



February 7, 2022

VIA ELECTRONIC MAIL to board.secretary@bpu.nj.gov

Secretary Aida Camacho-Welch
New Jersey Board of Public Utilities
44 South Clinton Avenue, 1st Floor
Trenton, NJ 08625-0350

RE: IN THE MATTER OF THE EXPLORATION OF GAS CAPACITY AND RELATED ISSUES DOCKET NO. GO20010033

Dear Secretary Camacho-Welch:

Please accept these comments of Marathon Energy ("Marathon") on certain findings and recommendations contained in the LEI FINAL REPORT entitled "ANALYSIS OF NATURAL GAS CAPACITY TO SERVE NEW JERSEY FIRM CUSTOMERS" (the Report). Marathon is a Third Party Supplier (TPS) active in New Jersey, New York, Maryland and Pennsylvania. We have previously submitted comments in this case. The New Jersey Board of Public Utilities ("Board") commissioned the LEI report to investigate the current and future natural gas capacity outlook for New Jersey. 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. Our comments are directed at a number of conclusions contained in the Report regarding the ability of NJ gas distribution companies ("GDCs") to meet the long-term needs of NJ customers. According to the Report GDCs do not include Third Party Supplier (TPS) customer requirements in their planning process. We base this on the following sections of the Report.

Page 35 Section 2.2.5.1

It is not transparent how much third-party supply is matched to FT contracts. But if some C&I retail choice customers were on firm service, then in a situation of peak demand and limited transportation capacity, the TPSs might not be able to meet this firm demand. **Based on available information, LEI cannot determine if TPSs have enough FT capacity to meet their firm demand.**

Pages 36-37 Section 2.2.5.2

GDCs are able to cover some, but not all, of the TPS load if it were to shift to BGSS. Each GDC accounts for potential customer switching from TPSs to BGSS slightly differently in their outlooks for design day firm gas demand.

As none of the GDCs assume that the full TPS load switches to BGSS, it is evident that the GDCs' design day outlooks include firm capacity to cover only a portion of the TPS load, but not necessarily the full TPS load. As a result, if a substantial and unexpected volume of TPS load were to switch back to BGSS, GDCs may not have sufficient FT to serve all customers on a design day.

The Report states "the BPU and GDCs need a playbook for coping with scenarios of extreme weather and the possibility of a large accident or outage." Marathon would like to take this opportunity to reiterate its position that implementing a mandatory capacity release program, similar to that enacted by other states, would rectify the faults in the planning process while supporting a competitive retail choice market. Thus, we recommend that a capacity release program shaped to the needs of New Jersey should be part of the playbook going forward.



WHY GDCs SHOULD PLAN FOR ALL CUSTOMER REQUIREMENTS

There are numerous reasons why the GDCs should be responsible for planning to meet the design day needs of all customers. We summarize many of them below.

1. First and foremost, it is understood that TPS customers can return to GDC BGSS service after their contracts expire and vice versa. There is no bright line between the TPS and BGSS customers. This is the whole premise of customer choice. Generally speaking, customer contracts last one, two or three years at most. Thus, there is no true way for a TPS supplier to forecast customer migration and its needs over an extended planning period.
2. 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 and send out data. GDCs also need to determine what the design day temperature will be and establish an appropriate reserve margin. Generally, running a regression analysis using daily send out data (which diversifies all firm load) vs. temperature is the most effective means to forecast peak day needs.
3. The GDCs are uniquely situated to optimize the most cost-effective mix of supplies and determine the quantity of flowing supply that should be procured in conjunction with storage and peaking services.
4. Only the 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).
5. 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. 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 an extended period.
6. Very few, if any, TPS suppliers can provide the financial guarantees and a long-term commitment to support the construction of a new project.

HOW A MANDATORY CAPACITY RELEASE PROGRAM WOULD SOLVE THE PLANNING ISSUE

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 GDC 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. The capacity would be recallable if needed by the GDCs to meet customer requirements. Also, 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." This is similar to the way capacity is managed in the electric market by PJM. In New Jersey, PJM is responsible for maintaining system reliability. New York State and the state of Massachusetts have enacted "mandatory" capacity release programs under which TPSs are required to take GDC capacity. A capacity release program can be customized to meet New Jersey's unique needs.

We also note that certain schemes which were previously recommended in this proceeding to charge TPS customers the incremental cost of new capacity should be disregarded. As previously stated, due to customer migration there is no bright line between new customers and old customers. This is true whether they be GDC customers and/or TPS customers. Nor would it be fruitful for GDCs to charge new BGSS customers different rates than existing customers. Charging certain customers for incremental capacity is something that is considered by FERC on setting rates for




interstate pipelines where there are fewer distinct customers and where long-term commitments for service are required to finance a project. Incremental pricing on a state level would ignore the fact that both GDC and TPS customers are served by the same distribution system. We know of no case in general where GDCs have a separate set of distribution rates for new and old customers. We have previously argued this point in Marathon's Reply Comments in Docket No. GO19070846, dated November 14, 2019.

CONCLUSION

For the reasons outlined in the discussion above Marathon recommends for consideration the following actions by the Board.

1. Require the NJ GDCs to plan for the requirements of all NJ gas customers.
2. Introduce a mandatory capacity release program tailored to the specific needs of NJ customers to ensure reliability of service. The program would be administered by the GDCs on a nondiscriminatory basis by releasing a slice of the system to TPSs based on their customer contribution to system design needs.
3. Reject any proposals to assign the cost of incremental capacity to support TPS customers.

Regards,

DocuSigned by:

247DA50112364F3...

Jim Nichols

Vice President, Pricing & Regulatory

jnichols@mecny.com

315-226-4477 Ext.214