

# North American Energy Standards Board

## Gas-Electric Interdependency Issues

### NAESB Board of Directors Meeting

June 22, 2006

Prepared by the North American Energy Standards Board

June 22, 2006

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## Brief Background -- Timeline:

- ❖ **November 14, 2003:** Letter from Chm. Wood asking NAESB to develop interdependency standards
- ❖ **April 16, 2004:** Gas Electric Coordination Interim Status Report, filed with FERC
- ❖ **November 30, 2004:** Gas Electric Coordination Final Report, filed with FERC, 31 issues discussed
- ❖ **June 27, 2005:** Gas-Electric Communication Standards filed with the FERC in Docket No. RM05-28-000, 13 issues described
- ❖ **February 24, 2006:** 6 Interdependency Issues raised in Docket No. RM05-28-000

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## Summary of Report Filed June 27, 2005

- ❖ Docket No. RM05-28-000
- ❖ Business practices were developed to address communications between pipelines and generators in three situations (R04021):
  - ✓ For generation facilities that have gas scheduled
  - ✓ This generation facilities that do not have gas scheduled but need it
  - ✓ For gas that is needed in extreme unanticipated demand
- ❖ 13 issues were identified related to gas-electric interdependency, and were categorized as to the type of issue raised –policy, business practices, reliability, regional or infrastructure related

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## Issues Identified in February 2006 Report

- ❖ 6 issues were identified in the report – three focus primarily on gas market changes, and 3 focus primarily on electric market changes.
- ❖ All six issues have policy implications.
- ❖ All could result in standards development if so directed by either the market participants or the regulators.
- ❖ The report does not ask regulators to give policy direction, but it does note that it would be very difficult to garner industry consensus without either strong direction from the market participants or strong direction from policy makers.

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## Issue 1

Consider the development of standards to support Capacity Release pricing on an index for pipelines that have the FERC authority to enter into negotiated rates and discount capacity on an index basis.

**Consideration 1:** Removal of the pricing cap to make it more attractive for firm gas transportation holders to release the capacity to others was raised during the discussion, but it would require regulatory policy changes and is specifically not anticipated as part of this item

**Consideration 2:** The ability of nomination cycles, capacity-release procedures and other pipeline tariff terms to accommodate the recommended proposal currently vary in their flexibility, and the impact on market participants should be evaluated.

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## Issue 2

Review the possibility of adding an additional intraday nomination cycle with bumping rights to provide more flexibility to shippers, including power generators, with firm transportation rights such that they can nominate for natural gas supporting their market clearing times.

**Consideration 1:** Adding an additional cycle may have impacts on the timing of the existing nomination cycles. The timing of the various nomination cycles may have different impacts on different parties and/or other NAESB standards, which must be considered before any changes are made.

**Consideration 2:** Additional Wholesale Electric Quadrant standards may be needed to take advantage of a revised gas nomination cycle.

**Consideration 3:** The proposed business practices may be more acceptable to the gas industry if developed in conjunction with issue 4.

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## Issue 3

Review the ability of pipelines to shift gas for primary firm transportation within a pipeline path without having to re-offer as secondary firm transportation service.

**Consideration:** Current no bump rules limit firm customers' ability to divert gas to another market mid-day without reallocation. If pipelines could be operationally indifferent, then they could switch deliveries without facing the equity issues that arise for those customers who were not originally scheduled because they did not contract for firm transportation, but delivery is switched from firm transportation customers to customers who also did not contract for firm transportation. However, this may conflict with current tariff and policy equity issues. Any business practices created must be non-discriminatory.

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## Issue 4

Review and modify the requirements for organized electric markets so that the markets clear in sufficient time to nominate within the existing gas nomination timelines.

**Consideration 1:** It may be difficult for organized markets to support this proposed business practice given the existing nomination timelines; the proposed business practices may be more acceptable to the electric industry if developed in conjunction with Issue 2.

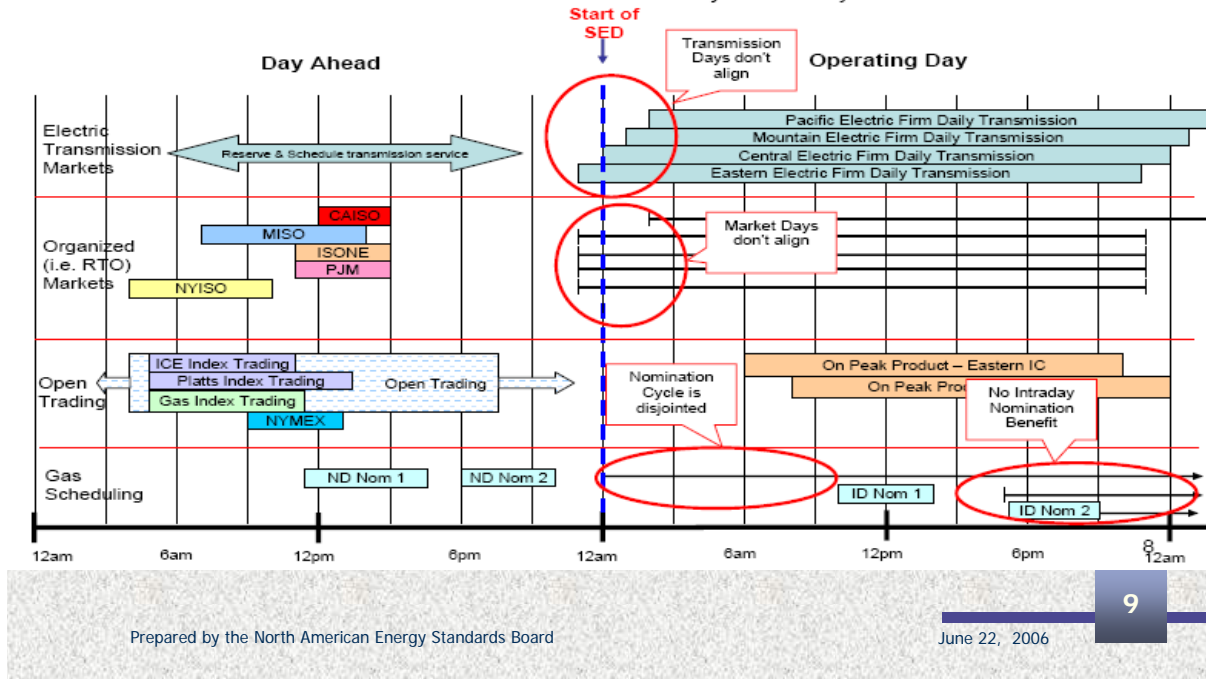
**Consideration 2:** Standardizing the electric timelines, each of which have been developed regionally will be difficult. As an alternative, the electric industry can create business practices that support market clearing within the gas nomination cycles.

**Consideration 3:** The ISOs and RTOs will need to make modifications to each of their separate regional processes to support business practices that reflect uniform national gas nomination timelines.

# North American Energy Standards Board Timeline Chart Related to Issues 2 and 4

## “As Requested” Standard Energy Day

With Other Processes as They Exist Today



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## Issue 5

Consider the development of business practices for generators that offer into the day ahead market to have the appropriate commercial arrangements to fulfill the needed obligations.

**Consideration 1:** Being too prescriptive as to how the obligations are met interferes with the risk management strategies of market participants.

**Consideration 2:** To the extent this proposal needs to address reliability aspects of this issue, those concerns should be directed to NERC.

**Consideration 3:** The issue of firm transportation as it relates to resource adequacy is being addressed as part of the proposed NERC Resource Adequacy Standard currently under development.

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## Issue 6

Develop the appropriate supporting definitions for new business practices for the Wholesale Electric Quadrant, including but not limited to definitions for: alternate fuel capability, usable alternate fuel capability, firm transportation service, firm sales service, firm supply, and "must run" generator.

**Consideration 1:** In previous attempts, the Wholesale Electric Quadrant was unable to reach consensus on definitions of similar terms.

**Consideration 2:** Although these definitions will apply to Wholesale Electric Quadrant, the definitions should be developed with the appropriate input from the Wholesale Gas Quadrant to ensure consistency with gas products.

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## Conclusions

- ❖ To accomplish standards development efforts will demand extraordinary coordination of the industry participants of both the natural gas and electric wholesale markets.
- ❖ Items 1-3 (all gas related) have previously cited policies or statements in individual pipeline tariffs that may support the standards development but may benefit from direction provided by the FERC to support the much needed consensus building.
- ❖ Items 4-6 do not have specific policies in place today, and would require direction from FERC if consensus within the two industries would be achievable.

## Observations and Related Actions

- ❖ These efforts are controversial and the ability to achieve substantial industry consensus is not certain. Because of this concern, NAESB did not prepare requests for standards development.
- ❖ The lack of industry support poses sufficient roadblocks to development, and as such, regulatory policy guidance is needed before further efforts can be undertaken.
- ❖ The Department on Energy is sponsoring an effort by ICF to develop a primer on this report that should be released prior to the summer NARUC session.
- ❖ This topic will be further addressed at the NARUC Summer session on July 31, 2006.