

FROM: Mike Novak, National Fuel Gas Distribution
DATE: February 25, 2008
RE: Order 698 – WGQ AP Item 7c

National Fuel Gas Distribution (“Distribution”) supports continued discussion of modifications to the NAESB nomination timeline, but to become fully supportive of the APS/TVA proposal currently under discussion, some key changes would be necessary.

Distribution does not believe the additional cycles will provide value to its shippers since it has no large gas-fired generation behind its city gate (only small co-generation and distributed generation). Indeed, because of the lesser-of rule, additional cycles could expose Marketers to penalties if their previously scheduled quantities are reduced at subsequent cycles. Under the current timeline, if the Marketer has a secure, reliable supplier and upstream transportation arrangements, absent extraordinary circumstances, both Distribution and the Marketer know by 2:00 PM CT¹ that their gas will continue to be scheduled to flow the remainder of the gas day.

Retail choice and large volume transportation customers on Distribution currently may nominate gas at any of the four cycles provided within the current NAESB standard. Nearly all nominations placed by Marketers (the shippers supplying customers on Distribution’s system) are placed at the timely and evening cycles. Intraday 1 and Intraday 2 cycle nominations are few.

The off-cycle national gas-fired electric generation market is large and growing, but has very few players relative to the traditional markets served through the existing timeline. While some pipelines have offered additional nomination cycles (beyond the current NAESB standard), without grid-wide coordination, gas-fired generation markets are limited to the supplies attached to those pipelines. If interstate pipelines were required to confirm across the grid at additional cycles, an upstream storage provider or interested supplier on an interconnecting pipeline could deliver additional supplies into the pipeline for delivery to the gas-fired generator.

For consensus to develop on the APS/TVA proposal (or similar proposals), there is as much of a need to protect those who do not or cannot participate in the market from any downside as there is to match willing suppliers with the market. Much of the discussion to date has proposed applying the same rules and business processes available at the current cycles to the new cycles. Some of these business processes are unnecessary at the additional cycles and may stand in the way of building consensus on any proposed timeline change. To achieve the necessary consensus, any NAESB solution has to:

- Be scaled to the problem
- Work within existing staffing levels to the greatest possible extent, recognizing a preference to process nomination and confirmations with customary business hours.
- Reach a level of indifference or compensating benefit for those parties that do not or cannot participate in the gas-fired electric generation market.

¹ An extremely rare exception would be the Marketer that did not initiate flow until the Intraday 2 cycle, in which case, a scheduled quantity report showing flow for the remainder of the day would not be available until 9:00 PM CT.

Distribution suggests the following modifications/additions to the APS/TVA proposal:

- For cycles 5 and 6, the lesser-of rule should not be applied. Rather, only those increases or decreases explicitly agreed to by all parties involved with gas flowing at the prior cycle would lead to a change. In other words, absent agreement to the contrary, quantities at cycle 4 should continue at cycle 5 and those at cycle 5 continue at cycle 6.
- Until and unless a significant cycle 5/6 market develops there is no need for capacity releases, recalls or reputs.
- Interstate pipelines should support a pre-qualification process whereby the market is scaled to just those parties (receipt points/suppliers including storage providers) willing to serve the cycle 5/6 market and the markets themselves.
 - At the pipeline's discretion, qualified receipt points/suppliers would be limited to those that could physically flow to the cycle 5/6 market.
 - Cycle 5/6 parties must commit to staffing these cycles at a level that nominations and confirmations are processed in an expeditious and efficient fashion.
 - Cycle 5/6 parties must commit to physical gas flow.
 - Pipelines could reject nominations at non-qualified receipt or delivery points.
 - Pipelines could impose requirements to keep the list of qualified parties stable, i.e. require pre-qualification to be a seasonal election.

Bumping

The APS/TVA proposal specifies that new cycles 5 and 6 would be “no bump” – Distribution supports this because it will help to keep previously scheduled quantities in place. The proposal also states cycle 4 would provide for bumping of IT by FT – Distribution has some difficulty supporting this aspect of the proposal. While additional bumping may create value for FT holders, it may also create some staffing costs that don't exist today. Bumping at cycle 4 implicitly requires that Distribution support Cycle 5 to provide an opportunity for bumped shippers to reschedule. In view of Distribution's above described market, demand for cycle 5 would be created by cycle 4 bumps and not by any real change in market demand. While Distribution's preference is to maintain the status-quo (no-bump at cycle 4) to promote scheduling stability, it would not stand in the way if an industry consensus supporting cycle 4 bumping emerged.

To add real value offsetting the cost of change, Distribution would prefer that primary FT nominations scheduled at the evening cycle bump secondary nominations out of path scheduled at the timely cycle. This, as well as some of the other above proposed modifications, may not square completely with existing FERC policy. Distribution supports continued discussion at NAESB, however, it may be almost impossible to reach consensus at NAESB unless some re-examination of applicable Commission policy occurs. Changes to and/or clarifications of policy may create potential for consensus to emerge where it has not thus far.