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Massachusetts gas-pipe plan worries NEM, others

Pushback seen on making power world pay for pipes

The Massachusetts Dept of Public Utilities (DPU) received early comments last week on its probe looking into funding natural gas pipelines through utility rates (UMT, April-29), with the National Energy Marketers Assn (NEM) arguing the plan came with too many negatives to be worth it. Essentially, Massachusetts ratepayers would be shouldering the cost for what is a regional problem, NEM argued.

While the New England governors have talked about funding new pipelines (UMT, April-24), some states indicated they would not take part in such a program.

NEM recommended that instead of Massachusetts going it alone, the New England states and FERC should convene a technical conference to study the gas-capacity shortage issue and work on a regional solution.

The retailer trade group also argued that DPU's legal grounds for the probe could prove to be shaky. The DPU has authority to approve contracts for electric and gas utilities that go beyond one year, but it is unclear whether that extends to electric firms entering into contracts for gas pipelines, NEM argued.

Essential Power agreed that the legislature never contemplated electric utilities passing along the cost of building new gas pipelines. Since utilities in Massachusetts do not generate power, it would be improper for them to pass along such fuel costs, the generation firm argued in its comments.

Even if Massachusetts ends up making its utilities pay for gas pipelines, it has no guarantee generators would use them. The utilities could sell the capacity to other entities as they deem appropriate under the market conditions at the time, NEM cautioned.

"As such, the intended benefit of affecting electric prices through increased availability of gas capacity may not be realized," it added. "Nor will this proposal address the electric generators preference and practice of relying on secondary firm capacity."

Essential Power argued that it would be quite difficult to match up the costs and benefits of building pipelines to make gas cheaper for generators on peak winter days. A generator in Rhode Island could benefit from a pipe going through Connecticut, but ratepayers in the latter state backing the infrastructure might not get any power price cuts in return, the firm said.

Even if customers do get some benefits from avoiding the price spikes seen in recent winters, they would likely not benefit equally and it would be impossible to sort out, Essential Power said.

The markets are still evolving, with some pipelines coming into service already and ISO-NE having implemented winter reliability programs and the pay-for-performance capacity market revisions to address such issues, NEM noted. Until the new pipe is online and the ISO's market reforms are in full effect, it is unclear how much if any new capacity will be needed, the group argued.

"Particularly since the problem of electric price volatility is limited to certain windows in time, during critical-design peak days, it may be more prudent to examine limited, localized and less costly solutions that can be brought to bear, such as peak-shaving storage," NEM said.

Essential Power argued that paying for the gas pipelines could benefit some natural gas plants over others and would tip the playing field in favor of that generation source to the detriment of alternatives such as renewable energy.

The move could conflict with FERC's authority over wholesale rates, which could bring litigation risks with NEM citing the cases where generators (with eventual FERC support) sued Maryland and New Jersey over building gas plants to bid into PJM's capacity market.

If the DPU decides to go ahead anyway, it should ensure that Massachusetts' increasingly robust retail power market is not impacted. The market is just starting to take off and saddling it with cost recovery for such pipelines could have negative consequences, NEM said.