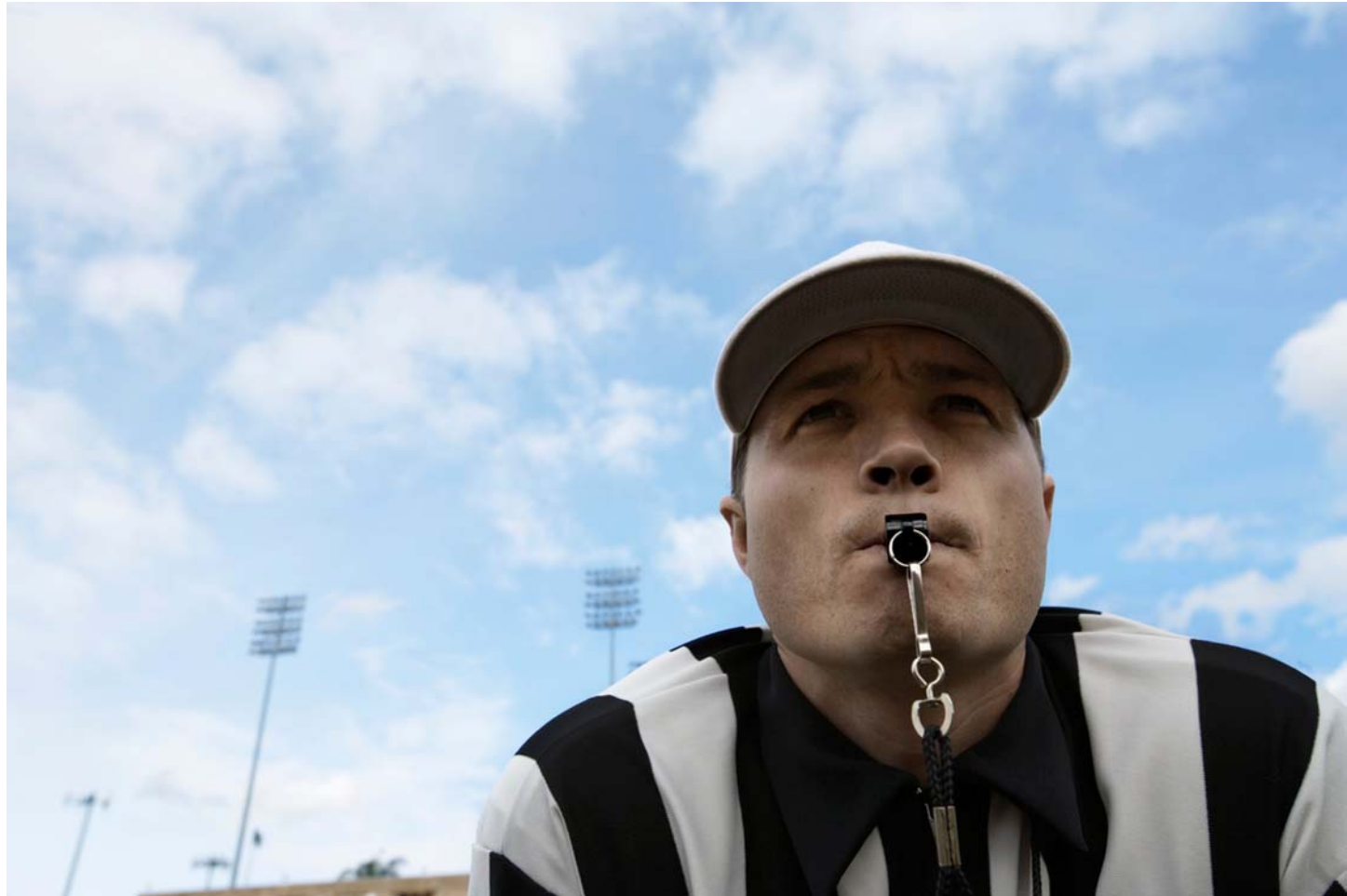


Present and Future Role of
Natural Gas
in New England's Energy
Marketplace

New England's Consumer Liaison
Group (CLG)

March 8, 2012

Regulator's Perspective



Safe and Reliable Service; Just and Reasonable Rates

- Market mechanisms, through restructuring by FERC and states adopted as a tool to achieve the objective.
- ISO's strategic planning initiative raises natural gas issues to think about regarding how this tool is working.
 - Is the market choosing “wrong” resources?

Is the Market Choosing Wrong?

- Fuel price forecasts, capital costs, and unit heat rate drive market towards a gas fleet
 - Operating flexibility complements increased VERs.
 - Air improvements and LSE benefits, BUT
 - Fuel diversity decreases, and
 - ICF Study – Fuel Deliverability Issues
 - Nature of transportation contracts
 - Capacity of pipelines
- Is there a problem?

ICF Study – Phase I Draft

- Under winter design day conditions there is inadequate pipeline capacity to deliver the gas needed to serve heating and peak generating needs.

Regulator Perspective

- How does the gas “design day” level of reliability relate to electric industry 1 in 10 resource planning approach? We need more articulation of the level of reliability we are planning towards.
- Once decided, we can decide if there’s a problem and what to do about it.
 - Communication and scheduling protocols will improve the situation
- Too early to lock into a solution – the issue is complicated and there could be multiple solutions

Solutions

- Do they solve the problem?
- How are they to be implemented?
 - Who's got the authority?
- What effects will they have on the markets?
- What will they cost?
- Who will pay?