



October 21, 2019

**VIA ELECTRONIC MAIL**

Secretary Aida Camacho-Welch  
New Jersey Board of Public GSDs  
44 South Clinton Avenue, 3rd Floor Suite 314  
Post Office Box 350 Trenton, NJ 08625-0350

**Re: IN THE MATTER OF THE EXPLORATION OF GAS CAPACITY  
AND RELATED ISSUES  
DOCKET NO. GO19070846**

Dear Secretary Camacho-Welch:

On behalf of Marathon Energy (“Marathon” or “Company”) please accept these comments in response to the New Jersey Board of Public Utilities (“Board's or BPU's") solicitation of comments in response to “The Matter of the Exploration of Gas Capacity and Related Issues.” The notice listed a number of questions as to whether there is sufficient gas capacity secured to meet the prospective needs of both the customers of New Jersey’s natural gas distribution companies (“GDCs”) and those of third-party suppliers of natural gas in New Jersey (“TPS”). Since gas supply reliability is of paramount importance Marathon strongly supports the Board’s effort to



ensure that adequate pipeline, storage and peaking capacity resources are available to meet the needs of all of New Jersey's firm customers. Furthermore, the Board indicated it wanted to explore the effectiveness of energy competition and to what extent, TPSs are saving residential customers money on their natural gas supply.

Marathon's interest in this proceeding centers on questions related to both TPS Capacity Procurement and what we believe is an appropriate market structure that should be implemented in order to ensure that adequate capacity is available to meet prospective firm customer needs. Thus, first we answer the specific TPS Capacity related questions. We then discuss Marathon's future vision for the design of the gas retail market. We do not address issues related to pricing of residential customers since Marathon's presence in that market is extremely limited.

#### **TPS CAPACITY PROCUREMENT QUESTIONS:**

**a. Do the TPSs have sufficient firm capacity secured to meet their design day forecasts for the customers that they serve in New Jersey for the next five years?**

**RESPONSE:** No. Marathon buys its gas at the city gate. The city gate is a point or measuring station at which a GDC receives gas from a pipeline company or transmission system. Marathon delivers to GDCs at an average flat amount for each month based on data supplied by the GDC. Variations in usage due to daily temperature changes are met through balancing services provided by the GDCs. It



does not contract for released capacity on a long-term basis to meet its design day forecast. It is active in the secondary capacity release markets mostly with the GDCs, so it does have capacity to certain GDC gates on a month to month basis.

**b. If the TPSs do not secure firm capacity for a five-year period, how many years in advance do they secure firm capacity?**

**RESPONSE:** It is not aware any entity releasing capacity on a long-term basis.

**c. What is the weighted average cost of the transportation and storage capacity that the TPSs have secured?**

**RESPONSE:** While Marathon does not purchase capacity on a long-term basis it does hedge financially to cover long term obligations at points in line with city gate deliveries (i.e. Transco Zone 6 NY and Tetco M3 NY). To accomplish this, the Company will enter into physical purchase agreements or buy options.

**e. Have the TPSs been securing firm capacity for their firm transportation customers?**

**RESPONSE:** No. Marathon purchases released capacity monthly as explained above. The Company has not found any firm capacity available on a long-term basis. The GDCs own most of the firm capacity and it appears they won't release it because of reliability concerns – especially the need to cover peak days. Based on our observations the excess capacity market has dried up for both GDCs and TPSs.



**f. Through what other means have the TPSs met their customers' requirements (e.g., delivered gas, capacity release, peak day supplies)?**

**RESPONSE:** All New Jersey GDCs require the Company to deliver the same amount of gas everyday based on a specific month's average requirements. As a result, TPSs mostly rely on pipeline deliveries and are not required to directly contract for storage or peaking services. Instead variations in usage due to daily temperature changes are met through balancing services provided by the GDCs. Imbalances between monthly customer usage and TPS deliveries are satisfied financially through monthly cash outs. These cash outs can be substantial during extremely cold months.

**DISCUSSION OF FUTURE MARKET DESIGN TO ENSURE SUFFICIENT GAS CAPACITY IS SECURED TO MEET NEW JESREY CUSTOMERS' NEEDS PROSPECTIVLEY**

A market design where GDCs buy adequate pipeline, storage and peaking capacity to cover each GDCs design day requirements would be the best structure moving forward to ensure system reliability. If one looks at the electric markets which are governed by an Independent System Operator (ISO) their primary mission is to coordinate, control and monitor the operation of the electrical power system. The ISO working in conjunction with a Reliability Council also ensures there is enough generation and transmission capacity to meet customer needs on the hottest days. Due to the manner in which the gas industry has evolved and is regulated a gas ISO is not



feasible at this time. However, as explained below, the next best option is to have the GDCs be responsible for supply reliability. This would also be consistent with the GDCs responsibility as the supplier of last resort. We emphasize, however, if this proposal is adopted it is still possible to have an active competitive market where TPSs play a major role. The mandatory capacity release programs implemented by the New York Public Service Commission and Massachusetts DPU, where TPSs are released, on a non-discriminatory basis, pipeline capacity, and peaking services in proportion to their share of system requirements is a good model to investigate. In essence, the goal is to release to TPSs a “slice of the system” that mirrors the GDCs supply assets. This ensures reliability and preserves competition.

## **WHY GDCs ARE BEST POSITIONED TO PROCURE DESIGN DAY CAPACITY TO MEET FUTURE NEEDS**

The following summarizes reasons why GDCs should be responsible for acquiring adequate capacity to meet the current and prospective design day needs of both GDC and TPS customers. Capacity can consist of either upstream pipeline capacity, storage capacity or peak capacity:

1. From a planning perspective there are several practical reasons why capacity acquisition should be the responsibility of GDCs. These are:



- a. The first step in planning to meet design day needs is to quantify the peak day requirements of all customers. The data to do this analysis resides with the GDCs who have access to system wide temperature send out data. GDCs also need to determine what the design day temperature will be and establish an appropriate reserve margin. Generally, daily send out data which diversifies all firm load is the most effective means to forecast peak day needs as opposed to using individual customer data which is not available on a daily basis.
- b. GDCs are uniquely situated to optimize the most cost-effective mix of supplies - how much flowing supply should be obtained in conjunction with storage and peaking services.
- c. GDCs have the system data and computer programs to identify the best place to inject gas into their distribution system to maintain minimum system pressures. For instance, if TPS providers over contracted on one pipeline it may result in a sub optimal solution from a distribution system pressure perspective (i.e. too much supply on one end of the system vs. another).
- d. Last, and most obvious, is the fact that TPS customers at most sign three-year contracts with its customers and these customers have the ability to



return to the GDC at any time. Thus, there is no true way for a TPS supplier to forecast customer migration and its needs over the next five years.

2. GDCs have the financial resources to support the development of new capacity projects. Most new capacity developers require a minimum contract term of 10 years before they will commit to a project. Very few, if any TPS suppliers can provide the financial guarantees and a long-term commitment to support the construction of a new project.
  - a. In addition, since TPS suppliers do not have a long term guaranteed load due to customer migration, they would not be able to contract for a finite amount of capacity over a long period of time. As explained later, if GDCs contract for all customers and then release the capacity to TPS suppliers, they are in the best position to financially support the development of new capacity projects.



## **WHY THE ABOVE ISSUES CAN BE RESOLVED THROUGH THE IMPLEMENTATION OF A CAPACITY RELEASE PROGRAM**

Marathon proposes that implementing a capacity release program would meet the dual objectives of meeting the long-term capacity needs of New Jersey's firm customers to ensure reliability and maintaining competition. In simple terms under a capacity release program the GDCs contracts for enough supply to serve all firm customers and then releases the capacity to TPS's on a non-discriminatory or so called "slice of the system" basis.

If customers migrate back to the GDC or to another TPS the capacity associated with these customers is returned to the GDC or passed on to the next supplier. Capacity under a capacity release program is sometimes referred to as "portable capacity". In a way this similar to the way capacity is managed in the electric market by an ISO. New York State and the state of Massachusetts have enacted "mandatory" capacity release programs under which TPSs are required to take GDC capacity.

## **RECOMMENDATION**

Marathon recommends that implementing a capacity release program similar to that enacted by other states should be studied and modified as appropriate to use as a





model to meet New Jersey’s current and future capacity needs. A non-discriminatory capacity release program would support system reliability while maintaining a healthy competitive market. It would also satisfy supplier of last resort concerns. Marathon further recommends that a non-discriminatory capacity release program should use a “slice of the system” method. A “slice of the system” would release capacity in proportion to each supplier’s share of peak load and provide a level playing field.

Very truly yours,

**Frank Perrotti**

Frank Perrotti

Director Regulatory and Compliance