PennEast Pipeline Company, LLC
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April 14, 2016

Ms. Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

Re: PennEast Pipeline Company, LLC, Docket No. CP15-558-000
Reply of PennEast Pipeline Company, LLC

Dear Ms. Bose:

PennEast Pipeline Company, LLC ("PennEast") hereby files with the Federal Energy Regulatory Commission ("FERC" or "Commission") an independent analysis and rebuttal prepared by Concentric Energy Advisors, Inc. ("Concentric") in response to a filing submitted by the New Jersey Conservation Foundation ("NJCF"), which included as Attachment A thereto an analysis prepared by Mr. Greg Lander of Skipping Stone ("Skipping Stone Analysis"), and filed in the referenced docket on March 11, 2016 ("NJCF Comments"). Concentric corrects misstatements and inaccurate claims made by NJCF and Mr. Lander regarding the market need for the PennEast Project and addresses faulty and speculative assumptions and conclusions regarding energy markets and market prices in the NJCF Comments and Skipping Stone Analysis.

In addition to the misstatements and claims that Concentric rebuts in its analysis, the NJCF Comments and Skipping Stone Analysis include other inaccurate statements regarding the scope of the Commission's evaluation of the market need of a pipeline project under the Commission's Certificate Policy Statement that are not addressed in the Concentric analysis.[1] Specifically, NJCF claims that precedent agreements with affiliates are not evidence of market demand and that PennEast must demonstrate that the PennEast Project is based on "new demand."[2] Similarly, the Skipping Stone Analysis claims that "since [the Commission] established its policy of reliance on contracts as evidence of market need, those contracts were almost always between un-related parties."[3]

These statements are contrary to, or inconsistent with established Commission precedent. As PennEast explained in the answer to comments and protests that PennEast filed in the referenced docket on November 13, 2015, the Commission does "not distinguish between pipelines' precedent agreements with affiliates or independent marketers in establishing market

[1] *Certification of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,227 (1999) ("Certificate Policy Statement"), *order clarifying Statement of Policy*, 90 FERC ¶ 61,128 (2000), *order further clarifying Statement of Policy*, 92 FERC ¶ 61,094 (2000).
[2] NJCF Comments at 14.
[3] Skipping Stone Analysis at 20.

need for a proposed project."[4] The Commission "gives equal weight to contracts with affiliates and non-affiliates."[5] In fact, the Commission has concluded that market need exists for multiple projects based on affiliate agreements both prior to and since the issuance of the Certificate Policy Statement.[6] Even assuming, *arguendo*, that these projects are a statistically small percentage of the total projects reviewed by the Commission as argued in the Skipping Stone Analysis, the orders approving these projects are still valid legal precedent and the orders demonstrate clearly that the Commission has a lengthy and consistent policy of determining that projects are in the public convenience and necessity under the Natural Gas Act based upon project need supported by affiliate agreements. Moreover, contrary to NJCF's claim, the Commission does not require that an applicant demonstrate that there is "new demand" to show market support.[7]

NJCF's claims regarding regional planning are similarly misplaced.[8] Contrary to NJCF's assertions, "[w]hen reviewing an application under NGA section 7, the Commission does not conduct an analysis to determine whether the applicant's proposal is the best option for serving the identified demand. Rather, the Commission analyzes an applicant's specific proposal to determine if it is in the public convenience and necessity."[9] In addition, the Commission recently rejected a party's argument seeking "an assessment of project need on a regional basis" because of the "strong evidence of market demand for the project" demonstrated by the precedent agreements for service on the project.[10] Thus, it was unnecessary "to separately assess need across the region."[11] Similarly, it is not necessary to assess the need for the PennEast Project on a regional basis.

NJCF also claims that PennEast's stated purpose and need for the PennEast Project was unduly narrow and too narrowly defined energy demand in terms of natural gas demand and thus precluded a hard look at various alternatives, including the no-build alternative and renewable and other energy alternatives.[12] NJCF, however, largely ignores the comprehensive

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[4] Motion for Leave to Answer and Answer of PennEast Pipeline Co., LLC, Docket No. CP15-558-000 at 4, (Nov. 13, 2015) ("PennEast Answer") (citing *Millennium Pipeline Co., L.P., et al.*, 100 FERC ¶ 61,277 at P 57 (2002)).

[5] *Eastern Shore Natural Gas Co.*, 132 FERC ¶ 61,204 at P 31 (citing Certificate Policy Statement at 61,744; *Midwestern Gas Transmission Co.*, 114 FERC ¶ 61,257 at P 34 (2006); *NE Hub Partners, L.P.*, 90 FERC ¶ 61,142 at 61,439 (2000)).

[6] PennEast Answer at n. 11 (citing certificate orders issued in 1997, 1998, 2002, 2012 and 2014).

[7] *Paiute Pipeline Co.*, 151 FERC ¶ 61,132 at P 33 (2010) (stating that the Commission does "not evaluate shippers' business decisions to acquire capacity); *see also Eastern Shore Natural Gas Co.*, 132 FERC ¶ 61,204 at P 31 ("[T]he Commission . . . does not look behind contracts to determine whether the customer commitments represent genuine growth in market demand.") (citing Certificate Policy Statement at 61,744; *Midwestern Gas Transmission Co.*, 114 FERC ¶ 61,257 at P 34 (2006); *NE Hub Partners, L.P.*, 90 FERC ¶ 61,142 at 61,439 (2000)).

[8] *Id.* at 24-29.

[9] *Gulf S. Pipeline Co., LP et al.*, 146 FERC ¶ 61149, at P 24 (2014) (issuing certificate and rejecting an argument that information regarding potential third-party projects was required to assess the need for the project).

[10] *Algonquin Gas Transmission, LLC*, 154 FERC ¶ 61,048 at P 40 (2016). The Commission further emphasized that the shippers were local distributors of gas to end users in their service areas. *Id.*

[11] *Id.*

[12] NJCF Comments at 29-34.

consideration of alternatives already on the record in this proceeding, including the robust discussion of alternatives in Resource Report 10 included with the PennEast certificate application filed in the referenced docket on September 24, 2015. Resource Report 10 includes an extensive discussion on no-action alternatives, including an analysis of energy conservation. Resource Report 10 also broadly discusses other energy alternatives, including LNG, coal and oil, as well as renewable energy alternatives, such as wind, geothermal and solar.

Finally, the NJCF Comments include comments on cumulative impacts and other environmental impacts. The record in this proceeding already comprehensively addresses these issues as explained in the PennEast Answer and demonstrated in the resource reports filed with the PennEast certificate application and PennEast's responses to the Commission's Environmental Information Requests in the referenced docket.

Should you have any questions regarding the foregoing, please contact me at (610) 406-4322.

Sincerely,

/s/ Anthony C. Cox
Anthony C. Cox
PennEast Pipeline Company, LLC,
By its Project Manager
UGI Energy Services, LLC

cc: All Parties of Record in Docket No. CP15-558-000

REPLY COMMENTS OF CONCENTRIC ENERGY ADVISORS TO COMMENTS SUBMITTED BY THE NEW JERSEY CONSERVATION FOUNDATION REGARDING PENNEAST PIPELINE COMPANY, LLC

PREPARED FOR
PENNEAST PIPELINE COMPANY, LLC

APRIL 13, 2016

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I. INTRODUCTION

1. Concentric Energy Advisors, Inc. ("Concentric") has been retained by PennEast Pipeline Company, LLC ("PennEast") to independently review and reply to the comments submitted by the New Jersey Conservation Foundation ("NJCF"), prepared Mr. Greg Lander of Skipping Stone and filed in Docket No. CP15-558 ("NJCF Comments").[1,2]

2. Concentric is a management consulting and financial advisory firm focused on the North American energy industry. Concentric offers a broad range of advisory and support services, and our expertise spans the natural gas, power, and oil markets. Concentric's experts have performed numerous strategic natural gas market assessments throughout North America for pipelines, producers, natural gas storage providers, LNG developers, and lenders. These assessments have evaluated historical and future markets for energy assets, and have considered aspects including risks, comparative costs, valuations, quantifications of savings associated with new infrastructure, and regulatory environment and policy assessments.

3. These reply comments have been prepared by Mr. Toby Bishop, Vice President, and Ms. Melissa Bartos, Assistant Vice President, of Concentric.

   Mr. Bishop has over 20 years of management and economic consulting experience advising energy industry clients throughout the United States and Canada. Mr. Bishop has a broad range of experience covering strategic, regulatory, financial, and transactional matters. Specifically, Mr. Bishop has extensive regulatory and litigation experience regarding both natural gas and electric issues, including federal and state rate case proceedings, contractual disputes, regulatory strategy and policy formulation, market power and competitive concerns, and asset development. In addition, Mr. Bishop has substantial experience assisting clients with market and asset evaluations, including due diligence for acquisitions and divestitures, market entry/exit and competitive assessments, and asset valuation. Mr. Bishop has testified before the Federal Energy Regulatory Commission ("FERC") and the National Energy Board of Canada.

   Ms. Bartos is an experienced financial and economic consultant with more than 18 years in the energy industry. She has focused primarily on natural gas markets and regulatory

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1 Analysis of Public Benefit Regarding PennEast Pipeline. The New Jersey Conservation Foundation (prepared by Mr. G. Lander of Skipping Stone). Federal Energy Regulatory Commission. Docket No. CP15-558. March 9, 2016.

2 While these reply comments address a number of issues raised in the NJCF Comments, simply because an issue is not addressed herein does not indicate that we support the analysis or conclusions of such issues in the NJCF Comments.

matters, including conducting comprehensive market assessments for various clients considering infrastructure investments and developing detailed demand forecasts for a number of gas distribution companies. Ms. Bartos has also designed, built, and enhanced numerous financial and statistical models to support clients in asset-based transactions, energy contract negotiations, asset and business valuations, and rate and regulatory matters. Ms. Bartos has also provided expert testimony regarding natural gas demand forecasting and supply planning issues, gas market assessments, and incentive ratemaking before various state and provincial regulatory commissions. PennEast is proposed to be an approximately 114-mile, 36"-inch natural gas transmission pipeline capable of transporting approximately 1,100 MDth/d of natural gas from northeastern Pennsylvania to southeastern Pennsylvania, central New Jersey and surrounding states, with numerous receipt and delivery points, as well as various interconnections with other natural gas transmission pipelines along the route.[3] Currently, PennEast is nearly fully subscribed, having firm contractual commitments with 12 different shippers totaling 990 MDth/d of the approximately 1,100 MDth/d of capacity on the proposed pipeline project.[4] These contractual commitments are with local natural gas distribution companies ("LDCs"), natural gas producers, marketers, independent power producers, and an interstate natural gas pipeline.

A. OVERVIEW OF THE NJCF COMMENTS

4. The NJCF Comments assert that:

- PennEast is not needed because total capacity in eastern Pennsylvania and New Jersey exceeds LDC historical peak day demand by almost 50% and PennEast is not a cost-effective solution to electric reliability concerns during peak periods;
- PennEast may increase, rather than decrease, costs to gas customers as a result of reducing capacity release values and causing unsubscribed capacity on existing competing pipelines;
- PennEast's calculations of potential savings for energy consumers are based on assumptions of a repeat of the price spikes experienced during the Polar

[3] PennEast is currently projected to have delivery interconnections with UGI Central Penn Gas, Inc., UGI Utilities, Inc., Columbia Pipeline Group, Elizabethtown Gas, NRG REMA, LLC, Texas Eastern Transmission, LP ("TETCO"), Algonquin Gas Transmission, and Transcontinental Gas Pipe Line Company LLC ("Transco") (*see*, FERC, Docket No. CP15-558, PennEast Pipeline Project, FERC Section 7(c) Application Resource Report 1, September 24, 2015, ("Resource Report 1"), p. 1-2.

[4] *Id*., p. 1-3.

Vortex and do not address the impact of recent electric market reforms that will likely reduce price spikes in the future.[5,6]

5. Based on its assertions, NJCF requests the FERC institute a full evidentiary proceeding to determine "what demand is being met by the proposed pipeline and whether less disruptive and more cost effective alternatives exist to meet such demand"[7]

B. EXECUTIVE SUMMARY

6. Based on our review of the NJCF Comments, we conclude that:

- The premise of NJCF's assessment regarding the reliability "need" for PennEast is flawed. NJCF incorrectly concludes that PennEast is not needed to serve LDCs and/or gas-fired generation solely from the perspective of reliability (*i.e.*, meeting peak demand) when many other factors should be considered.
  - As a threshold issue, high market prices for natural gas in eastern Pennsylvania and New Jersey compared to relatively low supply area prices during periods of peak winter demand demonstrate the existence of pipeline capacity constraints, which contradicts NJCF's claim that there is 50% more capacity than needed to meet LDC demand in the region.
  - The NJCF Comments overlook the numerous reasons that LDCs contract for pipeline capacity (*e.g.*, cost savings, supply security and reliability, supply diversity, supply flexibility, price stability); it is not simply to meet historical peak demand requirements as suggested by NJCF's approach. Also, NJCF's comparison of LDC historical peak demand relative to natural gas delivery capability suffers from a number of errors that have the effect of understating demand and overstating natural gas delivery capability.
  - Similarly, NJCF's analysis of the cost-effectiveness of natural gas delivered via PennEast to serve electric generation also focuses solely on

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5 NJCF Comments, pp. 4-5.

6 The NJCF Comments also assert that a substantial portion of the underlying contractual support for PennEast does not reflect arms-length transactions, and that the Commission should not rely on such contracts as support for a finding of public convenience and necessity. Concentric was not involved in the contract negotiations between PennEast and its shippers, and is thus not responding to this allegation.

7 *Id*. at p. 5.

reliability, again ignoring the substantial benefits that lower market-area natural gas prices resulting from additional pipeline capacity can provide throughout the winter, and which accrue to all electric customers in the region. Even so, NJCF's cost-effectiveness assessment also contains a number of inaccuracies.

- There has been substantial demand for pipeline capacity to bring low-cost Marcellus gas from the northeast to the southeast, Midwest and Gulf Coast, which directly contradicts NJCF's conclusion that PennEast is likely to increase costs to LDC customers by reducing capacity subscription levels on existing competing pipelines. In addition, NJCF's analysis used to support its claim of increased costs is unsubstantiated.
- NJCF's assertions regarding the level of reduced capacity release value likely to be caused by PennEast are based on faulty analysis, and as a result, are unfounded.
- NJCF mischaracterizes the Concentric Report; its purpose was not to justify the construction of PennEast, nor were the estimated savings to energy customers in eastern Pennsylvania and New Jersey premised on a repeat of Polar Vortex circumstances as claimed by NJCF. In contrast, the purpose of the Concentric Report was to estimate the market benefits that could be provided by additional pipeline capacity, and that analysis specifically *excluded* electric market savings on extreme peak days during the Polar Vortex, which conservatively resulted in significantly lower consumer savings than if the extreme peak days were included in the analysis.
- It is premature and speculative for NJCF to conclude that natural gas, and in turn, wholesale electric, price spikes have already and enduringly been addressed through the addition of other pipeline projects and upcoming wholesale electric market changes. Forward market prices and the willingness of shippers to sign contracts on PennEast demonstrate a continued market need for PennEast.

II. CONCENTRIC'S RESPONSE TO THE NJCF COMMENTS

A. NJCF'S CLAIM THAT PENNEAST IS NOT NEEDED BY LDCS BECAUSE LDCS HAVE MORE THAN ENOUGH NATURAL GAS DELIVERY CAPABILITY IGNORES THE REASONS LDCS CONTRACT FOR PIPELINE CAPACITY, AND REGARDLESS, NJCF'S SUPPORTING ANALYSIS WAS DONE INCORRECTLY

7. NJCF attempts to assess the need for PennEast by evaluating "whether current pipeline capacity is sufficient to meet current and future demand from LDCs and other customers requiring firm capacity in the Eastern PA, NJ region" by identifying "the Peak Day demand

from LDCs in the region" and comparing it to the "Total Peak Day Resources available in the region."[8] Specifically, NJCF's analysis compares LDC historical peak day sendout to the contracted winter pipeline capacity of the LDCs in the region, plus the daily LNG vaporization capability, plus the winter pipeline capacity contracted by retailers, end-users, electric generators, producers and marketers. Based on its analysis, NJCF claims that there is "49.9% more resources available to meet peak day demand from local gas distribution companies in the region than is needed."[9]

8. At the outset, a fundamental problem with NJCF's allegation of excess natural gas resources is that it is inconsistent with actual market prices that have been experienced. Specifically, natural gas prices clearly demonstrate that there are capacity constraints between the Marcellus and eastern Pennsylvania/New Jersey markets, not substantial excess capacity. In addition, NJCF's premise that one can determine "need" for PennEast by simply comparing LDC historical peak day demand to total available capacity suffers from at least two additional major flaws: (i) NJCF has ignored that firm capacity on PennEast would provide numerous benefits to LDC shippers beyond simply matching LDC demand and supply; and (ii) NJCF's comparison of LDC historical peak day demand to total available capacity in the region is inaccurate because a portion of the available capacity is to serve non-LDC loads, and LDCs must plan for forecasted demand beyond a historical peak day.

i. Market Prices Demonstrate the Existence of Capacity Constraints During the Winter, Not Excess Capacity

9. As discussed in the Concentric Report, a "basis differential" is the difference between the market price of natural gas at two pricing points at a given time (*e.g.*, the difference between the Marcellus production area and the eastern Pennsylvania/New Jersey market area). Market prices are set based on transactions between buyers and sellers in various locations. Basis differentials reflect the value (but not necessarily the cost) of transportation between two market pricing points at a particular time. A basis differential between two points that is substantially higher than the cost of transportation between those points, sustained over a reasonably long period, is an indication that there are pipeline constraints between those points, and provides a signal to pipeline project developers that there may be sufficient demand to contractually support the construction of new pipeline capacity to alleviate those constraints.

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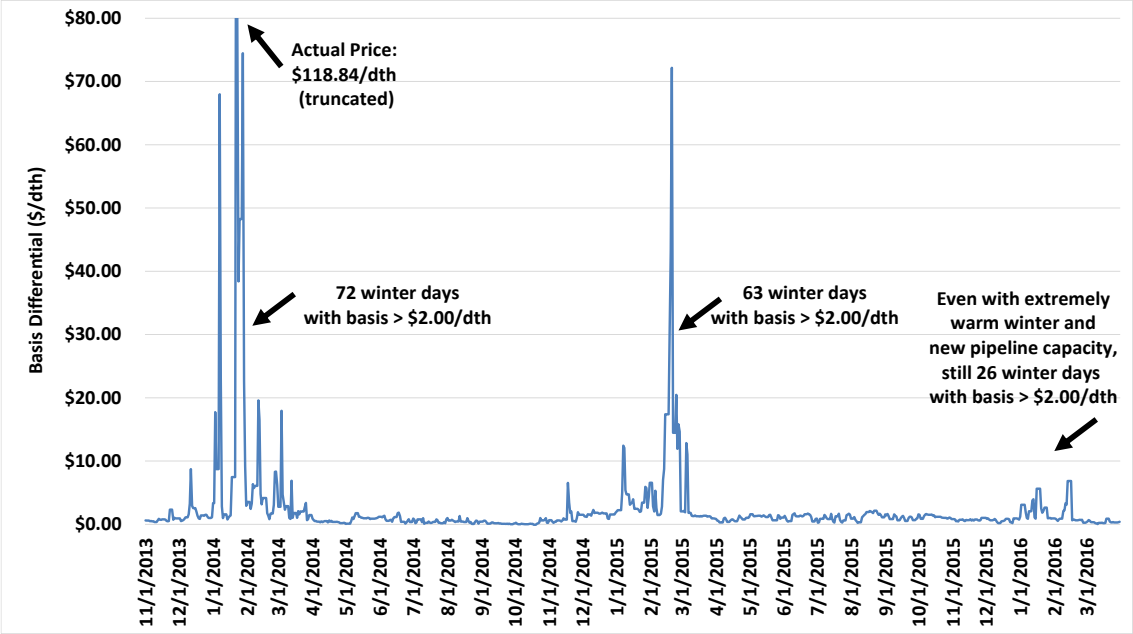
[8] *Id*. at p. 7.

[9] *Id*.

10. As shown in Figure 1 below, the basis differentials between the Marcellus production area and the eastern Pennsylvania/New Jersey market area are relatively low during low-demand shoulder and summer periods, and are substantially higher during high-demand winter periods.[10] For example, in the last two years, the basis differential has been lower than $0.20/dth approximately 10% of the time. However, the basis differential increased more than ten-fold (*i.e.*, to over $2.00/dth) on many days in the past three winters, and even much higher on numerous days during the cold winters of 2013/2014 and 2014/2015, which had many days with basis differentials above $10.00/dth. Even in the extremely warm winter that was just experienced in the region,[11] the basis differential exceeded $2.00/dth on 26 days.

Figure 1:
Basis Differentials Between the Marcellus and Eastern Pennsylvania/New Jersey



[10] As discussed in the Concentric Report, demand for natural gas in Pennsylvania and New Jersey rises significantly during winter months as residential and commercial customers use natural gas to heat their homes and businesses.

[11] Marrin, Peter. Lower 48 records warmest 'cold season' ever with energy demand index 96.1% below normal. *SNL Financial*. April 11, 2016. As illustrated by the National Oceanic and Atmospheric Administration, eastern Pennsylvania and New Jersey experienced very warm temperatures for the October 2015 through March 2016 period, reflecting some of the highest departures from average temperatures in the U.S.

Source: Bloomberg.

11. The high winter basis differential indicates that there are constraints between the Marcellus and eastern Pennsylvania/New Jersey markets when demand increases, which is contrary to NJCF's allegation that PennEast is not needed because current pipeline capacity is more than sufficient to meet LDC peak day demand. In fact, NJCF purports that there is 3.5 Bcf/d of capacity above and beyond the region's LDC peak day demands. However, if the magnitude of extra capacity was so substantial, then the basis differential would be consistently lower than what has been experienced. Instead, the high and sustained basis differentials experienced in eastern Pennsylvania/New Jersey, coupled with the analysis provided in the Concentric Report, indicate that PennEast could provide significant benefits to the market.

ii. The NJCF Comments Ignore the Numerous Reasons Why LDCs Contract for Pipeline Capacity Beyond Simply Matching Supply with Demand

12. NJCF's assessment of the need for PennEast also ignores that LDCs and other shippers make specific pipeline contracting decisions for many reasons beyond simply matching delivery capability with historical peak demand. Factors such as cost savings, supply security and reliability, supply diversity, supply flexibility, price stability, and meeting incremental demand, also play an important role. PennEast would provide benefits in all of these areas.

13. LDCs have an obligation, as overseen by their state regulator, to procure natural gas for their customers at reasonable rates while continuing to provide safe and reliable service.[12] One benefit that PennEast provides is the opportunity for LDCs and other shippers to replace natural gas supplies that could be purchased in one production area (*e.g.*, the Gulf Coast) with less costly supplies in another production area (e.*g.*, the

[12] Both the Pennsylvania Public Utilities Commission ("PAPUC") and the New Jersey Board of Public Utilities ("NJBPU") cite in their mission statements the goal of ensuring cost-effective energy for consumers. For example, the PAPUC's mission is to balance "the needs of consumers and utilities; ensures safe and reliable utility service at reasonable rates; protects the public interest; educates consumers to make independent and informed utility choices; furthers economic development; and fosters new technologies and competitive markets in an environmentally sound manner." (Pennsylvania Public Utility Commission. http://www.puc.state.pa.us/about_puc.aspx. Accessed April 1, 2016). In addition, the NJBPU's mission statement is, [t]o ensure that safe, adequate, and proper utility services are provided at reasonable, non-discriminatory rates to all members of the public who desire such services. To develop and regulate a competitive, economically cost effective energy policy that promotes responsible growth and clean renewable energy sources while maintaining a high quality of life in New Jersey." (New Jersey Board of Public Utilities. http://www.state.nj.us/bpu/about/mission/. Accessed April 1, 2016).

Marcellus basin). Shippers on PennEast, including Consolidated Edison, PSEG Power, South Jersey Gas, and UGI Energy Services, specifically cite the opportunity to lower gas costs for customers as a reason for contractually committing to capacity on PennEast.[13]

14. PennEast shippers have cited many other reasons as well for making long-term contractual commitments for this capacity, including:

    (i) reliability (cited by New Jersey Natural Gas and South Jersey Gas);

    (ii) supply and pipeline diversity (cited by Elizabethtown Gas, New Jersey Natural Gas, Texas Eastern, and Consolidated Edison);

    (iii) flexibility (cited by PSEG Power, South Jersey Gas, Texas Eastern, and Consolidated Edison);

    (iv) price stability (cited by New Jersey Natural Gas and South Jersey Gas); and

    (v) expansion opportunities (cited by Elizabethtown Gas and South Jersey Gas).[14]

15. Consequently, firm capacity on PennEast would provide many benefits to shippers regardless of the level of natural gas delivery capability in the region relative to LDCs' historical peak day demand. A discussion of these other important benefits is absent from NJCF's evaluation of the need for PennEast.

iii. NJCF's Analysis that Compares LDC Demand to Natural Gas Delivery Capability is Incorrect

16. The analysis reflected in Table 1 of the NJCF Comments attempts to evaluate the need for PennEast by comparing LDC historical peak day demand with total available capacity. However, it is meaningless to compare LDC historical peak day demand to total peak day resources when a portion of the pipeline capacity deemed available by NJCF is to serve non-LDC loads, and LDCs must plan for demand beyond historical peak day. Specifically, the analysis reflected in Table 1 of the NJCF Comments both overstates the natural gas capacity available to serve LDC customers in the region, and understates the natural gas customer demand for which LDCs are required to plan. Accordingly, NJCF's analysis is

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[13] Resource Report 1. PennEast Pipeline Company LLC. Federal Energy Regulatory Commission. Docket No. CP15-558 at 1-3 - 1-5; Motion to Intervene and Supporting Comments of Consolidated Edison Company of New York, Inc., Federal Energy Regulatory Commission. Docket No. CP15-558. October 29, 2015.

[14] *Id*.

neither a reasonable nor accurate comparison of LDC natural gas demand versus delivery capability to meet that LDC demand in eastern Pennsylvania and New Jersey.

NJCF Incorrectly Assumes the Aggregate Capacity in the Region is Available to Meet LDC Demand

17. The NJCF Comments state that:

> To properly calculate current Peak Day Resources it is important to include not only LDC held pipeline capacity and LNG sendout capability, but to also include winter pipeline subscribed capacity levels of retailers serving load in eastern PA and NJ, end-users and electric generators with contracts to locations in the same geographic area and capacity held by producer marketers into this same geographic area.[15]

18. A significant flaw with NJCF's approach is that it incorrectly assumes that the entirety of the pipeline capacity contracted to eastern Pennsylvania and New Jersey is available to, and can be utilized by, the LDCs in the region to meet their firm peak demands. In reality, however, individual LDCs only have firm access to the capacity for which they contract, not all pipeline capacity that exists in an area.

19. For example, LDCs do not have firm access to pipeline capacity that is contracted by electric generators and end-users that are directly connected to the pipeline (*i.e.*, customers that by-pass the distribution system and are not served by the LDC), yet NJCF specifically stated that "it is important to include...capacity levels of…end-users and electric generators with contracts to locations in the same geographic area." Electric generators and end-users directly connected to a pipeline hold firm contracts to deliver natural gas to operate their facilities; thus, this capacity is not available to LDCs or demand behind their citygates. Therefore, it is inappropriate for NJCF to include for purposes of its comparison the pipeline capacity contracted by these generators and end-users as available to meet LDC needs.

20. In addition, it is difficult to determine to whom producers and marketers are ultimately selling their gas as it is typically kept confidential. NJCF has not provided support to demonstrate that all of the capacity it has identified as being held by marketers/producers in the geographic area is in fact being used to sell gas to LDCs (or

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[15] NJCF Comments at p. 7. NJCF does not source, explain or provide details as to the development of its assumed contracted winter pipeline capacity data, thus it is not possible to definitively determine the basis, relevance, or accuracy of such data.

parties behind their citygates) in the area. Simply because a producer or marketer holds pipeline capacity into the same geographic area does not necessarily indicate that the capacity is available to meet LDC needs in that area.

21. For example, shippers' contracts can specify multiple delivery points, some of which may be in the region and some of which may be outside the region. It is possible that a portion of the marketer/producer capacity identified by NJCF is being used to sell gas outside the region. Also, to the extent that a producer or marketer is selling gas into a pooling point in the area, there is no indication that there is necessarily delivery capacity available between the pooling point and an LDC in eastern Pennsylvania/New Jersey. Lastly, a producer or marketer could be selling gas to a shipper that is not behind an LDC citygate (*i.e.*, a customer directly connected to an interstate pipeline) in the area. Therefore, it is not reasonable for NJCF to assume that all of the capacity held by producers and marketers in the area is available to meet LDC demands.

NJCF Incorrectly Relies on Historical Peak Day Sendout Instead of Forecasted Design Demand

22. The 2014 LDC peak day sendout relied upon by NJCF to compare against capacity understates the demand for which LDCs are required to plan.[16] There are two flaws associated with using historical peak day sendout as an indication of supply/demand balance for LDCs. First, LDCs are required to plan to meet firm customer demand under extremely cold conditions (*e.g.*, design day). Second, LDCs are required to plan to meet customer demand on a forecasted basis, not a historical basis. Each of these flaws is explained in more detail below.

23. Peak day sendout is the highest daily amount of natural gas that was delivered to an LDC's customers in a particular year. Firm design day demand represents the expected natural gas usage of firm customers on a day experiencing significantly colder than normal conditions. The specific cold weather conditions that are used to calculate firm design day demand are typically pre-determined. Calculating firm design day demand is done from a planning perspective to ensure that safe and reliable natural gas service can be provided to all firm customers, even under significantly cold winter weather conditions. Accordingly, one goal when LDCs structure their natural gas portfolios is to ensure the

[16] The peak day sendout data provided in the Concentric Report was provided solely as market context and was not relied upon for any of the calculations of estimated benefits associated with PennEast.

ability to meet design day demand.[17] While the weather of the winter of 2013/2014 was challenging, it did not reach design day levels. Accordingly, it is not appropriate for NJCF to use 2014 peak day demand to evaluate LDC supply/demand balance.

24. The NJCF Comments indicate that in order to evaluate whether LDCs can meet their needs for firm pipeline capacity, existing pipeline capacity needs to be compared to current *and future* LDC demand.[18] However, noticeably absent from NJCF's evaluation is any discussion of projected future demand from LDCs in the region. NJCF simply compares its calculation of natural gas delivery capability to 2014 peak day sendout, without addressing projected future LDC demand. As discussed in detail below, New Jersey LDC demand, eastern Pennsylvania LDC demand and electric generation demand in the region, are all expected to grow.

25. Multiple LDCs in New Jersey have indicated that they expect growth in demand over the next several years. Specifically:

- PSEG has projected that its design day demand will increase at a 0.85% compound annual growth rate over the next five years;[19]
- New Jersey Natural Gas gained 7,858 new customers in fiscal 2015 (split approximately equally between new construction and conversions from other fuels), and has forecasted growth of 24,000 to 28,000 customers over the next three years, a growth rate of approximately 1.6% per year;[20] and
- South Jersey has projected that its design day requirement is projected to increase at a compound annual growth rate of 1.23% over the next five years.[21]

26. Similarly, both UGI Utilities and UGI Penn Natural Gas in Pennsylvania are projecting increases in demand. Specifically:

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[17] However, at times some LDCs may have natural gas delivery capability that exceeds design day requirements for a number of reasons, including difficulty exactly matching delivery capability and design day requirements due to pipeline capacity typically becoming available at discreet times and in discreet quantities, the timing of contract expirations, and potentially for reliability purposes.

[18] NJCF Comments at p. 7.

[19] PSEG Services Corp. 2015/2016 Annual BGSS Commodity Charge Filing, Schedule F (Item 16). New Jersey Board of Public Utilities. Docket No. GR15060647. June 1, 2015.

[20] New Jersey Resources Corp. Fiscal First Quarter 2016 Update. February 3, 2016.

[21] South Jersey Natural Gas, BGSS Filing for the Year Ending September 30, 2016, Exhibit TWR-6. June 1, 2015.

- UGI Utilities is projecting firm peak day demand growth at a compound annual growth rate of 1.92% through 2020.[22]
- UGI Penn Natural is projecting firm peak day growth at a compound annual growth rate of 0.63% through 2020.[23]

Both of these utilities have also stated that the current low oil price environment is not dampening the participation in programs to extend natural gas distribution lines in their service territories.[24] In addition, PennEast implemented a re-route in Pennsylvania, in part, to enable a new delivery point to ultimately serve a facility being developed by Blue Mountain Resort, which represents new demand in Pennsylvania.

27. There is also projected growth in natural gas demand in New Jersey and in eastern Pennsylvania from gas-fired electric generation. The generation mix in PJM has been evolving from being heavily reliant upon coal-fired generation to relying more on natural gas-fired generation. The Independent Market Monitor for PJM has stated that:

> A significant shift in the distribution of unit types within the PJM footprint continues to develop as natural gas-fired units enter the queue and steam units retire. …*The replacement of coal steam units by units burning natural gas could significantly affect future congestion, the role of firm and interruptible gas supply, and natural gas supply infrastructure*.[25] (emphasis added)

As of the end of 2015, over 90% of the total generating capacity proposed in the PJM queue in eastern Pennsylvania and New Jersey is natural gas-fired.[26] While not all of that capacity may be constructed, it is clear that the majority of generating capacity that is ultimately constructed is likely to be natural gas-fired.

28. It is also worth noting that natural gas plays a critical role in the back-up of renewable generation. Due to the intermittent nature of renewable generation, a generation mix that relies more on renewables must also have increased flexible, dispatchable, reliable generation that can operate as a back-up when renewable generation is unavailable due

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22 UGI Utilities, Inc. – Gas Division. Direct Testimony of Shaun M. Hart, Table 1. Pennsylvania Public Utility Commission. Docket No. R-2015-2480950. June 1, 2015.

23 *Id*.

24 Smith, Sarah. UGI Sees Strong Interest in Oil-to-Gas Conversions Despite Lower Oil Prices. *SNL Financial*, September 17, 2015.

25 Monitoring Analytics, LLC. 2015 State of the Market Report for PJM. March 10, 2016 at p. 453.

26 *Id*., Table 12-5.

to weather conditions. Due to cost, environmental benefits, siting benefits, and flexibility, the back-up generation is typically provided by natural gas-fired generation. Thus, natural gas's role is critical in reliable power generation, regardless of the concentration of renewables in the future.

29. The NJCF Comments also incorrectly compare LDC peak day demand to peak day resources on an aggregate, region-wide basis. The appropriate analysis to determine whether an LDC has a need for additional firm pipeline capacity for the purposes of simply meeting demand is to compare the specific forecasted demand of that LDC to the specific resources contracted by that LDC. As mentioned, individual LDCs only have firm access to the capacity for which they contract, not all pipeline capacity that exists in the region. Moreover, as noted, LDC contracting decisions reflect a number of other factors beyond simply matching the quantity of forecasted firm demand to the quantity of firm contracts, including reducing price, increasing flexibility, increasing diversity, greater price stability, and meeting distribution system requirements. This LDC-specific analysis is typically reviewed by a state regulator in the context of integrated resource planning, approvals of pipeline contracts, and/or periodic gas cost adjustment filings. Table 1 of NJCF's Comments does not provide any basis to determine whether, individually or collectively, the LDCs in eastern Pennsylvania or New Jersey are short or long natural gas delivery capability to meet their respective demand requirements. Consequently, a region-wide analysis as done by NJCF, which assumes one LDC can use the capacity of any other market participant to make up a potential shortfall, is irrelevant.

30. In summary, NJCF's conclusions regarding excess capacity is contradicted by actual market prices that indicate constraints during high demand periods. In addition, as demonstrated, NJCF's premise that one can determine the need for PennEast from a reliability perspective by simply comparing LDC historical peak day demand to the alleged total available natural gas delivery capability in the region suffers from many flaws. Therefore, NJCF's analysis of purported LDC "need" for pipeline capacity provides no reasonable basis to conclude that LDCs in eastern Pennsylvania or New Jersey do not need or would not benefit from additional pipeline capacity provided by PennEast.

B. NJCF'S REVIEW OF THE COST-EFFECTIVENESS OF PIPELINE CAPACITY FOR ELECTRIC GENERATION IS BOTH A RED HERRING AND IS INCORRECT

31. NJCF claims that the Concentric Report, "argues that additional capacity is needed for electric generation and to prevent 'price spikes,'"[27] and NJCF attempts to evaluate whether

[27] NJCF Comments at p. 9.

PennEast would be cost-effective to serve electric generation relative to other fuel alternatives (*i.e.*, dual fuel generation using No. 2 fuel oil or imported LNG into New England allowing greater natural gas availability in the Mid-Atlantic). NJCF's analysis assumes PennEast is only needed for reliability to serve coincident demand that lasts between 10 to 60 days per year, and compares the annual cost of PennEast recovered over 10 to 60 days to the cost of using fuel oil or imported LNG. Based on its analysis, NJCF claims that it may be less expensive for a generator to use No. 2 fuel oil and/or imported LNG instead of contracting for capacity on PennEast that would be used for only 10 to 60 days in the winter, and thus alleges that PennEast is not needed to serve gas-fired generation in the eastern Pennsylvania and New Jersey region.[28]

32. As explained below, by focusing solely on reliability as determinative of the need for PennEast for electric generation, NJCF disregards the substantial benefits that PennEast can provide to electric consumers in eastern Pennsylvania and New Jersey by placing downward pressure on market area natural gas prices. Regardless, NJCF's supporting analysis also contains a number of inaccuracies.

i. NJCF's Exclusive Focus on Reliability is Too Narrow; PennEast Will Provide Substantial Benefits by Reducing Wholesale Electric Prices Throughout the Entire Winter

33. NJCF's analysis of the cost-effectiveness of firm capacity on PennEast to serve electric generation on 10 to 60 days misses the point. NJCF asserts that additional pipeline capacity is only necessary for purposes of ensuring electric reliability during coincident peak periods (*i.e.*, 10 to 60 days), and ignores the substantial benefits that exist throughout the entire winter, not just on only 10 to 60 days.

34. As previously illustrated in Figure 1 herein, the basis differential between the Marcellus and eastern Pennsylvania/New Jersey indicates the presence of a constraint when demand is high. As stated in the Concentric Report, "[i]t is generally accepted that natural gas markets that are constrained during some or all of the year, and thus reflect higher and more volatile natural gas pricing during such periods, can benefit from additional pipeline capacity to mitigate the higher and more volatile pricing." Therefore, additional pipeline capacity into eastern Pennsylvania and New Jersey can benefit the entire market by lowering basis differentials between the production and market areas, regardless of who contracts for the capacity. Since gas-fired generators typically purchase gas at local market area prices, which are ultimately reflected in electric prices, electric consumers in

[28] *Id*. at pp. 9-11.

eastern Pennsylvania and New Jersey will benefit from the reduced gas prices resulting from the incremental capacity associated with PennEast.

35. Based on a statistical analysis of the demand and pricing data, the Concentric Report estimated that additional pipeline capacity would have lowered market-area natural gas prices, and therefore electric energy prices, nearly all winter, not only for 10 to 60 days. Not surprisingly, additional pipeline capacity was estimated to have a larger impact on prices when demand was highest; however, even when demand was moderate, the addition of an incremental 1 Bcf/d would have still placed downward pressure on prices. As stated in the Concentric Report, the electric market benefit was substantial (*i.e.*, $532 million based on data from the winter of 2013/2014).

36. It is important to highlight that Concentric's estimate of electric market benefits was conservative because potential benefits associated with "extreme peak days" were *excluded* from Concentric's analysis:

> Concentric defined an extreme peak day as any day when demand in eastern Pennsylvania and New Jersey was greater than 8 Bcf or the HDDs were greater than 46. As previously discussed (see Table 4), it was estimated that for those high demand days, the basis differential between Transco Leidy and TZ6NNY [*i.e., Transco Zone 6 Non-New York*] would have otherwise been reduced by 90%, and thus the TZ6NNY price would have also been reduced, due to an incremental 1 Bcf/d of pipeline capacity into the region. However, since demand on those days was very high, and thus have been defined as extreme peak days, the natural gas price benefit in the market area on such days was conservatively assumed to not flow through to the electric market for purposes of estimating the savings herein.[29] (clarification added)

Exclusion of the "extreme peak days" from the analysis eliminated the days of the winter of 2013/2014 with the highest demand and coldest weather. As a result, all days with basis differentials between the Marcellus and eastern Pennsylvania/New Jersey ranging from approximately $9/dth to $119/dth were eliminated from the analysis. Thus, even with the extreme peak days excluded from the analysis, there was estimated to be substantial benefits in the winter of 2013/2014 that would have accrued to electric customers as a result of additional pipeline capacity being constructed to serve eastern Pennsylvania/New Jersey. In other words, what is missed by the NJCF Comments is that PennEast will provide substantial electric market benefits throughout the winter, and, as indicated by its contractual support, the pipeline's primary purpose is not to satisfy a potential reliability need by electric generators for 10 to 60 days.

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[29] Concentric Report at pp. 22-23.

ii. NJCF's Analysis of Pipeline Capacity Cost-Effectiveness for Electric Generation Customers is Misleading

37. Even though the NJCF Comments ignore the benefits to be provided by additional pipeline capacity throughout the winter, its conclusion regarding a generator's cost of natural gas is also incorrect as compared to either No. 2 fuel oil or imported LNG.

38. First, it is important to provide context to NJCF's allegation that fuel oil is an "economically better" choice for generators during 10 to 60 days of high winter demand.[30] NJCF's comments state that "for peak demand of 30 days, the natural gas alternative would be the lower cost alternative if the cost of No. 2 fuel oil is $1.13 [per gallon]." In fact, as shown in the following figure, the average spot price of No. 2 fuel oil at New York Harbor was actually greater than $1.13/gallon in nine of the last ten winters, and is expected to be greater than $1.13/gallon in each of the next three winters, meaning that pipeline natural gas as calculated by NJCF would be the lower cost alternative for the 30-day scenario. NJCF also notes that "for peak demand of 10 days, the natural gas alternative would be the lower cost alternative if the cost of No. 2 fuel oil is $2.58 per gallon or higher." Again, the average price of No. 2 fuel oil was greater than $2.58/gallon in five of the last ten winters. Furthermore, the cost of No. 2 fuel oil delivered to a generator in eastern Pennsylvania/New Jersey would be higher than the New York Harbor price, meaning the No. 2 fuel oil prices shown in Figure 2 are conservative. With this context, it is not fair to say that "one can readily see that" No. 2 fuel oil is the "economically better" choice as purported by NJCF.[31]

39. In addition, in order to appropriately compare the cost of delivered natural gas versus fuel oil under NJCF's approach, there are a number of other factors that would need to be accounted for, including reflecting any advantage in heat rate between generating with natural gas versus generating with fuel oil, and the potential reduction in the cost of holding pipeline capacity from the opportunity to earn capacity release revenue. For purposes of calculating the delivered cost of natural gas, NJCF's analysis also assumes a price for natural gas that is based on the NYMEX futures price for the winter of 2019/2020 plus the cost of transportation on PennEast. However, the NYMEX price is reflective of a price at Henry Hub, which is in Louisiana, yet PennEast will provide access to Marcellus/Appalachian gas, which has been priced lower than, and oftentimes

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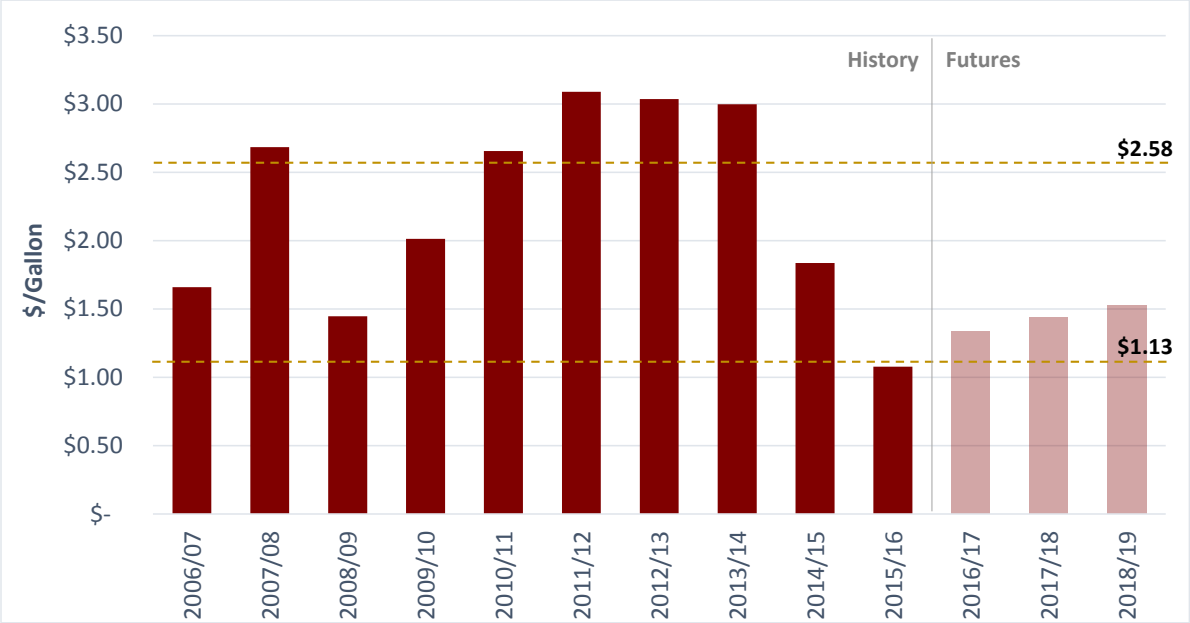
30 NJCF Comments at p. 11.

31 *Id.*

substantially lower than, gas at Henry Hub. Accounting for each of these factors in a cost comparison would lower the cost of natural gas relative to the cost of No. 2 fuel oil.

Figure 2:
Winter New York Harbor No. 2 Fuel Oil Spot Prices[32] Compared to NJCF's Equivalent Pipeline Delivered Gas Cost Recovered Over 10 and 30 Days



40. There are also other considerations concerning the use of either No. 2 fuel oil or imported LNG as alternatives to incremental pipeline capacity for generation that NJCF disregards, including:

- The NJCF Comments do not address that a dual-fuel capable generator has to also incur the cost of maintaining oil back-up capability (as well as the capital costs of installing such capability if not already present).
- There are fewer emissions with burning natural gas than there are with burning No. 2 fuel oil. The NJCF Comments do not discuss the environmental impacts of relying on higher-emitting oil-fired generation instead of lower-emitting gas-fired generation. In addition, typically generators can only rely on producing electricity using fuel oil for a certain number of days in a season or year due to air permit restrictions on run-time with oil-based fuels. Thus, to the extent that there are a

[32] Energy Information Administration. New York Harbor No. 2 Heating Oil Spot Price FOB; CME Group, NY Harbor ULSD Futures Settlements, March 31, 2016 Final.

large number of high demand days, the ability to run on fuel oil can be limited, which was not addressed by NJCF.

- NJCF's analysis also presumes that fuel oil will be able to be delivered to all generators without logistical problems whenever needed throughout peak winter demand periods, which is speculative. Fuel oil is typically delivered via a combination of barge, tanker, and/or truck, thus logistical challenges occur in inclement weather. This problem was cited by both PJM and the U.S. DOE as an issue that affected performance in recent winters.[33]

- Similarly, NJCF's analysis presumes that imported LNG will also be able to be delivered to New England to displace pipeline capacity that can otherwise be used in eastern Pennsylvania and/or New Jersey. However, the use of imported LNG raises cost, logistical and reliability concerns, including being subject to global pricing dynamics, being sourced from international locations subject to political instability, and delivery challenges associated with adverse weather conditions.[34] Further, NJCF has provided no evidence to demonstrate that New England LDCs would be willing to accept additional reliance on imported LNG as opposed to using their domestic supplies of natural gas.

41. Consequently, for all of the reasons discussed, the NJCF analysis provides no reasonable basis to conclude that PennEast is not needed or would not provide benefits to electric customers.

C. NJCF'S ARGUMENT REGARDING THE POTENTIAL FOR INCREASED COSTS TO CAPTIVE CUSTOMERS ON EXISTING COMPETING PIPELINES IS UNFOUNDED

42. NJCF states that, "[t]he FERC Commissioners are concerned with protecting consumers from excessive rates" and claims that captive customers of existing pipelines competing with PennEast are likely to suffer two sources of increased costs as a result of the additional capacity to be provided by PennEast. These two sources are: (i) a decrease in the value of secondary market capacity and thus a decline in capacity release revenues;

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[33] PJM Interconnection. Analysis of Operational Events and Market Impacts During the January 2014 Cold Weather Events. May 8, 2014. p. 40; Office of Electricity Delivery and Energy Reliability, U.S. Department of Energy. An Assessment of Heating Fuels and Electricity Markets During the Winters of 2013-2014 and 2014-2015. October 2015. pp. 2-14.

[34] Eversource Energy. Initial Comments. Massachusetts Department of Public Utilities. D.P.U. 15-37. June 15, 2015 at 16-17; National Grid. Initial Comments. Massachusetts Department of Public Utilities. D.P.U. 15-37. June 15, 2015 at 12-14.

and (ii) increased turnback of capacity on existing pipelines that could lead to cost-shifting to captive customers.[35] Based on its hypothesis, NJCF attempts to quantify the increased costs to captive customers associated with each of these factors.

43. While NJCF raises the specter of the potential for increased costs to captive shippers on competing pipelines, the NJCF Comments ignore the importance FERC has placed on the promotion of pipeline competition and the benefits to consumers that result from such competition. Moreover, NJCF's attempt to quantify the potential capacity release and capacity turnback impacts is misleading and unsupported.

i. FERC Supports the Development of Competitive Pipeline Markets and Pipeline-on-Pipeline Competition

44. Promoting a competitive natural gas pipeline industry is a cornerstone of FERC's policy framework, and for years, through the issuance of various orders, the FERC has encouraged and facilitated pipeline-on-pipeline competition in the interstate pipeline industry. FERC's policy of promoting competitive markets includes its policy statement regarding the construction of additional pipeline facilities,[36] as well as the issuance of various rules regarding the ability of shippers to use and release their firm capacity to others in the secondary market to compete with the firm and interruptible offerings of the pipelines (*e.g.*, Order Nos. 636, *et. al.*; Order Nos. 637, *et. al.*).

45. FERC's policy for evaluating the construction of additional pipeline capacity reflects a balance of the public benefits associated with the addition of new pipeline capacity against any potential adverse consequences that may result from such new capacity:

> An effective certificate policy should further the goals and objectives of the Commission's natural gas regulatory policies. In particular, it should be designed to foster competitive markets, protect captive customers, and avoid unnecessary environmental and community impacts while serving increasing demands for natural gas. It should also provide appropriate incentives for the optimal level of construction and efficient customer choices.[37]

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35 NJCF Comments at p. 12.

36 *Certification of New Interstate Natural Gas Pipeline Facilities*. 88 FERC ¶ 61,227 (1999) ("Certificate Policy Statement").

37 *Id*.

46. In the Certificate Policy Statement, the FERC recognized that there are numerous benefits that can be provided by new pipeline capacity:

> The types of public benefits that might be shown are quite diverse but could include meeting unserved demand, eliminating bottlenecks, access to new supplies, lower costs to consumers, providing new interconnects that improve the interstate grid, providing competitive alternatives, increasing electric reliability, or advancing clean air objectives.[38]

Notably, PennEast provides most of these benefits, as explained in its FERC Application for a Certificate of Public Convenience and Necessity, and elsewhere.

47. In considering the potential adverse impacts on existing competing pipelines, the FERC was clear that this does not mean protecting existing pipelines from new entrants, but rather that competition has to be fair:

> The Commission need not protect pipeline competitors from the effects of competition, but it does have an obligation to ensure fair competition. Recognizing the impact of a new project on existing pipelines serving the market is not synonymous with protecting incumbent pipelines from the risk of loss of market share to a new entrant, but rather, is a recognition that the impact on the incumbent pipeline is an interest to be taken into account in deciding whether to certificate a new project.[39] (emphasis added)

48. Regarding the consideration of impacts on captive shippers of competing pipelines, the Commission found:

> The interests of the captive customers are slightly different from the interests of the incumbent pipeline. The captive customers are affected if the incumbent pipeline shifts to the captive customers the costs associated with its unsubscribed capacity. Under the Commission's current rate model captive customers can be asked to pay for unsubscribed capacity in their rates, but the Commission has indicated that it will not permit all costs resulting from the loss of market share to be shifted to captive customers. Whether and to what extent costs can be shifted is an issue to be resolved in the incumbent pipeline's rate case, but the potential impact on these captive

[38] *Id.*

[39] *Id.*

> customers is a factor to be taken into account in the certificate proceeding of the new entrant.[40]

The FERC was also clear that, "[s]uch consideration does not mean that the Commission would always favor existing pipelines and their captive customers."

49. Consistent with promoting fair competition between pipelines, the FERC has not instituted policies to maintain capacity release values for existing shippers (*e.g.*, ensure a minimum or certain value for secondary market capacity) or maintain certain capacity subscription levels on existing pipelines before allowing new entrants to compete in the market, as the NJCF Comments may imply. In other words, FERC does not, nor is required to, maintain pipeline constraints or capacity scarcity so that shippers on existing pipelines can profit from capacity release in the secondary market and/or preserve contracting levels on existing pipelines. Rather, capacity release values and capacity subscription levels are outcomes of a competitive market that reflect the individual decisions of all market participants. As noted in the Certificate Policy Statement, potential adverse impacts need to be considered; however, potential reductions in capacity release values and/or capacity subscription levels as a result of new pipeline capacity are also entirely consistent with FERC's long-standing promotion of competitive gas markets and pipeline-on-pipeline competition that has provided substantial overall benefits to gas consumers. Therefore, the potential for reduced capacity release values or capacity subscription levels is not in and of itself a reason against building PennEast.

50. It is also important to note that the impact to captive customers is not one-sided. There is clearly an incentive for captive customers to encourage pipeline alternatives so that they can benefit from the opportunities and advantages that are provided by pipeline competition. PennEast is a greenfield pipeline providing new capacity to eastern Pennsylvania and New Jersey, and thus is a prime example of a competitor entering the market to provide service and expand the alternatives available to shippers. As discussed, shippers have highlighted the ability of PennEast to provide an alternative in the existing market (*i.e.*, being able to access alternative supplies and accessing an alternative pipeline), as well as to provide the ability to provide access to natural gas in areas that previously had no access, as factors in their contracting decision. Therefore, additional pipeline capacity, like PennEast, can provide substantial benefits and broaden pipeline transportation and fuel alternatives for captive parties.

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[40] *Id.*

ii. NJCF's Attempt to Quantify PennEast's Potential Impact on Capacity Release Values is Misleading and Unsupported

51. NJCF asserts that, "since there is no evidence of significant increased demand for the 40% of capacity purchased for in-state New Jersey use, the increased supply from PennEast will add to the total supply of pipeline capacity in the region and lead to significant underutilized capacity."[41] NJCF further claims that adding 1 Bcf/d to the same market would increase capacity by 40% and likely crush the capacity release values, potentially by as much as 50% to 90% depending on time of year and other factors.[42] Thus, NJCF alleges that PennEast is likely to put LDC ratepayers in the subject market at risk of experiencing a loss of capacity release benefit of between $130 million and $230 million, or an average of $180 million per year.[43] Concentric does not agree with these claims, as NJCF's capacity release analysis contains a number of misleading and unsupported statements and assumptions.

52. First, NJCF asserts, without any support, that, "there is no evidence of significant increased demand"[44] to absorb the capacity associated with PennEast. To the contrary, as discussed earlier herein, natural gas demand from both utilities and natural gas-fired generators in eastern Pennsylvania and New Jersey is expected to grow. In addition, the contractual commitments underpinning PennEast provide strong market evidence supporting the demand and need for PennEast's pipeline capacity.

53. Second, NJCF's assertion that the addition of PennEast will result in a 40% increase in the regional capacity, and thus potentially "crush" the value of secondary market capacity by as much as 50% to 90%,[45] is also flawed and without merit. It appears that the "40% increase in regional capacity" represents an increase of 1 Bcf/d associated with PennEast relative to the 2.55 Bcf/d of "Annualized Daily Equivalent Traded" capacity release volume in eastern Pennsylvania and New Jersey that NJCF claims. The flaw is that NJCF assumes PennEast's *entire capacity* would be released into the market each and every day in order to effectuate the purported "40% increase" in volume of capacity released. This

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41 NJCF Comments at p. 12.

42 *Id*. at p. 14.

43 *Id*.

44 *Id*. at p. 12.

45 *Id*. at p. 14. It should be noted that NJCF's statement that "adding 1 Bcf/d to the same market would increase capacity by 40%" appears to be incorrect. Based on the calculations set forth in the NJCF Comments, we believe that NJCF intended to state that "adding 1 Bcf/d to the same market would increase capacity *release volumes* by 40%."

assumption is unrealistic since it implies that every shipper that has acquired capacity on PennEast has no need for the capacity to serve demand, but rather is using it purely for arbitrage. In addition, the NJCF Comments provide no support for how a 40% increase in capacity release volumes would produce the alleged 50% to 90% decrease in capacity release values.

54. Third, NJCF's analysis incorrectly assumes that 100% of the claimed reduction in capacity release value would be borne by LDC ratepayers. To start, NJCF has provided no evidence to indicate that LDCs are the only parties selling capacity and obtaining value in the capacity release market. In fact, all types of shippers, including retail marketers, end-users, power generators, producer/marketers, as well as LDCs, participate in the capacity release market, and according to Table 1 of the NJCF Comments, LDCs hold 50%, not all, of the pipeline capacity in the region. Consequently, it is not reasonable for NJCF to assume that reductions in capacity release revenues for non-LDC parties would flow through to LDC rate payers as presumed by its analysis. In addition, NJCF states that "ratepayers receive 80% of the value" of LDC-related capacity release transactions,[46] yet NJCF did not decrease its presumed loss of capacity release value to ratepayers proportionally. As such, it is disingenuous to claim, without any evidence, that LDC ratepayers would bear the full impact of any potential reduction in capacity release value that may be related to the building of PennEast.

55. Because of the numerous flaws in NJCF's analysis, including the significant overstatement of the amount of capacity available for release, the lack of support for the alleged 50%-90% reduction in capacity release values, and the inappropriate attribution of 100% of potential capacity release value reduction to LDC ratepayers, NJCF's analysis does not provide any meaningful information regarding the potential impact of reduced capacity release value.

iii. NJCF's Attempt to Quantify PennEast's Potential Impact on Cost-Shifting to Captive Customers on Existing Competing Pipelines is Also Unsupported

56. NJCF claims that with incremental pipeline capacity associated with PennEast, shippers will forego renewal of contracts or be able to negotiate substantial discounts on existing competing pipelines. NJCF estimates that if half of the PennEast capacity were to go unsubscribed on Texas Eastern and/or Transco, there would be an increased cost of over $108 million per year due to an increase in rates on those competing pipelines, which

[46] *Id*. at p. 14.

NJCF alleges could conservatively result in Pennsylvania and New Jersey ratepayers absorbing an additional $50 million per year in higher pipeline costs.[47] Again, however, NJCF's claim is completely unsupported.

57. First, NJCF has provided no evidence of an amount or location of capacity that might be relinquished on either TETCO or Transco. In other words, there is no evidence to support NJCF's assumption that the construction of PennEast will result in approximately 0.5 Bcf/d of capacity being unsubscribed, or that the amount of capacity turnback would be equal on Transco and TETCO.

58. Second, even if a shipper on PennEast was to relinquish capacity on Transco and/or TETCO, existing market dynamics contradict NJCF's assumption that relinquished capacity on TETCO and/or Transco would not be re-contracted or would only be sold at discounted rates. As has been well publicized, there has been significant pipeline expansion and reversal activity to transport natural gas produced in the northeastern U.S. to Gulf Coast and southeast markets. This has been occurring on numerous pipelines, including on Transco and TETCO, the two pipelines on which NJCF alleges would experience de-contracting due to PennEast:[48]

> *Transco Atlantic Sunrise*:[49] This project includes compression and looping of Transco's Leidy Line in Pennsylvania, plus approximately 180 miles of greenfield pipe, new compressor facilities and other modifications to reverse Transco's mainline to allow gas to flow from north-to-south, from Pennsylvania to as far south as Alabama (Station 85). The project would add 1.7 Bcf/day of capacity, for which Williams Partners has received binding commitments for the full amount, and is projected to be online in the second half of 2017.
>
> *Transco Leidy Southeast Expansion:*[50] This project includes 30 miles of looping and additional compression to increase capacity by 525 MMcf/day from various receipt

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47 *Id.* at pp. 14-15.

48 There are also numerous expansion and reversal projects on other pipelines that would facilitate the transportation of additional supplies from the U.S. northeast to the southeast, Midwest and Gulf Coast. For example, Columbia Gas Transmission, which is proposed to interconnect with PennEast, as well as Columbia Gulf Transmission, have proposed numerous projects (*e.g.*, the Leach Xpress Project; WB Xpress Project; Mountaineer Xpress Project; and Columbia Gulf Xpress Project).

49 Transcontinental Pipeline Company, LLC. Application for Certificate of Public Convenience and Necessity: Atlantic Sunrise Project. Docket No. CP15-138. March 31, 2015.

50 Transcontinental Pipeline Company, LLC. Application for Certificate of Public Convenience and Necessity: Leidy Southeast Project. Docket No. CP13-551. September 27, 2013; Williams Transcontinental Pipeline Company. BiWeekly Construction Progress Report: Leidy Southeast Project. Docket No. CP13-551. March 30, 2016.

points in Pennsylvania to various delivery points on Transco's mainline as far south as Alabama (Station 85). The project is fully subscribed, and came online in January 2016.

TETCO Access South/Adair Southwest/Lebanon Extension:[51] Collectively, these projects would provide up to 622 MMcf/day of capacity to transport gas from Pennsylvania to delivery points in Mississippi (including interconnections with pipelines that serve southeast markets), delivery points in Kentucky (including interconnections with pipelines that serve lower Midwest markets), and delivery points in Ohio (including interconnects with a pipeline proposing to reverse flows to bring gas to Gulf Coast markets). These projects are proposed to come online in November 2017.

TETCO Gulf Markets Expansion:[52] This project involves converting existing TETCO lines to be bi-directional to transport gas from as far north as Pennsylvania to as far south as Louisiana and Texas. The project is expected to add up to 650 MMcf/day of capacity and has been approved by FERC. Phase 1 is scheduled to be completed in 2016, and Phase 2 in 2017.

TETCO Ohio Pipeline Energy Network ("OPEN"):[53] The project involved installing 76 miles of new pipeline through Ohio, and modifications to the existing TETCO system, to allow for the reversal of flow to aid in the transport of Marcellus gas to the Gulf Coast region. The project added 550 MMcf/day of capacity from Ohio to the Gulf Coast Area and came online in late 2015.

TETCO Appalachia to Market Project ("TEAM 2014"):[54] The TEAM 2014 project consisted of approximately 34 miles of pipeline loop and compression upgrades to provide bidirectional flow along TETCO. The project added 600 MMcf/day of incremental transportation service to transport Appalachian supply to markets in the Northeast, Midwest, Southeast, and Gulf Coast, including 250 MDth/day of capacity to allow gas to flow from Pennsylvania south through Alabama to the Gulf Coast. The TEAM 2014 project came online in late 2014.

The size and number of these projects indicate that capacity on Transco and TETCO is in demand – either for moving gas from the north to the south, or from the south to the

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51 Texas Eastern Transmission LP. Abbreviated Application for Certificates of Public Convenience and Necessity and for Related Authorizations: Access South, Adair Southwest and Lebanon Extension Projects. Docket No. CP16-3. October 8, 2015.

52 *Texas Eastern Transmission LP*, 153 FERC ¶ 61,311 (2015).

53 *Texas Eastern Transmission LP*, 149 FERC ¶ 61,198 (2014).

54 *Texas Eastern Transmission LP*, 146 FERC ¶ 61,086 (2014).

north – and thus contradicts NJCF's assertion that any turned back capacity on these pipelines would go unsold, or would require a significant discount.

59. Third, NJCF assumes that this potential turnback of capacity would result in a rate case, and that Pennsylvania and New Jersey ratepayers, as opposed to all shippers on TETCO and/or Transco, would be required to absorb half of the lost revenues. Again, there is no support for these assumptions and they are simply speculation.

60. Therefore, since the NJCF Comments lack any support as to whether capacity turnback would actually occur, the quantity of any such potential turnback, the ability of the pipelines to resell any potential turned back capacity, or the possible rate case impact of the potential turned back capacity, NJCF's attempt to quantify the impact of potential turned back capacity resulting from PennEast should not be given any weight.

D. NJCF'S ALLEGATIONS THAT PENNEAST'S CALCULATED BENEFITS ARE BASED UPON AN EXTREME EVENT, AND HAVE BEEN ELIMINATED BY MARKET CHANGES, ARE UNFOUNDED

61. NJCF questions the need for PennEast based on factors that NJCF claims diminish the possible future savings suggested in the Concentric Report. Specifically, NJCF incorrectly states that the Concentric Report, "appears to be justifying the build of a pipeline purely on the basis of a past price experience, one that notably did not occur in either the 2014/2015 nor in prior winters."[55] In addition, NJCF claims that PennEast is not necessary because other new pipeline capacity and electric market reforms instituted by PJM will make the large natural gas price spikes that occurred in the winter of 2013/2014 much less likely to happen in the future. Thus, NJCF asserts that "price spike avoidance, a claimed attribute of a proposed PennEast Pipeline, has in large part already, and enduringly, been addressed."[56]

62. As an initial matter, there is a fundamental contradiction and disconnect between NJCF's arguments. As previously discussed, NJCF claims that PennEast will significantly depress or "crush" capacity release values,[57] meaning the basis differential would be substantially reduced as a result of PennEast being built. However, on the other hand, and as discussed below, NJCF also claims that potential future savings associated with PennEast have

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55 NJCF Comments at p. 16 (footnote removed).

56 *Id*. at p. 17.

57 As previously discussed, NJCF's claims of reduced capacity release value and increased rates for captive shippers on competing pipelines are without merit.

already largely been eliminated due to additional capacity and market rules instituted by PJM that provide an incentive to generators to have fuel during peak critical periods ("Supply Assurance Programs"), meaning the basis differential between the Marcellus and eastern Pennsylvania/New Jersey has already been minimized without PennEast. Either PennEast will have a significant impact on market prices or it will not – NJCF cannot have it both ways.

i. NJCF's Claim that Concentric Justified the Build of PennEast Based on Assuming a Repeat of Enormous Price Spikes and Market Disruptions Coincident with the Polar Vortex is Simply Untrue

63. NJCF mischaracterizes the Concentric Report when it alleges that the purpose of the Concentric Report was to justify the construction of PennEast. Rather, as clearly stated in the Concentric Report, the purpose of the analysis was to estimate the energy market benefits associated with PennEast.

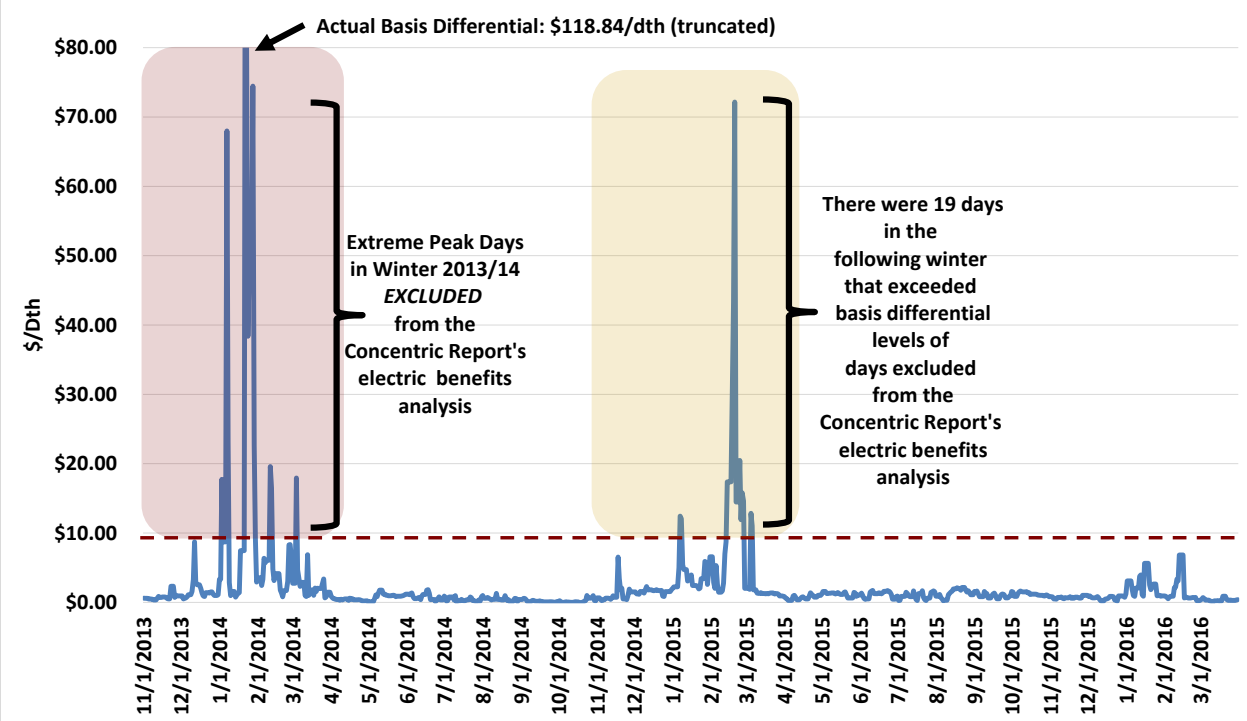
64. While the specific energy market benefit of any incremental infrastructure will necessarily vary based on the specific circumstances that are actually experienced, the Concentric Report did *not* assume a repeat of the "2013/2014 market disruptions coincident with the Polar Vortex as a measure of savings that could have been realized had PennEast been in service at that time," as claimed by NJCF.[58] As described in the Concentric Report, the estimate of the magnitude of potential savings was based on actual data from the winter of 2013/2014 since it was the most recent timeframe for which data was available and most accurately reflected the (then) current market dynamics. However, the Concentric Report *excluded* electric market savings on extreme peak days from the winter of 2013/2014 (*i.e.*, days in which temperatures were coldest, and natural gas demand was highest), which resulted in significantly lower consumer savings than if the extreme peak days were included in the analysis. Therefore, while the analysis contained in the Concentric Report was based on actual data from the winter of 2013/2014, it in fact addressed the likelihood of reoccurrence of the "large natural gas price spikes that occurred in 2013/2014" by eliminating them from the calculation of potential electric market savings.

65. Days with high basis differentials between the Marcellus and eastern Pennsylvania/New Jersey were not only experienced during the Polar Vortex winter of 2013/2014; the following winter also had a number of days with high basis differentials. Similar to Figure 1 herein, Figure 3 shows the daily basis differential between the Marcellus and eastern

[58] *Id*. at p. 16.

Pennsylvania/New Jersey from November 2013 through the present. Figure 3 illustrates the extreme peak days that were excluded from the electric benefits analysis in the Concentric Report, as well as the days in the following winter when the basis differential exceeded the levels that were excluded from the Concentric Report. Notably, there were 19 days in the winter of 2014/2015 in which the basis differential exceeded the level of the days that were excluded in the Concentric Report. This clearly demonstrates that days with high basis differentials did not only occur in the winter of 2013/2014.

Figure 3:
Basis Differentials Between the Marcellus and Eastern Pennsylvania/New Jersey



66. NJCF continually references the "enormous price spikes experienced during the period covered by the Concentric report [that] are much less likely to occur in the future."[59] However, it is important to recognize that the market impact of incremental pipeline capacity is not limited to just mitigating "price spikes" (*i.e.*, very large increases in prices that occur for very short periods), but rather also includes mitigating natural gas prices being higher than they would otherwise be on a longer-term basis if there was no incremental pipeline capacity. For example, if wholesale natural gas prices in eastern Pennsylvania/ New Jersey were $3.00/dth every day for a month, but the prices would

[59] *Id.* at p. 17.

have been $2.00/dth every day for the same month if pipeline capacity into the region was not constrained, then consumers would not be experiencing a "price spike," yet would still be subjected to higher prices that could be mitigated with additional pipeline capacity.

67. Concentric's estimated savings associated with PennEast reflected that energy market benefits would have accrued almost every day throughout the winter of 2013/2014 as a result of additional capacity placing downward pressure on market area natural gas and wholesale electric prices. However, as noted, the Concentric Report specifically excluded benefits associated with price spikes during the Polar Vortex from the estimated electric market savings, and therefore did not assume that PennEast would only provide benefits during price spikes. In other words, while consumers would experience benefits on both extreme peak and more moderate days, the savings from the extreme peak days were excluded from the estimated electric market savings associated with PennEast in the Concentric Report.

ii. PennEast is Expected to Provide Ongoing Market Benefits, Despite NJCF's Claims that Additional Pipeline Capacity and Electric Supply Assurance Programs May Have Eliminated the Benefits

68. Clearly, natural gas prices in eastern Pennsylvania/New Jersey and basis differentials between this region and the Marcellus in the winter of 2015/2016 did not reach the levels that were experienced in the winters of 2013/2014 and 2014/2015. This is a function of a number of factors, including extremely warm weather and other demand and supply fundamentals. However, relatively lower market-area natural gas prices this past winter do not demonstrate that prices were not higher than they otherwise would have been had there been additional pipeline capacity in the region from PennEast. In addition, there is no guarantee that the relatively lower prices that occurred this past winter will continue. If similar cold conditions that were experienced in recent prior winters return, coupled with natural gas demand growth and limited additional infrastructure to alleviate constraints between the Marcellus and eastern Pennsylvania/New Jersey, then natural gas prices would be expected to increase relative to this winter. In fact, forward market prices, which typically assume normal weather over the longer-term and some level of infrastructure build-out, currently indicate that the basis differential between the Marcellus and eastern Pennsylvania/New Jersey for January and February 2018 is $3.59/dth and $3.52/dth, respectively,[60] which is significantly higher than the average

[60] Forward prices as of March 28, 2016.

basis differential of $2.13/dth experienced in January and February 2016. Therefore, the lower basis differentials in the winter of 2015/2016 do not indicate that PennEast would fail to provide benefits going forward.

69. NJCF also claims that a Supply Assurance Program instituted by PJM will make it much less likely for the large natural gas price spikes that occurred in the winter of 2013/2014 to happen in the future.[61] However, the potential impact of Supply Assurance Programs on price spikes is irrelevant in terms of the benefits previously calculated regarding PennEast for a number of reasons. First, as discussed, PennEast is expected to result in lower basis differentials between the Marcellus and the market-area throughout the winter, not just during "price spikes." In addition, these Supply Assurance Programs have costs associated with procuring the firm supplies, as well as potentially maintaining associated equipment that need to be considered. Moreover, NJCF's assumption of the potential impact of the Supply Assurance Program on price spikes is speculative. Since these programs are not yet implemented in PJM or elsewhere, it is yet-to-be-determined whether PJM's program will result in an otherwise unconstrained natural gas market in eastern Pennsylvania/New Jersey during periods of high winter demand. In fact, the Winter Reliability Program in ISO New England that was mentioned in the NJCF Comments was in effect for the winter of 2013/2014, yet New England still experienced extremely high natural gas prices that winter. Lastly, the issue of high wholesale electric prices due to high natural gas prices is currently being addressed in New England with the large electric utilities having made filings proposing to purchase pipeline transportation service for the purposes of lowering market area prices in addition to ISO New England's own Supply Assurance Program. Likewise, the incentives to procure firm fuel under PJM's Supply Assurance Program may increase demand for pipeline capacity in the future as generators place a greater premium on their firm supply to mitigate exposure to non-performance penalties. In sum, there are a number of market factors that drive prices, and therefore, it is premature and speculative for NJCF to conclude that natural gas, and in turn, wholesale electric, price spike avoidance "has in large part already, and enduringly, been addressed" by the Supply Assurance Programs.

70. Finally, the shippers that have signed long-term firm contracts on PennEast are well aware of the market developments that have occurred and continue to occur (*e.g.*, other pipeline projects, Supply Assurance Programs), but they believe that PennEast will provide a viable solution to their particular long-term needs. In other words, PennEast is not being built in "response to a single event" as NJCF claims. Rather, PennEast is being built in response to a market need as demonstrated by shippers willing to sign long-term firm contracts. Each shipper must determine whether a proposed project represents a

[61] NJCF Comments at pp. 17.

viable option to their particular needs, and in the case of PennEast, there is substantial contractual support. PennEast's shippers represent a diverse group of market participants (*e.g.*, LDCs, marketers, producers, pipeline companies) and not all of them have ownership interests in the pipeline. FERC has consistently relied upon the willingness of shippers to sign long-term contracts as a strong demonstration of market need.

III. CONCLUSION

71. In our view, conclusions set forth in the NJCF Comments suffer from numerous problems regarding approach, calculations and support. In short, the NJCF Comments do not accurately or appropriately assess the public benefit of additional pipeline capacity to be provided by PennEast.

72. First, the narrow focus of NJCF's analysis regarding the reliability "need" for PennEast is misplaced. Pipeline capacity is not constructed solely to ensure reliability, but also to provide numerous other benefits that have been widely recognized. NJCF's analysis ignores the significant energy market benefits that can be provided by the additional pipeline capacity associated with PennEast – both to the shippers that have contracted for PennEast's capacity, as well as to other market participants (*e.g.*, electric consumers) that would benefit from the downward pressure on market area natural gas prices that such additional pipeline capacity can provide. These are substantial and important benefits that are clearly relevant in a public interest determination. Moreover, even with NJCF's mistaken focus, its analyses to reach the conclusion that PennEast is not needed contain a number of errors and unsubstantiated assumptions, further diminishing the value of such analyses.

73. Second, there is no basis for NJCF's allegation that PennEast may increase, not decrease, costs to consumers. NJCF has speculated as to the future impact of PennEast on capacity release values as well as on potential turnback of capacity on existing pipelines without any support for its allegations, and there is market evidence that contradicts NJCF's claims. Furthermore, NJCF's alleged adverse impacts on the value of capacity release contradicts its conclusion that the benefits estimated by PennEast have already largely been achieved.

74. Lastly, NJCF has mischaracterized the analysis previously conducted by Concentric to estimate the benefits of PennEast, and thus the foundation of its conclusion that benefits have already been realized without PennEast, is simply untrue. In addition, while the natural gas and whole electric markets are constantly changing, NJCF has provided no support that such changes have mitigated the benefits that PennEast could provide. Rather, there is substantial contractual support for PennEast, both from parties

sponsoring the pipeline as well as non-sponsors, which demonstrates the expectation that PennEast will continue to provide benefits to multiple market participants.

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