PGC

PROCESS
GAS
CONSUMERS
GROUP

Volume 1
Issue 1
October 8, 2014

RATE CASE UPDATE

Transwestern Pipeline Company Files Rate Case: On October 1st, Transwestern Pipeline Company filed a Section 4 rate case. The filing reflects a general rate increase, proposed to become effective November 1, 2014, as well as tariff revisions to implement revised scheduling priorities, proposed to become effective May 1, 2015. The filing reflects a rate base of $1.589 million, ***an increase of approximately $797 million*** over the rate base underlying the currently effective rates. The revised tariff records reflect an overall rate of return ion rate base of 11.20 percent. If you are interested in intervening in this proceeding, please let us know. Interventions are due October 14th.

REGULATORY UPDATE

NERC Report on Polar Vortex Released: Gas-fired generators in the Midwest and Southeast saw a higher rate of unplanned outages during a January polar vortex than in the prior five years, according to a September North American Electric Reliability Corp. report. NERC attributed many of the outages to gas fuel supply problems and freezing temperatures that dropped lower than some units were designed to withstand. The report found that "One of the largest issues impacting gas-fired generation was the curtailment or interruption of fuel supply. Unlike other fuel sources, natural gas is not typically stored on-site. Generators rely on real-time delivery of natural gas from their suppliers. When units are not confident that they will be dispatched, the fuel is often obtained on the spot-market on a non-firm, interruptible basis. Therefore, if firm contracts are honored before interruptible contracts, if the firm customers require more gas, and the capacity of the gas transportation is based on firm contracts, less capacity is available for interruptible supply. This can result in generating units becoming unavailable as there is no pipeline capacity to supply interruptible gas." While the report noted there were fuel supply challenges, NERC did not look at any market-related causes or impacts nor did it review whether generators with firm pipeline and gas fuel supply contracts fared any better than the rest.

GDF Suez Official: "Don't use a tank to kill a squirrel": The owners of an LNG import terminal in New England are trying to convince generators and regulators that they have a fast, relatively low-cost and easy solution to the region's worsening winter natural gas supply woes. GDF SUEZ Energy North America and GDF SUEZ Gas NA LLC officials say that the problems the region faces do not require a long-term, multibillion-dollar pipeline infrastructure build-out funded by ratepayers, especially given that ISO New England Inc.'s new generator performance requirements will take effect in 2018. Those rules are expected to create strong financial incentives for generators to make sure they are able to run when called on, which may prompt them to line up fuel assurances. The New England states' now stalled two-part plan to build high-voltage electric transmission lines and add up to 2 Bcf/d of new pipeline capacity to push down energy prices is akin to "sending a tank out to kill a squirrel," said Michael McKenna of MWR Strategies. "You got yourself a 15-, 20-day problem and [the states are] trying to solve it with a 365-day answer, which is great if you're spending your own money but a little shakier if you happen to be spending some poor ratepayer's money," McKenna said in an interview on the same day he and the GDF SUEZ officials were slated to meet with the head of FERC. GDF SUEZ is for a second year offering special option products in hopes generators will decide to meet their winter fuel needs by using Distrigas of Massachusetts LLC's LNG import terminal in Everett, Mass., instead of through the risky capacity release natural gas pipeline market, which tends to dry up in the winter when local distribution companies exercise all of their contracts to meet residential heating demands, GDF SUEZ officials said. The full trade press article is below.

Cove Point LNG Project Approved: on October 2, FERC authorized Dominion Cove Point LNG, LP to construct and operate facilities to liquefy and export domestically produced natural gas from its existing liquefied natural gas (LNG) import terminal located in Lusby, Calvert County, MD. FERC's authorization will enable Dominion Cove Point to liquefy and export up to approximately 5.75 million metric tons of gas each year via LNG ships that would dock at its existing offshore pier. Dominion Cove Point proposes to complete construction so that the LNG export terminal may start service in June 2017. Construction of the related Virginia facilities would begin in 2016 and would be placed in service by March 2017. Recently, the U.S. Department of Energy conditionally approved Dominion Cove Point's export of gas to both Free Trade Agreement and non-Free Trade Agreement countries. FERC has approved three other LNG export projects, all in the Gulf of Mexico: the Sabine Pass Liquefaction Project, the Freeport LNG Project, and the Cameron LNG Project. Fourteen LNG export proposals are pending. Environmental and community groups said they are likely to pursue a federal appeal of FERC's decision.

ON THE HORIZON

- **PGC membership meeting scheduled for October 10, 2014**
- **FERC Rulemaking Comments due November 28, 2014**
- **Next Commission Meeting: October 16, 2014, Agenda TBA**

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Thursday, October 02, 2014 3:53 PM ET Exclusive

GDF SUEZ on Northeast winter fuel woes fix: Don't use a tank to kill a squirrel

By Esther Whieldon

The owners of an LNG import terminal in New England are looking to convince generators and regulators that they have a fast, relatively low-cost and easy solution to the region's worsening winter natural gas supply woes.

GDF SUEZ Energy North America and GDF SUEZ Gas NA LLC officials want to persuade state and federal leaders that the problems the region faces do not require a long-term, multibillion-dollar pipeline infrastructure build-out funded by ratepayers, especially given that ISO New England Inc.'s new generator performance requirements will take effect in 2018. Those rules are expected to create strong financial incentives for generators to make sure they are able to run when called on, which may prompt them to line up fuel assurances.

The New England states' now stalled two-part plan to build high-voltage electric transmission lines and add up to 2 Bcf/d of new pipeline capacity to push down energy prices is akin to "sending a tank out to kill a squirrel," said Michael McKenna of MWR Strategies, who arranged the GDF SUEZ officials' Oct. 1 Washington, D.C.-area media and public policy meeting blitz.

"You got yourself a 15-, 20-day problem and [the states are] trying to solve it with a 365-day answer, which is great if you're spending your own money but a little shakier if you happen to be spending some poor ratepayer's money," McKenna said in an interview on the same day he and the GDF SUEZ officials were slated to meet with the head of FERC.

"We're a little concerned that FERC is hearing a lot of one side of the story," McKenna said. "The governors are coming in saying something. The guys who want to build pipelines are saying something. And some of the generators who would be advantaged depending on the pipeline route are saying something. We want to let FERC know that you want to be thinking about the other part of this story."

GDF SUEZ is for a second year offering special option products in hopes generators will decide to meet their winter fuel needs by using Distrigas of Massachusetts LLC's LNG import terminal in Everett, Mass., instead of through the risky capacity release natural gas pipeline market, which tends to dry up in the winter when local distribution companies exercise all of their contracts to meet residential heating demands, GDF SUEZ officials said. Distrigas is a subsidiary of GDF SUEZ Energy North America.

The Distrigas facility has had bites this year from about a handful of generators, Frank Katulak, president and CEO of GDF SUEZ Gas NA, said in an interview. "We're essentially selling call options on LNG where … if you want something to ensure against a blowout in the event you have an extreme price event like last winter, you'll have gas available."

And although the company's primary push is on power generation, "we've had a significant amount of interest from marketers and LDCs," he added. "There's been more interest this year, mostly because the experience from last winter has made people realize that having some physical insurance is a good thing."

"Last winter, there were probably some people who had wished they had bought those options. Now they understand the concept better," said Rob Minter, GDF SUEZ Energy North America senior vice president of government and regulatory affairs.

"The shortfall in New England is not really an infrastructure problem so much as it is a supply problem," Katulak explained.

A study commissioned by the company earlier this year showed that there are a relatively small number of days a year when all of the capacity of pipelines in the region is being used — roughly 40 days a year, he said. Given that gas prices tend to be mostly volatile in the winter in New England, "It doesn't take a lot of supply to alleviate that extreme spike. And so it's really a question of how best to meet that peak for 40 days a year," Katulak said.

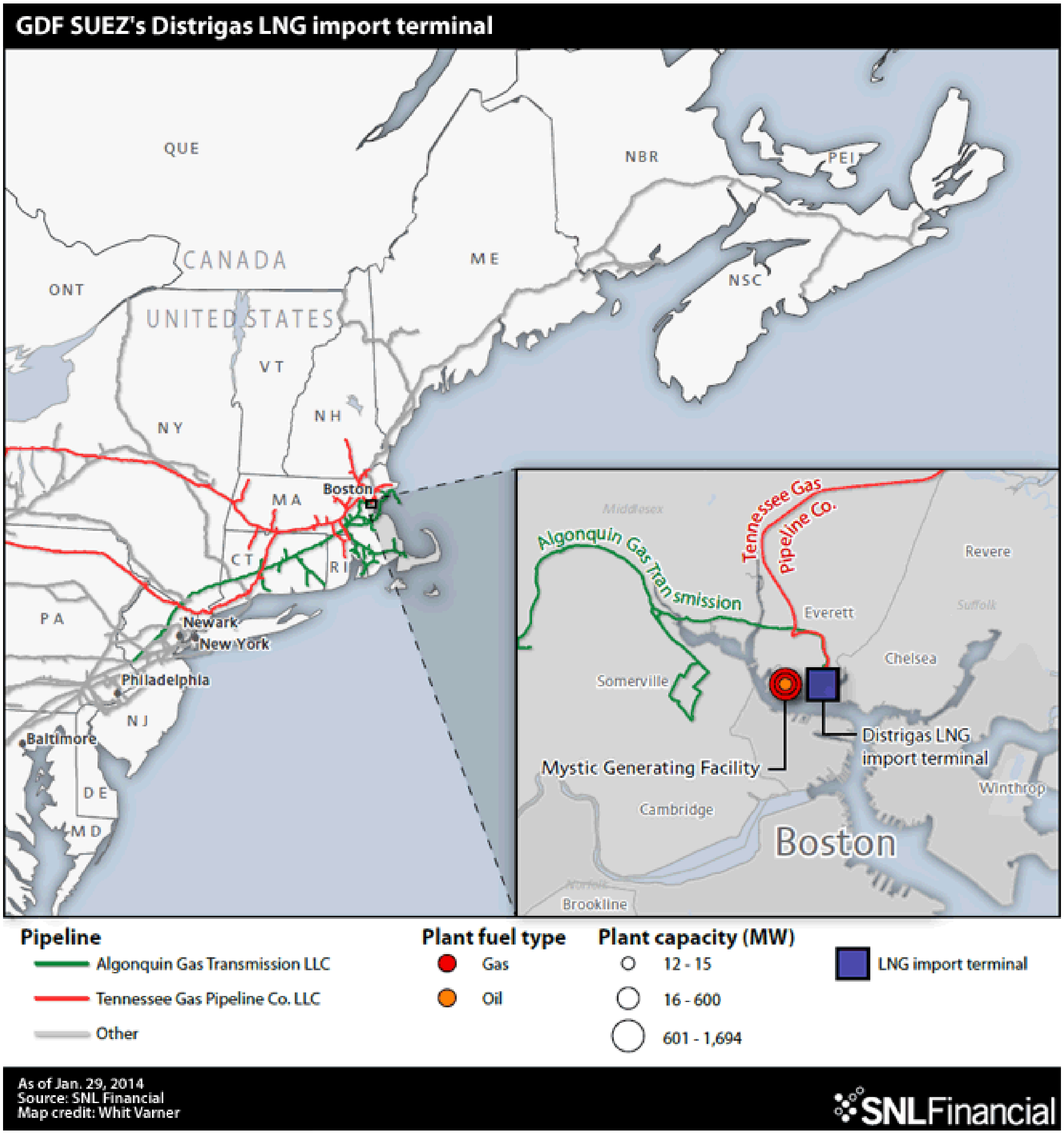
According to the study, the problem could be resolved with three or four more LNG cargoes a year, Katulak suggested. "By our standards, that's not a lot. We've had years where we've done north of 60 cargoes in a year and so for us to bring three cargoes in the winter is not a heavy lift," he said.

As for exactly how many generators the Distrigas LNG import facility could supply, the nameplate capacity for the facility is 715,000 MMBtu/d. At 715,000 MMBtu/d, that is close to 4,000 MW of generation, Katulak said.

Compared to the average number of LNG tankers it brought in from 2001 through 2009, the Distrigas facility is running at about a quarter of its capacity, Katulak said. "During that period, the terminal brought in about 60 to 65 tankers a year. And now that's about 15 or 16 a year," he said. Cheap natural gas supplies from the Marcellus Shale and other plays have taken a big chunk out of the LNG import business in recent years and essentially left the company's Neptune LNG offshore terminal completely unused.

The company would have no problems getting gas supplies from the Distrigas terminal to its customers because the facility is located to the east of the major pipeline constraints in the Northeast, Katulak said. Distrigas already owns firm transportation capacity on the pipeline systems owned by Kinder Morgan Energy Partners LP subsidiary Tennessee Gas Pipeline Co. and Spectra Energy Corp subsidiary Algonquin Gas Transmission LLC. "But, honestly, I can say, we've been able to send out well in excess of that over the years because we're east of the constraints," he said.

The main point the GDF SUEZ officials are trying to make to regulators is that there is no need to "socialize" the cost of a pipeline project when there is no real year-round market need for that capacity.



If the states build a lot of pipeline merely to depress energy prices for a small portion of the year, "you could easily end up with a stranded asset," Katulak said. He noted that annual electricity demand is relatively stagnant. In Massachusetts in particular, "we are seeing interest in rooftop solar and other forms of distributed generation," he said. "You could easily envision a world where there's less gas-fired generation needed in the future and a socialized pipeline ends up becoming a stranded asset."

"We're not against pipelines that are market-based," Katulak said. "We're not saying to FERC or [ISO-NE] that generators take LNG contracts. What we are saying is that it is a better alternative than a socialized pipeline. Let the pipeline proposals that are being proposed, if they can be supported in the market, let them go ahead."

GDF SUEZ Gas NA LLC is a subsidiary of GDF SUEZ Energy North America, which is a subsidiary of GDF Suez SA, a Paris-based company. GDF SUEZ reflects the merger of Gaz de France and SUEZ, completed in 2008.

Mark Hand and Sean Sullivan contributed to this article.