UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Commissioner Philip D. Moeller Inquiry into the Trading of Natural Gas, and the Proposal To Establish an Electronic Information and Trading Platform	))))	Docket No. AD14-19-000

POST-MEETING COMMENTS OF THE
AMERICAN PUBLIC GAS ASSOCIATION

Pursuant to the Post-Meeting Notice issued by the Federal Energy Regulatory Commission ("Commission") on September 18, 2014, the American Public Gas Association ("APGA") files these comments.

APGA is the national, non-profit association of publicly-owned natural gas distribution systems, with over 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. APGA members purchase interstate natural gas transportation services, usually as captive customers of a single interstate pipeline, at rates and under terms and conditions that are regulated by the Commission.

I. COMMUNICATIONS

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II. COMMENTS

APGA has been an active participant in all FERC-initiated proceedings related to the harmonization of the gas and electric industries, which effort has been fostered by the growing dependence of the electric industry on gas-fired generation and by the growing concern regarding the reliability of such gas-fired generators in RTO/ISO markets, especially during peak periods (such as occurred during the 2013-14 winter period as a result primarily of the polar vortex). The fundamental point to keep in mind is that the root reliability problem relating to gas-fired generation is the failure of RTO/ISOs to promulgate market rules that incentivize generators relying on natural gas to make the necessary investments either in firm pipeline capacity or other infrastructure improvements (such as LNG backup or additional pipeline connections or dual fuel capability). It is noteworthy, for example, that the reliability problems experienced in the Northeast, most notably in ISO New England, are not experienced in the Southeast, where utilities not only purchase firm pipeline capacity but also invest in pipelines to carry natural gas to their gas-fired generation facilities.[1]

[1] For example, Florida Power & Light Company ("FPL") not only purchases substantial firm transportation capacity from Florida Gas Transmission and Gulfstream Natural Gas System; in addition, its parent company (NextEra) is overseeing a pipeline project that will enable FPL to move up to 400 million cubic feet in 2017 and up to 600 million cubic feet in 2020 through two new pipelines stretching some 491 miles from Alabama to southern Florida. *See* http://www.fpl.com/environment/lines/pipeline_projects.shtml.

APGA understands that the Commission is looking for other measures to assist the electric industry in its quest for reliability and that conferences such as the September 18 meeting are initiated with the best of intentions. And certainly APGA is not urging that there are not enhancements that should be considered that might facilitate the interaction between the electric and natural gas industries. But it also needs to be kept in mind that such enhancements will not address the underlying reliability problem described above and that such enhancements come at a cost – a cost that should be underwritten by the industry that is driving such changes by its failure to take the necessary self-help steps to address the underlying reliability issue; finally, it needs to be recognized that such enhancements, at best, will be a convenience to the electric power industry in its interface with the natural gas industry, not a panacea for its core problem.

The focus of September 18 conference was on what has become known as "rolodex" trading, *i.e.*, the purchase and sale of natural gas in the bilateral market on weekends and at off hours. APGA has many members with combination electric and gas systems, and their response to this issue is that they have been able to operate their gas-fired generation during all seasons relying on the bilateral market, regardless of the day of the week or the hour of the day. Their experience regarding natural gas platforms, such as the Intercontinental Exchange ("ICE"), is that if there is a market for a product, that product will become available; if there is not a market, then it will not.

APGA's sense at the September 18 meeting was that while some segments of the electric industry give much lip service to the need for more products at more frequent time intervals, they are not specific as to what products they will purchase on a regular basis. It is not surprising that the marketplace has not responded to such vague requests for more granularity; the electric industry must get its act together on this score since platforms like ICE will not, nor should they, respond to observations about desirable market products. Market demand is what elicits new products, and market liquidity is not fostered by Commission fiat – it is created by players buying and selling a product for which there is a demand. The worst of all worlds would be to create ersatz products not needed in the marketplace, which products then potentially create an artificial floor or ceiling in an otherwise well-functioning bilateral market.[2] In any effort to affect market forces, regulatory agencies must be ever mindful of unintended consequences. We have no doubt that the Commission has good intentions, but we are all familiar with the aphorism that the road to Hell is paved with good intentions.

Commissioner Moeller correctly pointed out that the power sector is a significant player in the natural gas market, whose relative importance is likely to grow.[3] We agree, and would observe that the power sector consumed more natural gas than any other end-user category in 2013 (http://www.eia.gov/totalenergy/data/annual/#consumption). The point is that large consumers have substantial sway in the marketplace; the burden is on them to demand (use and pay for) products in the gas marketplace, and such products will be available at a market-driven price. That is how markets work! Entities like ICE are not in existence to freeze out large players; quite the opposite. Thus, if there is to be any finger-pointing, it is readily apparent why the products the power industry says it wants are not now readily available.

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[2] It would be equally, if not more, ill-advised to try to create via regulatory mandate a new trading platform, in lieu of existing ones, for these as-yet undefined products, as any effort of that nature will entail adding still more costs to whatever product(s) might be "traded."

[3] Some wonder aloud whether such anticipated growth is realistic or desirable given the reluctance of independent generators with gas-fired facilities in regulated markets to invest in needed infrastructure to "firm up" their fuel supplies. *See, e.g., "Gas can't always make power happy: Analyst,"* in Platt's Gas Daily, Sept. 29, 2014, at 1. The analyst cited in this article also noted as follows (*id.* at 3): "Over the long term, successful electric-gas coordination may require FERC to continue its work to address the persistent electricity problems through modification of the electricity markets in order to make it possible for natural gas-fired generators to be the healthy customers that can pay reasonable prices for new services. None of this is free." She also noted that the gas industry really has not gotten the credit it deserves for the costly efforts it has taken to facilitate the gas-electric harmonization efforts (*id.* at 4).

One final point: the power industry tends to conflate products when it speaks of the need for gas/capacity on a 24/7 basis. Natural gas is plentiful and available. To the extent the power industry wants pipeline capacity to transport that gas, it must pay for it up front – pipeline capacity does not simply become an available product because the power sector wants it on a spot basis. If a pipeline is fully committed to firm customers, as most are, then at peak periods you can expect that the bus will be full of passengers. There may be tweaks that can be made to the capacity release market that will facilitate the secondary market, but the secondary market is not going to solve the underlying problem in the power sector of generators refusing to commit to firm pipeline capacity. And it is no answer for generators to argue that they should not have to pay for capacity they don't need most of the time. LDCs have been paying for unneeded capacity since time immemorial because serving residential and commercial customers reliably requires that they purchase sufficient pipeline capacity to meet their customers' winter peak requirements, even though that capacity may be idle 99.9% of the time. Reliability comes at a price, and the sooner the power sector understands that fact, the sooner the focus can be shifted to the real problem at hand.

Respectfully submitted,

AMERICAN PUBLIC GAS ASSOCIATION

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