

Calpine Comments: March 14, 2014

This email provides Calpine Corporation's initial comments regarding the draft Eastern Interconnection Planning Collaborative ("EIPC") report on "Gas-Electric System Interface Study/Existing Natural Gas-Electric System Interfaces" dated February 21, 2014 (the "EIPC Report" or "Draft"). We appreciate both the effort that has gone into producing the Draft and the opportunity to comment on it. While the EIPC Report ultimately may make an important contribution to the ongoing industry discussion of gas-electric coordination matters, we believe that the Draft's treatment of electric generator procurement practices requires further refinement in several important respects.

1. The Draft reflects an incomplete understanding of the "firm" gas delivery services available to electric generators. The draft EIPC Report repeatedly suggests that only those electric generators that hold firm entitlements on interstate natural gas pipelines or local distribution company ("LDC") systems have secured firm gas supplies. For example, the Draft observes that "most gas-fired generators in the Study Region do not have firm transportation rights from a liquid sourcing point to the plant gate in their own name." (Draft at ES-15). Based on an assessment of available pipeline, storage and LDC services, the draft concludes that "the majority of gas-fired generators in the Study Region obtain non-firm transportation and/or storage services under various service classifications available in the market." (Draft at ES-12).

The draft's analysis, however, is incomplete because it ignores the firm delivered gas supply products that many gas-fired generators currently receive from gas marketers or asset managers. At one point, the Draft incorrectly depicts the service received by gas-fired generators from marketers as generally "non-firm," (Draft at ES-20) and refers to the reliability of gas delivery services under marketing arrangements and Asset Management Agreements by characterizing them as "short term" services delivered on a "just-in-time" basis. (Draft at ES-17). The Draft's characterization of marketer-driven supply arrangements' reliability is difficult to square with its observations that (1) marketers hold much of the firm capacity entitlements on new pipeline capacity from shale formations (Draft at ES-1) and (2) gas marketers are the most active assignees of released firm capacity, much of which they presumably obtained from "the most active assignors across all PPAs," i.e., the LDCs. (Draft at ES-17). The Draft further fails to quantify what difference, if any, having electric generators "step into the shoes" of marketers, either in terms of pipeline firm capacity entitlements or capacity release transactions, would make to the reliability of generators' gas supplies, particularly during periods of extreme pipeline/LDC system stress like the Polar Vortex. In short, the Draft should be revised to include a much more complete assessment of the marketer-based, firm delivered gas supply products and AMAs available to gas-fired electric generators.

2. The Draft incorrectly suggests that cost-minimizing gas-fired generators have "chosen" not to "firm up" their natural gas supplies. The EIPC Report discusses at length various firm pipeline and LDC transportation options (including capacity releases, OBAs and "enhanced" firm service for electric generators) supposedly available to gas-fired generators, but maintains that generators have "chosen interruptible service" to avoid either "the high cost of local facility improvements" (Draft at ES-12) or the competitive pressure to "clear based on price" in wholesale power markets. (Draft at ES-16). This reasoning is flawed in several respects. First, it provides the impression that generators hold little to no firm transportation capacity. This is simply false. Calpine holds a significant amount of firm transport in its own name, and many other gas generators do as well. Second, the Draft fails to acknowledge the firm delivered nature of many marketer-based supply arrangements. Finally, the Draft fails to examine the availability or the purported beneficial impact, of options like OBAs or enhanced services during critical periods on a pipeline or LDC system.

With regard to LDCs, the Draft maintains that "LDCs have the ability to provide local service to gas-fired generators on a firm basis." (Draft at ES-12). This carefully worded statement, though, ignores the reality that some LDCs do not offer firm transportation behind the citygate to generators. In other instances, such "firm" capacity comes subordinated to the LDC's system needs, effectively rendering it an interruptible service at a premium rate. Similarly, while LDCs frequently release capacity, those releases typically remain subject to recall. During critical periods, such releases are of little value if state-imposed obligations to serve require utilities to recall capacity.

The Draft should also address the fact that in many cases, firm transportation capacity is not immediately available. Many pipeline systems are fully subscribed, leaving only released capacity as an option for shippers seeking pipeline access, but there is insufficient released capacity to meet all demand. Pipeline expansions are an option, but even if the cost and term of service were not a factor, expansion projects typically require three years to complete. Therefore, in many instances, the delivered gas market is a necessary and effective way for gas generators to fuel their plants. Calpine urges EIPC to more carefully examine the actual availability and reliability of the “firm” options that the Draft claims are readily available to generators before concluding that generators have “chosen” to bypass those options in favor of lower-cost, less reliable services.

3. The Draft properly recognizes the extent to which gas-fired generation is located behind LDC citygates. The EIPC Report makes a valuable contribution by demonstrating the extent to which gas-fired electric generation is located behind LDC citygates. In PJM, for example, the Draft states that fully 55% of the gas-fired generation units larger than 15 MW are located behind LDC citygates (Draft at ES-2). In MISO, the figure is 34% (Draft at ES-4), NYISO is at 70% (Draft at ES-6) and ISO-NE is at 23% (Draft at ES-7).

This data is important for at least two reasons. First, it demonstrates that requiring generators located behind an LDC citygate to acquire firm capacity on interstate pipeline systems may not result in more reliable gas supplies. Second, it suggests that much more attention must be paid to the interplay of state-level regulatory requirements and the reliability of generator gas supplies. Delivering gas to a citygate during critical periods is a useless exercise if the LDC’s behind-the-citygate transportation service has been curtailed due to other state-imposed service obligations. The Draft should be further refined to give greater consideration to the implications of the location of gas-fired generators.

Again, we appreciate the opportunity to provide these initial comments, and we hope you find them constructive and useful. We would be pleased to discuss our comments, or any other aspect of the EIPC Report, in greater detail at your convenience.