



The Energy and Technology Committee

Public Hearing, March 17, 2015

Testimony of

Consumer Counsel Elin Swanson Katz

Presented by Consumer Counsel Elin Swanson Katz

RAISED BILL NO. 6985, AN ACT INCREASING NATURAL GAS TRANSPORTATION CAPACITY

Consumer Counsel Elin Swanson Katz and the Office of Consumer Counsel (collectively "OCC") support Raised Bill No. 6985, An Act Increasing Natural Gas Transportation Capacity.

As this Committee knows well, there are abundant natural gas resources from shale supplies in the states to our west, especially Pennsylvania. Connecticut has for years enjoyed natural gas prices and electricity prices well below prior predictions because of the availability of shale gas. This has in turn encouraged New England to build additional natural gas-fired power plant capacity and led to the reduced usage of oil and coal for the generation of electricity, and in some instances the retirement of oil-burning or coal-burning power plants. At most times, this situation benefits customers; however, on the coldest winter days, tight gas pipeline capacity into New England, which is used for heating, industrial processes, and power plants, causes the cost of natural gas to skyrocket and raises electricity prices. Huge increases in electricity market prices in January - February 2014 caused standard service

electricity to rise by several cents this year, as the bids to provide standard service electricity included the risk to wholesale suppliers of another cold winter. February 2015 electricity market prices were also considerably elevated at about 12 cents per kilowatt-hour, which is about four times what such prices were in October 2014. Winter price spikes, and the efforts of market participants to hedge themselves against such spikes, will have a major impact on our electricity prices until more natural gas capacity is constructed into New England.

OCC notes that Governor Malloy and the Department of Energy and Environmental Protection have supported the development of additional natural gas capacity to serve electric customers and have led the regional efforts to try to solve this problem. There are already some developments, including the Algonquin "AIM" pipeline project, that will alleviate part of the New England gas capacity shortfall, but the contracting parties that have firm rights to the gas on the AIM pipeline will be natural gas local distribution companies, not power plants. Gas pipelines have not been sized to meet the needs of power plants because power plants do not have predictable gas demands or a means to recover for the costs of gas rights that turn out to exceed their needs. Thus, power plants tend to use spare capacity on the pipelines. In the winter, the amount of spare capacity goes down. The AIM project will create more spare capacity for a while, but as more heating customers are converted we will again face a capacity shortfall in a few years unless more is done to attract new pipeline capacity intended to serve the needs of electric customers.

Much discussion has occurred among the New England states and in regional electricity stakeholder meetings regarding potential solutions to this problem. One

potential solution is the approach taken in this bill, which would allow the electric distribution companies to contract for natural gas capacity. OCC believes that this approach makes sense for a variety of reasons. Our electric distribution companies have natural gas local distribution company affiliates and thus understand natural gas capacity and markets. Moreover, unlike the gas local distribution companies, which only serve about half of the state, the electric distribution companies serve a vast majority of the State's electric customers. If the long-term contracting called for in this bill were performed by the gas LDCs, oil and electric heating customers would get a "free ride" on the benefits of the additional pipeline capacity. It is better to have the electric distribution companies contract for additional pipeline capacity because the intent of the purchase is to benefit electric customers.

This bill calls for review and approval by the Public Utilities Regulatory Authority ("PURA") of any long-term contract for new pipeline capacity. OCC agrees that this would be appropriate, and PURA should be given the appropriate time to review the potential contract closely to ensure that the net benefits to customers are likely. These will presumably be massive contracts that carry a good deal of risk, and OCC and other stakeholders may well want to participate in the analysis. The risks of delays or doing nothing are probably higher, however, and so OCC appreciates this bill's enabling of action in this area.