

NAESB "Strawman"

January 24-25, 2004



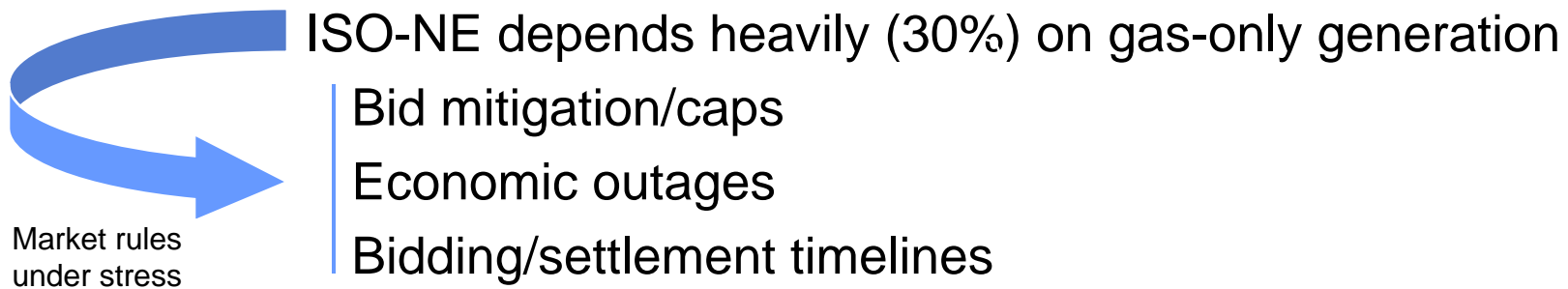
Problem Statement

- Enough generators must have fuel to meet peak load
- New England Cold Snap crisis heightened interest in Energy Day issue
- Chairman Wood's letter to NAESB asks for better gas-electric communication and coordination

New England Cold Snap Crisis

- Key causes:¹

- Weather-related generation outages
- Fuel-related outages:



- ISO-NE response includes:

- Generator run hours released early during cold weather but existing market timelines not modified

1. Source: Final Report on Electricity Supply Conditions in New England During the January 14 - 16, 2004 "Cold Snap"

NAESB Requests

- **Keyspan/Duke (R04016)**
 - Change gas pipeline and electric day-ahead “operating day” start/end to midnight central time
 - Does not revise bidding and settlement timelines
- **TVA (R04020)**
 - Standardize electric scheduling and timelines
- **Natural Gas Pipeline (R04021)**
 - Develop daily communication protocols between pipelines and generators

Energy Day Standardization

- The requests do not address the root cause of the New England Crisis: lack of fuel diversity/security

- A net benefit may not result from R04016 or R04020:
 - Administrative cost impacts have not been quantified
 - External costs (e.g, impacts on financial products) not known
 - Benefits have not been quantified

- Many entities will only experience new costs
 - Gas LDCs, electric distributors, gas pipelines and producers
 - Regulated companies may not be able to recover costs

Energy Day Standardization

- Separate electric market timelines were established for a reason:
 - Accommodate different system peaks
 - Facilitate efficient interchange

A Better Approach

- Plan for adequate fuel diversity and security
 - Dual fuel, non-gas generation
 - Protect against regional or national fuel problems
- Assure that alternative fuel units can/will be used when needed – e.g.,
 - Assure automatic fuel switching in some cases
 - Maintain sufficient back-up fuel on-site
- Address electric market rule issues locally

Conclusions

- Approve R04021 to respond to immediate concerns
- Create fuel diversity/security standards
 - Provide guidance to ad hoc working groups and task forces
- Address fuel diversity mostly through electric markets
- Options include:
 - Capacity market rules
 - Interconnection requirements
 - Reliability rules (e.g., NYC loss of gas supply rule, testing)
 - Regulatory barriers (e.g., emissions restrictions)
- NAESB role?