

Economic Shortcomings of and Alternatives to the Proposed Kinder Morgan Pipeline

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By

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Why alternatives to the KM Pipeline?

N.E. governors are basing regional energy infrastructure decisions on analysis done for NESCOE that frames new pipeline as best solution. *However...*

- Consultant's report also says that "[I]n a Low Demand Scenario, no long-term infrastructure solutions are necessary." (emphasis added)
- NESCOE was asked to model such a low-demand scenario, but refused.
- Study also said "solutions must be tailored, and when appropriate blended, to solve the type of constraints expected to occur," yet only one solution – a pipeline – is being pursued

Alternatives to the KM Pipeline

Some 100 organizations around New England presented governors with a letter on June 24 asking them to undertake a comprehensive analysis of a range of alternatives that:

- ✓ Minimize risks to consumers
- ✓ Are consistent with environmental objectives

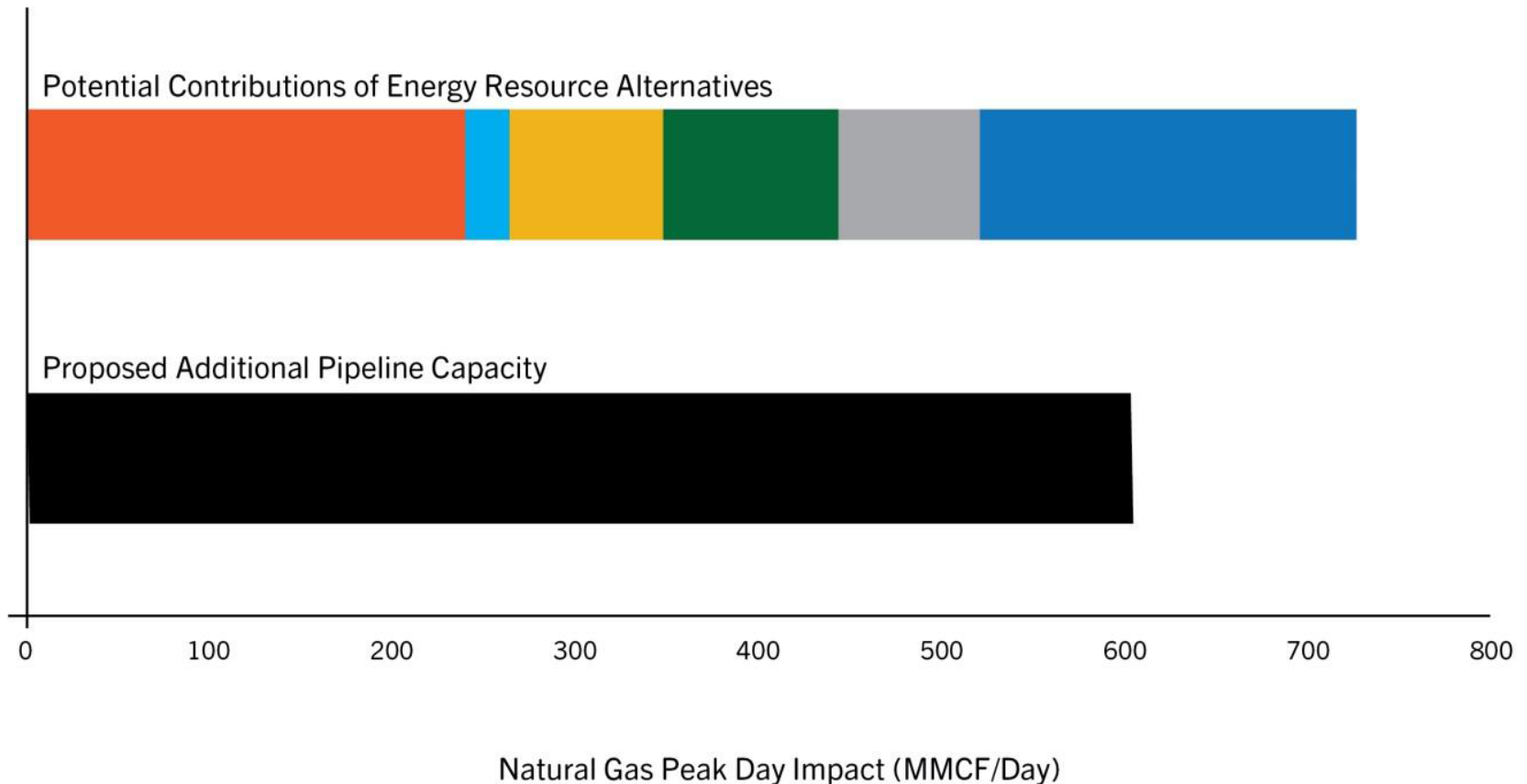
Alternatives to the KM Pipeline

What might these alternatives look like?

- Gas-Electric Market Reforms
- Energy Efficiency
- Short-term Utilization of Existing LNG Infrastructure
- Renewable Generation
- Combined Heat & Power
- Renewable Thermal
- Demand Response
- Energy Storage

Alternatives to the KM Pipeline

- 1.6 GW of Combined Heat & Power (1/4 of potential)
- Cost Effective Gas Efficiency (1.2% of Sales)
- Cost Effective Electric Efficiency (2.5% of Sales)
- RPS Expanded to 25% by 2025 (23.4% by 2020)
- 743 MW of Energy Storage (Proportional to CA)
- 1 GW of Electric Transmission



Source: Environment Northeast (ENE)

Economic shortcomings

Why the economics of the KM proposal don't add up:

- Publicly financing large-scale infrastructure investments would impose new electric charges consumers would pay for decades
- Any potential future benefits would depend on assumptions about stable natural gas prices, low expected costs of a large greenfield pipeline project, and other uncertain variables
- Imposing an tariff electric ratepayers to fund a gas pipeline built by a private interest would be unprecedented
 - However, absent private financial commitments to Kinder Morgan – which they can't demonstrate to date – it would be only way to economically justify this proposal to FERC

Economic shortcomings

Why the economics of the KM proposal don't add up:

- NESCOE study acknowledged pipeline investments would incur losses from capital investments during the first six years of operation, and admitted that the costs could easily end up being double the estimate
- The proposed tariff would subsidize use of natural gas by electric generators, thus:
 - Altering generators' marginal costs and reference pricing
 - Resulting in market manipulation
 - Disrupting or discarding outright the price signals upon which the wholesale electric market design relies upon to function efficiently.
- A series of alternative solutions would cost less, keep energy dollars in-state, provide a hedge against future fossil fuel price volatility