



North American Energy Standards Board

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via email and posting

TO: Gas-Electric Interdependency Committee Members, and
Managing Committee Members

FROM: Rae McQuade, NAESB Executive Director
James Cargas, NAESB Deputy Director

RE: Notes from NAESB Board of Directors Gas-Electric Interdependency Committee
Conference Call – February 1, 2005

DATE: February 9, 2005

Dear Gas-Electric Interdependency Committee Member,

A NAESB Board of Directors Gas-Electric Interdependency Committee (GEIC) conference call was held on February 1, 2005 from 11:30 a.m. to 12:30 p.m. Central. The conference call provided a forum for the GEIC to update members on the progress of the Joint WEQ/WGQ Energy Day Subcommittee, and to review and discuss a list of possible disconnects between the electric and natural gas industries. The following notes and assignments resulted from the meeting.

- Administration:
- Mr. Jim Templeton, NAESB Wholesale Gas Quadrant (WGQ) Board Member and Chair of GEIC, facilitated the meeting.
 - Mr. James Cargas read the antitrust advice and called the roll of committee members.
 - Mr. Templeton reminded everyone that GEIC will not be drafting anything, but only identifying areas for potential standards development. He provided a summary of the events leading to the formation of GEIC and reviewed its mission statement.
- Energy Day Update:
- Ms. Rae McQuade provided a summary of the WEQ/WGQ Joint Energy Day Subcommittee meeting on Jan. 24-25.
 - Many excellent presentations and proposals were made and more are planned for the next Energy Day Subcommittee meeting on Feb. 9-10 in Houston.
 - The consensus was that the Subcommittee should look at standards for communications between wholesale gas pipelines and generators (R04021) before developing a standard energy day (R04016). The WGQ and WEQ Executive Committees will amend their respective 2005 Annual Plans this week to accommodate this shift in priorities.
 - The term “generators” has been used in the broadest means to include traditional power generators, RTO’s and non-traditional generators.
 - The efforts of the Subcommittee include 3 different requests for standards: R04016, R04020 and R04021. Although in a strict sense the term “Energy Day” may appear to only refer to R04016, the Subcommittee, FERC and NAESB have all been using “Energy Day” to mean all work being done under these 3 requests. Future
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Discussion of
Perceived Gas-
Electric
Disconnects:

meeting announcements will make this clearer.

- During the Dec. 15, 2004 FERC Open Meeting, Commissioner Brownell requested regular updates of NAESB's progress on energy day standardization. The first update will be provided to Commissioner Brownell, Chairman Wood and Commissioner Kelliher on Feb. 14. A meeting with Commissioner Kelly is pending.
- Mr. Rick Smead initiated a discussion of the perceived gas-electric disconnects work paper and comments received since the last conference call. He laid out several items for the GEIC to consider, including whether standards can play a role in addressing the disconnect. Where they cannot, GEIC can seek a policy determination from FERC, RTO or ISO before developing standards.
- It was cautioned that the energy day efforts and GEIC efforts need to make sure they are not a solution looking for a problem. Need to identify real problems, and not list things persons just do not like.
- Disconnect #1 – No Reserve Margin in Pipeline Industry. The two industries operate very differently with regards to “reserve” capacity. To the extent pipelines have reserves, they are more akin to electric spinning margins that electric reserve margins since they only exist to address short-term emergencies and not operational needs. Pipelines are built for the contracts they serve, and not peak capacity needs. Creating ‘interruptible’ firm pipeline capacity would have the effect of decreasing the value of firm capacity. Creating a mechanism for moving pipeline capacity around to fill gaps would be a policy, not a standardization, issue. A more organized capacity release mechanism could help, but does not overcome the lack of capacity.
- Disconnect #2 – Position in the Dispatch Queue. Although there are differences among the RTOs and ISOs that could be standardized, if there is no market advantage to firm capacity, then NAESB cannot address the issue. It was suggested that capacity requirements could be part of generation licensing. Generally lower heat-rate base units do have firm capacity since they can pass on the costs. For some, a decision to sell firm power without having either firm pipeline capacity or on-site fuel is a risk management and pricing decision that cannot be addressed by standards. While the electric industry takes on risk in the type of generation being built, the pipeline industry does not since they only build if capacity can be put under a firm contract.
- Disconnect #3 – Pricing of Electricity. If states required generators to have firm fuel whether they run or not then they would need to allow the generator to recover the cost of firm capacity whether or not it was used all the time. Otherwise they cannot afford it. It is rumored that in some cases generators have been able to get more for their available fuel gas on the open gas market than they would get selling electricity generated by the gas. If this is because of



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policy or regulation then maybe some thought should be given to relaxing the rules during peak periods of gas and electric use.

- Disconnect #4 – Treatment of Gas in Economic Dispatch. It was suggested that NERC and NAESB create a certification standard whereby “firm” power is defined as a generator with firm capacity or on-site fuel. Regional organizations may find such certification useful for reliability and dispatch reasons. Others can still bid interruptible power into the grid. First step may be NERC defining the reliability parameters. Then NAESB could provide a mechanism such as a certification.

Attendance:

| | Name: | Organization: | GEIC Member: |
|----|---------------------|-------------------------------|---------------------|
| 1 | Vicky Bailey | Johnston & Associates | Yes |
| 2 | Kathryn Burch | Duke Energy | |
| 3 | Christopher Burden | Williams | |
| 4 | James Cargas | NAESB | |
| 5 | Valerie Crockett | Tennessee Valley Authority | |
| 6 | Mark Crosswhite | Southern Company | Yes |
| 7 | Dale Davis | Williams | |
| 8 | Michael Desselle | AEP | Yes |
| 9 | Joel Dison | Southern Company | |
| 10 | Robert Gee | Gee Strategies Group | Yes |
| 11 | Mark Gracey | Tennessee Gas Pipeline | |
| 12 | Sheila Hollis | Duane Morris | Yes |
| 13 | Reed Horting | PECO Energy | Yes |
| 14 | Skip Horvath | NGSA | |
| 15 | Steve Huhman | Mirant | |
| 16 | Iris King | Dominion Transmission | |
| 17 | Richard Kruse | Duke Energy | Yes |
| 18 | Bill Lohrman | NERC | |
| 19 | Lyn Maddox | Oxadel Consulting | Yes |
| 20 | Marcy McCain | Duke Energy Gas Transmission | |
| 21 | Rae McQuade | NAESB | Yes, Ex Officio |
| 22 | Randy Mills | Chevron Texaco | Yes |
| 23 | Michael Mount | Black & Veatch | |
| 24 | David Pfeifer | Sungard | Yes |
| 25 | John Procario | Cinergy | Yes |
| 26 | Richard Rudden | RJ Rudden Associates | Yes |
| 27 | Rick Smead | Navigant Consulting Inc. | Yes |
| 28 | Larry Smith | El Paso | Yes |
| 29 | Dennis Sobieski | PSEG | Yes |
| 30 | Joseph Stepenovitch | FRCC | Yes |
| 31 | Jim Templeton | Comprehensive Energy Services | Yes, Chair |
| 32 | Kim Van Pelt | Panhandle Eastern | |
| 33 | Kathy York | Tennessee Valley Authority | |