From: Peri Ulrey
Sent: Friday, February 27, 2015 3:58 PM
To: 'Grant, Ian S'; 'burdit@pjm.com'; 'd.a.whiteley@att.net'
Cc: Patricia Jagtiani
Subject: NGSA Comments on the draft Target 2 EIPC Gas-Electric Interface Study Report

Ian/Dave/Tim,

Thanks for the opportunity to comment on the draft Target 2 Report, "Evaluate the Capability of the Natural Gas Systems to Satisfy the Needs of the Electric System" report. It looks to be in great shape except for a few comments or suggestions on a few topics I have on the report:

1. Section "6.2 RGDS S0 and S1 Analysis," p. 114, first paragraph, mentions that "natural gas prices are highly volatile throughout the winter season, particularly during cold snaps,...."

We would not characterize natural gas prices as "highly volatile." We would recommend rewriting the sentence as " Unlike oil and coal, natural gas prices can increase during peak times during the winter season reflecting regional constraints particularly during cold snaps when RCI and electric sector gas demands are high."

The higher natural gas prices in the winter are typically only in the Northeast and are "cash" or "spot" prices. The daily spot market prices represent only a portion of the overall volumes of natural gas being bought and/or sold in the market. Customers who do not mitigate their exposure through available strategies in advance such as long- and short-term contracts and/or use of available financial hedging tools expose themselves to spot market prices. In New England, the daily spot/cash prices in the winter increase more than other regions because of a lack of available pipeline capacity compared to other regions.

2. In section "2.4 Summary of Key Market Dynamics and Risk Factors," page 35, the discussion "Regarding LNG import constraints"

The LAI Reference Gas Demand Scenario Sensitivity 0 (RGDS S0) or base case, assumes LNG import constraints in ISO-NE asserting that "destination flexible" cargoes will go to Asian or European markets rather than the Northeast US. We do not view this as a valid assumption. These are not operational constraints, they are economic market decisions on whether to fill the tanks. Given the operating characteristics of the system this winter, economic market decisions do and can change rapidly as in the case between Winter 13/14 and Winter 14/15. For this reason, I would recommend adding a sentence that mentions that economic market decisions for LNG imports can change and would not make the assumption of where cargoes may or may not go under this particular "Market Dynamics" discussion. In fact, I would change the heading from "Regarding LNG import constraints" to "Market Contracting Decisions to Rely on LNG Imports."

3. Section "6.1 Analysis Methods," p. 102, bottom of second paragraph, discusses the slack deliverability in and around Boston due to the decline of LNG sendout from Suez Distrigas LNG facility during the peak day of January 3, 2014.

A decline in sendout does not translate into an inability for LNG sendout in future years based on market decisions. Consistent with the above description, while the Northeast market had not made a significant investment in LNG supply volume contracts in previous years, we've seen more contracting this year and therefore, one cannot make an assumption that prior year contracting practices will be static for each year going forward. I would recommend mentioning that it was not due to an operational constraint but due to economic market decisions on whether to fill the tanks and those decisions can change depending on various market factors. In fact, we understand that some volumes of LNG from Distrigas were sent on Algonquin on 1/3/14 and assisted in meeting peak day demand in New England.

4. In Section "6.2.1.111 New Brunswick Supply/Nova Scotia Offshore Supply," on p. 134 and again in section 6.2.3.11, p. 159, it is stated that "we have assumed that the Canaport LNG import facility will not regasify LNG for sendout for M&N due to supply chain uncertainty affecting destination-flexible cargoes.... Even though there is slack deliverability to M&N, insufficient gas production from Atlantic Canada...coupled with the loss of Canaport vaporization potentially affects generators directly connected to M&N and ...generators located behind LDCs..."

LAI included a RGDS S16 (Reference Gas Demand Scenario Sensitivity 16) which contemplated additional sendout at Canaport and Distrigas and they note on page iii of the draft report that, "In case sensitivities, the postulated reutilization of the LNG import terminals at both Canaport and Distrigas materially lessens the amount of affected generation." (emphasis added) Perhaps we could include similar conclusions in the areas mentioned above.

5. In section "6.2.1 RGDS S0 and RGDS S1 - Winter 2018," p. 123, third paragraph, it is mentioned that while GDF Suez meets the delivery needs of the New Mystic generation station that "additional regasification quantities into the back end of the Algonquin and Tennessee mainlines are zero."

We believe that LNG import facilities should be modeled at nameplate or send-out capacity (in the same manner as with the pipelines) rather than with assumptions on market decisions that can and do change rapidly. One cannot disregard the potential send-out capacity (operational capacity) whether it is currently being utilized or not. As demonstrated by system performance this winter, the west to east constraint is mitigated with injections of LNG from the East.

A recent ICF Quick Take, entitled, "Return of the Polar Vortex - Cold Renews High Demand, but Some Markets in Better Shape" referenced a Platts Gas Daily story from February 20, 2015, reporting, "regional gas demand in New England hit a record high of 43.1 Bcf/d on February 16, breaking last year's record of 41.9 Bcf/d on January 8, 2014." Given that LNG vaporization played a role in meeting that peak demand, it's capabilities should be modeled accordingly.

Thanks,

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