

Energy Insights -- October Update

Briefing on New England Energy Issues and Trends

DOE's grid resiliency proposal prompts hundreds of comments

On September 28, the US Department of Energy (DOE) issued a Notice of Proposed Rulemaking (NOPR) to enhance grid resiliency, directing the Federal Energy Regulatory Commission (FERC) to make changes to wholesale electricity markets to provide full cost recovery to baseload electricity generating plants that have 90 days of onsite fuel storage.

While not mentioning specific electricity generation resources, the NOPR targets coal-fired and nuclear power plants that are at risk of premature retirement in deregulated electricity markets due to competition from lower cost natural gas generation.

The NOPR was issued after an August DOE grid reliability study recommended federal regulators boost compensation for baseload electricity generating plants to maintain grid reliability and resiliency during emergencies; extreme weather conditions; or natural or man-made disasters.

Hundreds of comments on the NOPR were submitted (by the October 23rd deadline) to FERC which regulates the wholesale electricity markets operated by ISO New England and the other Independent System Operators and Regional Transmission Organizations in the US.

Supporters of the NOPR say the premature retirement of baseload nuclear and coal plants pose a risk to long-term reliability and resiliency of the nation's electricity grid and market rules should be changed to compensate those plants so they can continue to operate. Many opponents, including eight former FERC officials and several energy and consumer groups say the ruling would distort existing competitive wholesale markets and would increase electricity costs to consumers to cover the costs of the baseload plants. In New England, the attorneys

In This Issue:

DOE's grid resiliency proposal prompts hundreds of comments

MA and CT regulators to review natural gas procurement practices that allegedly cost NE consumers billions

CT passes legislation to potentially allow Millstone to sell output in a more economically favorable market

New England's winter natural gas supply situation is a top FERC concern

US winter heating costs likely to be higher this winter

Regional transmission project update - \$10B invested since 2002

Did You Know:

"Electric vehicles use a lot of electricity. Charging just three electric cars is the equivalent of adding an extra household to the grid. If projections on electric vehicle adoption come true, the nation will need more than 1 trillion kilowatt hours of electricity to keep them moving."

Source: "Time to put pedal to the metal," *Commonwealth Magazine*, October 9, 2017.

(equivalent to the amount of electricity generated

general from MA, CT, RI and VT joined with counterparts in other states to oppose the proposed rule. An analysis conducted by the consultants ICF International estimates the NOPR could cost ratepayers \$800 million to \$3.8 billion annually through 2030 - depending on how FERC might implement the rule.

The NOPR directs FERC to complete a final rule within 60 days - although as an independent agency, it not required to approve the ruling or follow the timeline. FERC is currently analyzing the proposed ruling and comments received.

Sources: DOE proposes cost recovery for baseload generators in new FERC rule, *Utility Dive*, September 29, 2017; FERC Flooded with Comments on DOE NOPR, *RTO Insider*, October 24, 2017.

MA and CT regulators to review natural gas procurement practices that allegedly cost New England consumers billions

A report by university researchers working with the Environmental Defense Fund alleges that natural gas delivery scheduling practices of local gas distribution utilities owned by Eversource Energy and Avangrid have artificially constrained natural gas pipeline capacity for years costing New England consumers \$3.6 billion.

The researchers claim that the utilities who serve households and businesses in MA and CT regularly reserve more natural gas on the Algonquin Pipeline than needed only to cancel some of the capacity too late in the day for the gas to be resold to electricity generators. The report alleges the utilities utilize this practice mostly during cold spells when higher gas demand for heating and electricity generation puts strain on pipeline capacity. The report concludes this practice, referred to as "down-scheduling," ties up to 7% of the pipeline capacity on the most constrained days - increasing natural gas and electricity prices by 38% and 20% respectively over the three-year period studied.

Utility and industry officials defended the gas scheduling practices designed to help protect customers from supply interruptions during unpredictable, extreme weather conditions. While the researchers admit it does not appear the companies broke any contract laws or market rules, the practice results in higher than necessary natural gas and electricity costs.

Based on the report's findings, CT and MA regulators have opened investigations into these natural gas delivery practices along with the MA Attorney General. In addition, US Senator Richard Blumenthal sent a letter to the Federal Energy Regulatory Commission (FERC) requesting an investigation.

Sources: "Eversource, Avangrid artificially constrained gas pipeline capacity for years, report argues," *Utility Dive*, October 11, 2017; Conn. Regulators Probe Gas Price Manipulation Accusations, *Hartford Courant*, October 19, 2017; Massachusetts regulators to review allegations Eversource, Avangrid constrained pipelines, *Utility Dive*, October 25, 2017.

CT passes legislation to potentially allow Millstone to sell output in a more economically favorable market

The CT House of Representatives voted in favor of a bill that would permit, but not require, state energy officials to change the rules for how plant owner Dominion Energy sells electricity from Millstone -- Connecticut's only nuclear plant that produces nearly all of the state's zero carbon electricity.

If deemed in the public interest after completing a market study already underway, state regulators could allow Millstone to compete in a more favorable market against solar, wind and hydro power that commands higher prices. Millstone could sell up to three-quarters of its output in competition with the other zero-carbon sources of electricity.

This would help the plant financially as it currently competes with electricity generated by cheaper natural gas. Opponents urged no action until the market study is completed in February.

Source: "Millstone bill passes House, goes to governor," *The CT Mirror*, October 26, 2017.

New England's winter natural gas supply situation is a top FERC concern

According to FERC officials, ensuring an adequate supply of natural gas is one of the top reliability concerns in New England for the coming winter. While Commission staff see no major risks of significant disruptions this winter, the supply situation in the Northeast will be closely monitored.

Because New England has no native supply of natural gas, it must be transported via pipeline to the region. However, even with the dramatic increase in natural gas demand in recent years, the region's delivery system has largely remained unchanged. As a result,

in winter, the pipeline system serving New England is maxed out when natural gas electricity generation competes with space heating.

More recently, ISO has implemented temporary winter reliability measures that encourage natural gas electricity generators, many of which are dual-fueled, to keep stockpiles of oil or LNG onsite if needed. This will be the last winter these reliability measures will be implemented. Starting next year, ISO will implement a new "pay-for-performance" tariff beginning June 1, 2018, that will provide capacity market incentives for generators to secure more fuel.

ISO New England has been working for more than a year on a study to quantify the operational impacts of growing fuel-security issues in the region - to ensure power plants have the fuel needed to generate electricity to meet demand. The ISO was planning to release the study mid-October, but the schedule has now been delayed in light of the US DOE NOPR issued to FERC (see above) which proposes significant changes to the wholesale electricity markets.

Sources: "New England, SoCal gas supplies top FERC winter concerns," *RTO Insider*, October 19, 2017; "Winter reliability strong, RTOs tell FERC, undermining DOE NOPR justification," *Utility Dive*, October 20, 2017; "Study on regional fuel security to be delayed pending resolution of DOE proposal on grid resiliency pricing," ISO New England, October 13, 2017.

US winter heating costs likely to be higher this winter

According to the U.S. Energy Information Administration (EIA), most U.S. households can expect higher heating expenditures this winter compared to the last two winters due to more heating demand and higher fuel prices.

EIA's projections of heating demand are based on the most recent temperature forecasts from the National Oceanic and Atmospheric Administration (NOAA) which estimate the winter weather will be 13% colder than last year.

Expected U.S. average household space heating expenditures by fuel type this winter include: natural gas \$644; electricity \$980; oil \$1,462; and propane \$1,661. Natural gas is the most common space heating fuel in every region of the country except the south where electric heating is more prevalent. Heating oil is most common in the Northeast, while propane is more prevalent the Midwest.

Source: Winter heating costs likely to be higher this winter than last winter, U.S. Energy Information Administration, October 11, 2017.

Regional transmission project update - \$10 billion invested since 2002

ISO New England updated its Regional System Plan which provides details on transmission projects needed to ensure reliability in New England. Since June, sixteen upgrades were placed in service.

According to ISO, since 2002, a total of 746 project components representing an investment of \$10 billion has been placed into service to ensure the region's transmission system continues to reliability and efficiently move wholesale electricity across the region.

Currently, there are 120 active transmission projects across all six New England states including 51 projects under construction, 47 planned projects and 22 proposed projects. The estimated cost of active future projects through 2021 totals about \$2.3 billion.

Source: Regional transmission investment: Fall 2017 update, ISO New England, October 24, 2017.

About the New England Energy Alliance, Inc.

The New England Energy Alliance is a coalition of energy companies advocating to ensure the availability, reliability and affordability of future energy supplies which are vital to the region's economic growth and prosperity. Formed in 2005, the Alliance works to balance public debate about solutions to New England's energy infrastructure by providing information on the region's energy needs and the resources, technologies and policies needed to meet those needs.

Please visit www.newenglandenergyalliance.org for more information on the Alliance. Follow on twitter @NEEAlliance

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