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Daymark finds New England power faces bigger risks

October 12, 2016

More chance of volatility put into regional perspective

New England's power industry is facing more risks of higher costs and price volatility than it was a year ago, said a study released yesterday by the business customer-backed New England Coalition for Affordable Energy (link downloads 33-page PDF file). Daymark Energy Advisors conducted the study that found recent delays and cancellations in energy projects combined with new state policies could have bigger economic consequences through 2020 than previously estimated.

Daymark did a similar study for the Economic Development Research Group in August, 2015, that found failure to build new infrastructure (natural gas piplines, transmission lines and electricity generation) could lead to $5.4 billion in higher energy costs by 2020.

Since that report, many of the dynamics of the energy markets changed such as the Pilgrim Nuclear Power Station announcing retirement effective in 2019 and a substantial amount of generating capacity at risk of retirement. The region is adding new capacity but it is either burning gas or is non-dispatchable wind and solar resources. Uncertainty about delivering gas at winter peaks has been growing.

"The report – and a recent warning by ISO New England that the electric system may become unsustainable during extreme cold weather due to energy supply constraints – are stark reminders that events of the past year put the region's economy and competitiveness in an increasingly perilous position as we approach 2020," the coalition's Carl Gustin said in prepared remarks. "Timely actions to add new energy infrastructure and address energy market uncertainties are needed."

On gas pipelines, the Algonquin Incremental Market (AIM) project should be in place by the end of this year but the Access Northeast Expansion project ran into legal troubles in Massachusetts and at FERC.

Neighboring markets have their own issues that impact New England with imports from the Canadian Maritime Provinces declining and New York delaying some new pipelines out of environmental concerns.

"The impacts to the market may not be seen immediately, as natural gas prices have remained relatively low over the last year due to a mild winter and excess fuel supply, leading to lower wholesale market electric prices," the report said. "If the region experiences a very cold winter, however, natural gas prices will likely spike as pipeline capacity becomes restricted and oil-fired units and liquefied natural gas (LNG) will be needed to support the demand."

Uncoordinated policy and market actions may lead to greater price volatility in the short term and suboptimal investment decisions over the long term, the report argued.

Massachusetts, Connecticut and Rhode Island are working together to solicit major clean energy resources – offshore wind and hydropower (likely through long-term contracts from Canadian sources for the latter). Those would have major impacts on the power sector but are likely to be felt beyond the report's 2020 timeline, it added.

The report Daymark did last year assumed more pipeline additions than appear likely now with the legal roadblocks to the Access Northeast project, yesterday's report said. LNG will thus continue to play an important role in meeting the region's peak-gas demand and while that has been cheap lately due to low oil prices, any upticks in the global energy markets will make it more expensive.

The report recommended the region's policy and regulatory leaders pursue a regional approach to forecasting future price impacts and resulting economic consequences. The three southern states' procurement should be studied from a region-wide perspective to understand the net benefits of investments in infrastructure to reliably meet the region's environmental and economic goals.

With the mix of resources serving the region expected to change significantly in the coming decades, the report recommended regional planning processes consider price impacts on both the near term (the next five-10 years) and the long term. A study that examines impacts of proposed policies on the resource mix and the size and economy of the marketplace that characterizes the net benefits of alternative approaches would be good to have to assess which path to take, the report said.

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