OPENING STATEMENT OF
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BEFORE THE SENATE ENERGY & NATURAL RESOURCES COMMITTEE

NATURAL GAS FORUM: "INFRASTRUCTURE, TRANSPORTATION, RESEARCH AND INNOVATION"

TUESDAY, MAY 14, 2013

Chairman Wyden, Ranking Member Murkowski, and members of the committee. Thank you for the opportunity to appear at this morning's forum.

My name is Gordon van Welie, and I am the president and chief executive officer of ISO New England (ISO-NE).

Today, I plan to highlight the serious operational challenges facing New England's power system following a major shift that has occurred in the region's generation mix. In the past decade, natural gas has become the predominant fuel used to produce electricity in New England; moving away from a previously diverse system to one where more than half of the region's electricity is produced using natural gas. However, as our demand for natural gas has increased, the region has not seen a corresponding growth in natural gas infrastructure to reliably meet that demand.

Shift to "Just in Time" Fuel Delivery

Electricity supply and demand must be balanced on an instantaneous basis and problems on the electric system require immediate action, often through the operation of fast-responding gas generators. However, if gas generators have not made secure arrangements for

their fuel prior to the electric operating day, gas pipelines may not be able to respond to the real-time, instantaneous demands of the electric system. New England experienced significant reliability concerns on several occasions during this past winter (2012-2013), where generators could not access gas on short-notice during inclement weather periods. Our experience this winter only underscores our ongoing belief that the status quo is not sustainable.

For power-grid reliability to be maintained, we must increase levels of fuel availability within the region, either through more secure gas pipeline arrangements, gas storage or additional dual fuel capability. We believe that these desired fuel arrangements by generators, incentivized through changes to the wholesale electricity market design, will lead to the improved utilization of existing fuel infrastructure and investment in additional fuel infrastructure.

New England has Inadequate Natural Gas Infrastructure for Electric Demand

New England cannot access the full benefit of domestic shale-gas deposits because of pipeline constraints leading into New England from the west and south. This winter, New England did not experience record or sustained cold temperatures, or unusually high demand for electricity; however, wholesale electricity prices rose significantly during this period. Natural gas prices in late January spiked to over $30/MMBtu, even though natural gas prices were in the $3 - $4/MMBtu range across the rest of the country. Until additional pipeline capacity is built in the region, New England will likely experience similar price spikes when the current pipelines are fully utilized.

But there are challenges to building additional pipeline capacity to access gas from the west and south. The interstate natural gas pipelines operate under a business and regulatory model that requires a long-term firm commitment by the pipeline customer. Because New England's current wholesale electricity market design does not provide gas generators with the necessary incentives, we have found that generators often do not make arrangements to ensure that they have an adequate and reliable fuel supply for the output of their facilities.

New England is Working Toward Market Solutions

In conclusion, ISO New England is addressing these issues with a sense of urgency and is working with the New England states and regional stakeholders to submit market rule changes to the FERC, with the objective of providing the economic incentives necessary to ensure that generators secure adequate and reliable fuel supplies and perform when called upon by the ISO.

Thank you.