
Washington, DC 20426

RE: **Algonquin Incremental Market ("AIM") Project - Docket No. CP14-96-000**

Dear Chairman LaFleur:

This correspondence concerns the above referenced matter and The New England Council's support for the same. As the Algonquin Gas Transmission system serves over 40 percent of ISO-NE gas fired electric power generation, the expansions resulting from its Incremental Market Project will have a beneficial impact on the reliability and economics of these generating plants as well as the consumers within the broader Algonquin Gas Transmission system market.

The New England Council (the "Council") is a non-partisan alliance of businesses, academic and health institutions, and public and private organizations throughout New England formed to promote economic growth and a high quality of life in the New England region. This purpose includes supporting regulatory actions designed to ensure that all of our member companies receive retail services for electricity at the lowest reasonable cost, as "[i]t is difficult to conceive of a more basic element of interstate commerce than electric energy, a product used in virtually every home and every commercial or manufacturing facility."[1]

[1] *FERC v. Mississippi*, 456 U.S. 742, 757 (1982).

I. Background

Natural gas currently represents 30 percent of the primary energy used in New England, with some 2.6 million customers.[2] The region is also one of the most natural gas dependent areas in the United States for electric power generation, with natural gas used to produce 52 percent of its electric power in 2011.[3] Generators have increasingly turned to natural gas because it is cleaner and less expensive than other fuels, with end-use consumers of electric power in the six states realizing both economic and environmental benefits. Reduced prices for natural gas and a competitive market have resulted in the lowest wholesale electricity prices in ten years, with decreased levels of greenhouse gas emissions from gas-fired generators.[4]

The price of natural gas in the United States has declined substantially while the supply continues to increase because of the enhanced technological ability to extract the gas from shale formations, with shale gas projected to become the dominant source of the natural gas supply in the United States by 2040.[5] While there are currently more than 300,000 miles of interstate pipeline transporting natural gas across the United States, this growth in shale gas production requires the ongoing expansion of pipeline infrastructure at both the local and national level to transport gas from the producing region to the consuming markets, typically located in other states.[6]

Although a substantial amount of production occurs fairly close to New England within the Marcellus and Utica Shale formations in Pennsylvania and New York, there are no indigenous sources of

[2] 2.3 million residential and over 260,000 commercial and industrial customers. Northeast Gas Association 2013 *Statistical Guide* available at http://www.northeastgas.org/pdf/statguide_13.pdf.

[3] "Powering New England in the New Environment: Regional Perspective," Gordon van Welie, p. 5 (Mar. 14, 2012) available at http://ctpower.org/Documents/CPES_ISO_van_Welie_March_14.pdf.

[4] New England Power Generators Association, The Role of Natural Gas in New England's Electricity Generation, September 25, 2013 at http://www.iso-ne.com/committees/comm_wkgrps/othr/clg/mtrls/2013/sep252013/dolan_clg_9_25_2013.pdf.

[5] U.S. Energy Information Administration, *Annual Energy Outlook 2013 Early Release Overview*, December 5, 2012, p. 2, http://www.eia.gov/forecasts/aeo/er/index.cfm.

[6] Pipeline and Hazardous Material Safety Administration, *Annual Report Mileage for Natural Gas Transmission and Gathering Systems*, April 30, 2013.

natural gas located in the region, which relies on gas produced elsewhere. Accordingly, New England is served by five interstate natural gas pipelines:

- Two of the pipelines bring natural gas into the region from the south and are directly connected to LDCs and power generators -Tennessee Gas Pipeline and Algonquin Gas Transmission;
- One brings natural gas into the region from the west - Iroquois Gas Transmission;
- Two bring natural gas into the region from Canada, one from the Maritime Provinces - Maritimes and Northeast Pipeline - and one from the Montreal region - Portland Natural Gas Transmission.

A sixth pipeline - the Granite State Gas Transmission pipeline - is an interstate pipeline that serves only to distribute natural gas within the region and without the ability to bring gas from outside of New England into New England. A seventh gas pipeline serves northern Vermont through the Vermont Gas System, which is not interconnected to any other part of New England. And New England is also served by three LNG import facilities located within the region - the Northeast Gateway, Neptune, and Everett facilities, and one outside the region - the Canaport facility in Saint John, New Brunswick.

In the past, this infrastructure combination provided a secure supply of natural gas from pipelines and continental sources to meet base level demands, and a flexible supply from imported LNG to meet peak level demands. But the increasing demand for natural gas from the power generation sector, reduced send-out capacities from the Sable Island and Deep Panuke natural gas fields off Nova Scotia, and the rising world price of LNG have placed a strain on the region's ability to secure enough gas supplies on the coldest days of the winter when heating and electricity demands are high.[7] And despite being served by the facilities described above, New England may be the most capacity constrained region in the country from an infrastructure perspective since its existing pipeline capacity is fully subscribed.

[7] Since many, if not all, longer term LNG supply contracts for the two LNG facilities at Canaport and Everett expired at the end of 2012, all future deliveries are priced at or very close to world market prices, driving up the cost of LNG supply, and correspondingly the overall price of natural gas in the region on those days when New England's demand exceeded the supply capacity of the pipelines.

Accordingly, "increasing incremental pipeline capacity that debottlenecks certain pipeline constraints and allows access to growing U.S. domestic natural gas supplies (e.g., Northeast shale gas)" has been recommended as one of the better courses of action for increasing natural gas supply into New England.[8] This has been recognized by the region's Governors as they are currently seeking the construction of new, or expansion of existing, pipelines into to the region as part of the *New England Governors' Commitment to Regional Cooperation on Energy Infrastructure Issues.*[9]

II. The Algonquin Incremental Market Project

The Algonquin Incremental Market ("AIM") Project will provide New England with a domestically produced source of natural gas to support both its current and future demand. It is an infrastructure investment that expands the pipeline capacity of the existing Algonquin Gas Transmission system, and will allow for the transport of gas produced in the Marcellus shale formation into the Northeast, helping to meet the increasing demand while lowering energy costs. Significantly, the Algonquin Gas Transmission system serves over 40 percent of ISO-NE gas fired electric power generation. As a result, such incremental expansions directly impact the reliability and economics of these power plants as well as the broader Algonquin Gas Transmission system market. And of particular importance is the fact that Algonquin Gas Transmission, LLC ("Algonquin") has executed long-term contracts with existing customers who are committed to paying 100 percent of the pipeline's capacity.

Specifically, Algonquin plans to expand its existing pipeline and compressor station facilities within New York, Connecticut, Rhode Island, and Massachusetts. The AIM Project will create additional capacity from the Ramapo, New York receipt point on Algonquin's systems to various Algonquin city gate delivery points in Connecticut, and Massachusetts. When completed, it would be capable of delivering up to 342,000 dekatherms per day of natural gas.

[8] Concentric Energy Advisors, Inc., *New England Cost Savings Associated with New Natural Gas Supply and Infrastructure*, May,2012.

[9] Through the New England States' Committee on Electricity ("NESCOE") request to ISO-NE for assistance in obtaining the approval of a tariff for the recovery of the cost of constructing or expanding such pipelines, available at http://www.nescoe.com/uploads/ISO_assistance_Trans___Gas_1_21_14_final.pdf.

The Aim Project includes approximately 37.0 miles of pipeline, the majority of which (78 percent of the total 37.0 miles) will replace existing Algonquin pipelines. Additionally, Algonquin will modify 5 existing compressor stations and 25 existing metering and regulating ("M&R") stations, and construct 2 new M&R stations. Modifications to the five existing compressor stations will add an additional 72,240 horsepower to its pipeline system. Approximately 98 percent of the 37.0 miles of AIM Project pipeline facilities will be within or adjacent to existing rights-of-way, consisting of Algonquin pipeline rights-of-ways, public roadways, railways, and/or other utility rights-of-ways, i.e. the pipeline facilities will be constructed largely within Algonquin's current footprint to minimize impacts to landowners, communities and the environment.

In short, the AIM Project will help further increase regional natural gas capacity, deliverability, flexibility and reliability, as well as provide economic and environmental benefits to the region.

III. Approval Process

Under Section 7(c) of the Natural Gas Act of 1938, the Federal Energy Regulatory Commission ("FERC") is authorized to issue certificates of "public convenience and necessity" for "the construction or extension of any facilities ... for the transportation in interstate commerce of natural gas." Thus, companies seeking to build interstate natural gas pipelines must first obtain certificates of public convenience and necessity from FERC. The Energy Policy Act of 2005 ("EPAct") designates FERC as the lead agency for coordinating "all applicable Federal authorizations" and for National Environmental Policy Act ("NEPA") compliance in reviewing pipeline certificate applications.

FERC's decision whether to grant or deny a pipeline certificate is based upon a determination whether the pipeline project would be in the public interest. In making such a determination, FERC accounts for several factors, including a project's potential impact on pipeline competition, the possibility of overbuilding, subsidization by existing customers, potential environmental impacts, avoiding the unnecessary use of eminent domain, and other considerations. FERC may also take into account safety concerns, but generally defers to the Department of Transportation, which has primary authority to regulate pipeline safety under the Natural Gas Pipeline Safety Act of 1968 and subsequent acts.[10]

[10] Pipeline safety regulations are covered in Title 49 of the *Code of Federal Regulations*. In granting pipeline certificates, FERC requires that developers comply with DOT pipeline safety standards for design, construction, operation, and maintenance.

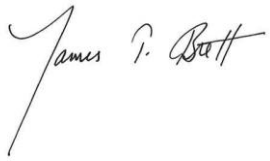
For all of the reasons set forth herein, the Council urges you to grant Algonquin a pipeline certificate of public convenience and necessity for its Algonquin Incremental Market Project.

IV. Conclusion

Private markets and the federal government have collaborated over time to create a reliable energy system for New England. Companies invest in natural gas pipeline infrastructure that increases the region's productivity and promotes economic growth. The government makes certain that enough pipeline infrastructure is built to promote system reliability while providing companies with an opportunity to earn an adequate return on these investments. Furthermore, the federal government and New England's Governors have actively embraced the expanded use of natural gas, particularly as an environmentally preferable alternative to the continued reliance on other fossil fuels.[11]

Thank you for your anticipated assistance in this matter. If you have any questions or if I can provide any additional information, please contact me in the Council's Boston office at (617) 723-4009.

Very truly yours,



James T. Brett
President & CEO

[11] While also necessary to increase conservation efforts, energy efficiency measures and reliance on renewable energy sources, those "alternatives" are best viewed as part of a comprehensive energy mix, not as a complete substitute for fossil fuel use in the United States, until at least the year 2050. See Kass, Stephen L., "Countries Approach Fracking With Interest and Caution," *New York Law Journal* (January 2, 2014) at http://www.toxictortlitigationblog.com/uploads/file/Fracking.pdf.