



## Memorandum

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**TO:** Paul Hibbard and Todd Schatzki

**FROM:** Market Monitoring Unit

**DATE:** February 26, 2020

**RE:** Comments regarding the gas pricing hubs used in the net revenue analysis for the 2020 Demand Curve Reset

In previous demand curve resets, the estimated natural gas prices for a hypothetical new peaking plant have been an important input to the estimated energy and ancillary services (“E&AS”) net revenues. E&AS net revenues are a significant offset against the levelized cost of new entry (“CONE”) of a peaking plant. Fuel costs account for most of the variable production costs for a new peaking generator, so the estimated natural gas prices are a critical assumption.

Over the last decade, New York State has exhibited significant levels of congestion on the gas pipeline system, leading to large variations in gas prices across the state. Consequently, the gas price hub used in the E&AS net revenue calculation will have a significant effect on the capacity demand curves.

In a recent stakeholder meeting, you indicated that you are evaluating potential assumptions for Zones C, F, G, J, and K. After reviewing the potential options, we have several preliminary recommendations:

*Zone K - Recommend using Iroquois Zone 2*

Although Long Island sources a large share of its natural gas needs from the Transco and TETCO pipelines in New Jersey, the Iroquois pipeline is frequently the marginal source of supply when there are significant spreads between Transco Z6 (NY) and Iroquois Z2. When Iroquois is not the marginal source of supply, this price spread is typically very small.

*Zone J - Recommend using Transco Zone 6 (NY)*

Transco Z6 (NY) is most representative of the cost of gas supply to most generators in New York City under a wide range of conditions. Although there are times when constraints on the ConEd LDC system do not allow distribution to New York City generators from the Transco and/or TETCO pipelines, these circumstances are relatively limited. So, Transco Z6 (NY) still appears to be the most reasonable choice.

*Zone G (Rockland County) - Recommend using TETCO M3*

While a generator in Rockland county could take gas from the Millennium pipeline, this pipeline does not provide much flexibility for a peaking generator. The premium that such a generator would pay for such flexibility would be best reflected in the TETCO M3 index, since the marginal supply to such a generator would often come from backhauling from the Algonquin pipeline.

*Zone G (Dutchess County) - Recommend using Iroquois Zone 2*

This index is most representative of where generators in this county would be able to source gas under a wide range of conditions.

*Zone F - Considering whether to recommend using (a) Iroquois Zone 2 or (b) some combination of both Iroquois Zone 2 and Tennessee Zone 6*

We are continuing to evaluate options and have not yet reached a final recommendation. Although Iroquois Zone 2 seems most representative of the cost of gas to generators in this zone, there are circumstances when Tennessee Zone 6 may also be appropriate.

*Zone C – Still evaluating what to recommend for this*

TETCO M3 is not appropriate for this zone, since this hub is not a viable source of gas for Zone C generators. Dominion North is not appropriate for the same reason. Millennium is not a good alternative because of frequent pipeline bottlenecks coming up from the Pennsylvania border and north of this hub. However, it is difficult to identify viable alternatives. We are currently analyzing whether it is possible to develop a reasonable composite price utilizing one or more of the following hubs: Tennessee Zone 4 Station 219, Niagara, Tennessee Zone 5, Tennessee Zone 6, and Iroquois Zone 2. However, these hubs require further evaluation due to concerns regarding the liquidity of trading.