UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
Coordination between Natural Gas	)	Docket No. AD12-12-000
and Electricity Markets	)	

COMMENTS OF THE
AMERICAN PUBLIC GAS ASSOCIATION

Pursuant to the Notice Requesting Comments ("Notice") issued by the Federal Energy Regulatory Commission ("Commission" or "FERC") in the above-captioned proceeding on February 15, 2012, the American Public Gas Association ("APGA") hereby submits its response to certain of the questions posed by Commissioner Moeller in his February 3, 2012 request for comments. APGA supports the Commission's recognition of the significant gas-electric coordination issues to be addressed. It is important to ensure continued reliable and affordable natural gas service to residential, commercial, and industrial consumers of local distribution companies, while at the same time accommodating, to the extent possible in that context, the recent and anticipated growth in the use of natural gas for electric generation.

APGA is the national, non-profit association of publicly-owned natural gas distribution systems, with some 700 members in 36 states. Overall, there are some 950 publicly-owned systems in the United States. Publicly-owned gas systems are not-for-profit retail distribution entities that are owned by, and accountable to, the citizens they serve. They include municipal gas distribution systems, public utility districts, county districts, and other public agencies that have natural gas distribution facilities, and not a few of which also own and operate electric systems.

COMMENTS

Role of FERC

The threshold, and in APGA's view the most critical, question posed by Commissioner Moeller is, "what role should the Federal Energy Regulatory Commission have in overseeing better coordination." While APGA understands and supports the proposition that NAESB should play a significant role in developing business standards related to gas-electricity coordination standards, with input from NERC as to relevant electric reliability matters, APGA maintains that FERC has the key role to play as the agency charged with ensuring that pipeline and utility rates and terms and conditions of service are just and reasonable and not unduly discriminatory or preferential, as many coordination issues involve critical questions of who pays for and/or who gets the gas.

Regarding the question of who pays, this can arise in many scenarios. For example, electric generators typically are unhappy with the NAESB four gas day nomination cycles – they want more opportunities to nominate and they want them to be better coordinated with what is occurring in the electric markets. Putting to one side whether NAESB may be the proper entity to try to enhance coordination in this regard, the important point for APGA members is that such coordination comes at a cost, and that cost should not be borne by gas customers, for which the current system is working well. A good example of at least one pipeline's recognition of both the need for enhanced nomination flexibility and the need for the customers that request flexibility to pay for that flexibility is found in *Texas Gas Transmission LLC*, Docket No. RP11-2569 ("*Texas Gas*").

In the *Texas Gas* proceeding, the pipeline filed for acceptance of an Enhanced Nomination Service ("ENS") that would increase the nomination cycles from the standard four (created by NAESB) to 15, in order to accommodate electric generation customers that had been seeking increased flexibility. Under the terms of the new ENS rate schedule, the enhanced service would be available to *firm* customers that signed up for and paid a cost-based incremental rate for the new service. Filings such as this, of course, raise important issues about bumping of interruptible customers, notice periods, etc., which the Commission must ultimately address. But from APGA's perspective, the important point is that such flexibility comes at a price, and the price must be paid by those customers seeking the flexibility. Also, any such service must not in any way impair the service rendered to existing firm customers. In approving the ENS rate schedule, the Commission seemed to take these matters into account.[1]

A second and related concern is that the use of natural gas for electric generation not adversely affect reliability of service to existing firm customers. Many electric generators sign up for (and pay reduced rates for) interruptible transportation service, but when push comes to shove, these same customers may treat their interruptible entitlements as firm – i.e., ignore pipeline curtailment orders because paying the penalty rate can be economically justified (due, for example, to the fact that running generation out of economic dispatch may impose even higher costs on the generator).[2] This practice must not be tolerated, as it can cause downstream firm LDCs to lose pressure and to drop high priority R&C load, at considerable safety risk to those customers and to the system as a whole. Pipelines must operate under rate schedules that

[1] *Texas Gas Transmission LLC*, 137 FERC ¶ 61,093 (2011), *Order on Compliance Filing*, 138 FERC ¶ 61,176 (2012).

[2] APGA understands that many electric generators relying on interruptible pipeline service nevertheless count their generation as firm for reserve purposes; to the extent this is occurring, this practice should not be allowed by NERC or by the Commission. Generation fueled by natural gas should only be counted for reserve purposes if it has access to the natural gas via firm pipeline capacity.

ensure that curtailment orders are honored immediately by interruptible customers, which for scofflaw customers that do not adhere to the terms of the applicable pipeline rate schedules means that the pipeline must be prepared to literally turn off the gas at the delivery point of the offending interruptible customers, with other consequences to ensue. FERC should initiate enforcement proceedings against interruptible customers that violate pipeline curtailment orders or that violate the terms of the tariff during non-curtailment periods by using more capacity than they are entitled to under their existing service agreements with the pipeline. During periods of constrained capacity, firm customers must receive their contracted-for service, and, to the extent necessary, interruptible customers must reduce their takes in accordance with pipeline instructions in a timely manner. Clearly, these are issues that must ultimately be addressed by the Commission, though suggestions as to how to address them from NAESB or any affected entity should be welcomed.

Yet another question that the Commission should address is what happens when, due to force majeure, unplanned outage, or other cause, there is inadequate capacity for all existing firm customers. Today, most pipelines curtail on a pro rata basis, though there are a few pipelines with end-use curtailment plans in effect. APGA believes that since electric generation customers usually have backup in the form of alternate fuel capability or the option to dispatch more expensive units or to rely on the grid, a mechanism should be in place that permits firm LDC customers, if they are willing to pay the costs experienced by firm electric generation customers that are asked to decrease their use of pipeline capacity, to avoid curtailment. The *quid pro quo* for such a scheme is that the firm electric generation customers that are asked to rely on backup power from another source or burn a more expensive alternate fuel or otherwise incur a cost they would not but for the curtailment are reimbursed their incremental costs and the LDCs that want to avoid curtailing high priority R&C loads must underwrite the costs experienced by the affected electric generators. APGA suggests that NAESB be charged with making suggestions as to how this can most easily and fairly be accomplished, and, of course, FERC must sign off on any rate schedule filings that would accomplish this outcome.

Another concern is that of unintended consequences and their costs. While hourly nominations may make sense for the electric industry, the gas industry has grown up relying on and adjusting itself to the NAESB four nomination cycles, with the vast majority of nominations being made in the morning of the gas day preceding the delivery day. If, due to enhance nomination cycles in the gas day to accommodate electric generation customers, an hourly gas market were to flourish in response to the requirements of electric generators, then by the normal morning hour that LDCs now do their nominations for the next day, the needed gas at the needed receipt points may not be available. APGA does not begrudge the electric industry greater flexibility in using natural gas, but at the same time APGA's members do not want to have to reconfigure the manner in which they do business, at substantial cost to themselves, in order to accommodate the electric utility industry needs. These considerations must be taken into account as the coordination efforts move ahead.

Regional Solutions

The second question posed by Commissioner Moeller is to what extent FERC should defer to various regions of the country in addressing these challenges. APGA understands that as to certain coordination issues, there may be a basis for regional differences. For example, the differences in regional wholesale power markets or their absence in other regions (for example, the Southeast) may necessitate regional variations. In the final analysis, however, the Commission must review any such regional solutions to ensure that the end result is just and reasonable and not unduly discriminatory or preferential as to the affected customers in (or outside) the region in question. The Commission must always be asking itself whether the enhanced coordination is being paid for by those that seek it and whether service reliability to existing customers will be maintained.

Change in Flows

The next question posed by Commissioner Moeller is whether the expanded use of natural gas for electric generation is likely to change flows on natural gas pipelines and if so, does FERC need to address this issue.

APGA defers to the pipelines as to whether growing electric generation loads on their systems are likely to affect pipeline flows (certainly the "shale revolution" has affected flows on many pipelines without regard to enhanced natural gas usage by electric generators). APGA believes that to the extent that flows change due to enhanced reliance by electric generators on natural gas as their primary fuel, those same generators must access the system via firm rate schedules and must underwrite the pipeline investment being made in response to the changed flows. Basic cost causation principles must be adhered to in determining who pays for what in this context. *Certification of New Interstate Natural Gas Pipeline Facilities*, 88 FERC ¶ 61,227 (1999), *order on clarification*, 90 FERC ¶ 61,128, *order on clarification*, 92 FERC ¶ 61,094 (2000) (Certificate Policy Statement); *see, e.g., Transcontinental Gas Pipe Line Corp.*, 124 FERC ¶ 61,160 at P 21 (2008).

Daily Trading Differences

The fourth question raised by Commissioner Moeller observes that electricity trading and gas trading may differ greatly during the day and asks how FERC should help to harmonize these markets. APGA believes that this is the type of "in the weeds" issue that is best addressed initially by NAESB, with input from others. NAESB's recommendations should then be reviewed by FERC under the "just and reasonable" standard of its enabling statutes. Of course, to the extent that pipelines believe they have better answers, as with the ENS service noted above filed by Texas Gas, they should be encouraged to propose rate schedule changes to address such issues, again, of course, requiring FERC review and approval.

Impact of Plant Retirements

The next question asked by Commissioner Moeller is what will be the impact of the expected retirements of coal and oil-fired generation on the need for gas and electricity coordination. APGA has no particular insights as to this question other than to believe that as the role of natural gas in the overall fuel mix of electric utilities grows, the significance of gas-electric coordination grows. This, in turn, argues for FERC putting increased pressure on all industry segments to themselves coordinate in a meaningful and creative fashion to address the micro and macro issues that are around the corner, if not already upon us.

Baskets of Issues

Another question asked by Commissioner Moeller is whether progress on these coordination issues will be faster if policies are addressed in several baskets, with examples provided. Logic would seem to argue for an affirmative answer but reality may persuade us to the contrary. Grouping issues for treatment seems to be an efficient manner of proceeding, but the reality is that, depending upon how many baskets there are, there may not be enough qualified people with sufficient time to spend addressing these different baskets of issues. Others, such as those at NAESB, are better judges than APGA of what balance to strike on this score. APGA does not argue for either outcome, but simply raises the issue because of its concern that if resources are stretched too thin, the outcomes are likely to be slow and inadequate.

CONCLUSION

APGA commends the Commission for opening this docket in order to address the important issues raised by Commissioner Moeller. APGA does not pretend to have definitive answers to these important questions, except that it does know from past experience that the FERC must keep a watchful eye over what is and is not happening. The Commission must be willing to nudge the participants where inertia seems to have set in and in all cases to judge, under the "just and reasonable" standard, whether the outcomes being proposed are acceptable. As noted at the outset, APGA's primary concern is that existing firm gas customers, especially longstanding LDC customers serving high priority loads, continue to receive reliable and affordable service and that incremental services for electric generation loads be provided only to firm customers that pay the incremental costs associated with such enhanced services.

Respectfully Submitted,

AMERICAN PUBLIC GAS ASSOCIATION

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