Joint Proposal to NAESB
by Washington Gas Light Company and
Piedmont Natural Gas Company
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Preamble:

The energy community has raised concerns related to electric power generators' access to natural gas pipeline capacity. In response, the FERC has proposed a rulemaking which would alter the start of the gas day and the timelines by which gas is scheduled. This solution would impose changes on the natural gas industry which may be premature. The electric market has not yet had the opportunity to determine what it needs to reconcile the way electricity resources are committed and scheduled with the current functioning of the robust and liquid natural gas market. Although no one could dispute that even more efficient utilization of current gas pipeline capacity is a fine goal, natural gas pipelines have been successfully serving their traditional firm customers, which includes power generation, reliably and economically since implementing their own significant industry restructuring. It would not be equitable to gas consumers to require significant unilateral changes at this time when it has not been shown that the reliability problems expressed by the electric utility industry will be solved by changes to the gas day or gas schedules. Ultimately, new gas infrastructure will have to be constructed. Gas pipeline and storage construction will not be accomplished, however, unless a mechanism is found for electric generator interests to fund necessary gas infrastructure improvements and recover the costs incurred.

Resolution:

In an effort to protect gas consumers from the negative impacts of premature implementation costs associated with gas operation adjustments, prior to pursuing changes to the gas day or the schedule of gas pipeline nominations, the electric industry and organized electricity markets should reach consensus on the following:

1. The development of market or tariff mechanisms (e.g. shared or pooled capacity) to assure that "essential" gas-fired generation facilities in organized markets have access to delivered firm and no-notice fuel supply. "Essential" gas-fired generation is the generation capacity that organized markets plan to call on to meet estimated market demand at any time of the year.

2. The adoption of a uniform, national electric day;

3. The adoption of a uniform, national schedule for the day-ahead electric market; and

4. That electric generators should be scheduled in the day-ahead market prior to the Timely Nomination Cycle for interstate gas pipelines (as found by FERC in the NOPR).

Therefore, we propose that

(i) further discussions on any changes to the gas day or schedule be suspended – for a period of up to one year -- until such time as electric interests reach a consensus on Items 1-4.

(ii) The Parties supporting this resolution agree to confer with electric industry representatives on a regular basis to share information on gas-electric coordination matters.

(iii) The Parties supporting this resolution also agree that they will fully consider, through good faith negotiations, all reasonable proposals to change the gas day and nomination schedule **after** the electric industry completes its work on items 1-4, above.

Rationale:

The rationale for this proposal:

A. The gas industry already has adopted (as a result of a consensus process) a uniform, national gas day. The electric industry has not been able to create a uniform electric day or a uniform nomination schedule. Changes to the gas day or nomination schedule without adoption of a uniform electric day and schedule may benefit some areas of the country but harm others.

B. Changes proposed in the NOPR to the gas day and pipeline nomination schedule would cause gas interests to incur substantial additional costs in overtime or new employees, training, and the reprogramming of SCADA and nomination software. These costs will likely far exceed the $7.5 million estimated in the NOPR (pg 77 NOPR). The changes would also create operational and market challenges and risks for the natural gas pipeline and shipper community. None of the proposed changes are needed by gas industry participants but would be made for the sole benefit of electric interests. The FERC has proposed no mechanism for gas industry members to recover implementation and ongoing costs from those parties that are causing them and those parties that will (ostensibly) benefit from them.

C. FERC's NOPR is designed to "provide sufficient time for electric utilities to complete their processes for selecting generating resources to operate prior to [the Timely Nomination Cycle,] this first, and most liquid, time in the natural gas supply and interstate natural gas pipeline transportation service markets." P. 48. Table 2 of the NOPR shows that only one additional ISO – New England – would be able to complete its generation selection before the proposed Timely Nomination Cycle deadline. (The New York ISO already schedules its day-ahead generation prior to the gas Timely Nomination Cycle.) Potentially improving the trading liquidity of just one organized market – one that is already acknowledged by all concerned to be woefully short of pipeline capacity -- is not enough of a benefit to burden the entire nation's natural gas industry with the substantial costs that would result from a change in the gas day and schedule. This end result could have been realized at a lower cost by requiring the NEISO to make scheduling changes to mirror the current schedule now in effect for the NYISO. Moreover, there is no evidence that organized markets agree with the Commission's goal articulated at Paragraph 48 of the NOPR and, in fact, some organized electric markets may prefer to schedule gas service prior to scheduling the day-ahead electric market.

D. FERC's argument that the gas day should start before the daily morning peak in electric usage is not persuasive. Gas LDCs experience similar daily changes in demand and are able to meet their daily peaks using the established gas day and scheduling deadlines. Moreover, the FERC proposal to move the start of the gas day to the ramp-up period for gas demand in the eastern U.S. (5 AM Eastern Time) will create operational challenges for some LDCs.

E. The timely nomination cycle for natural gas pipelines is efficient because the gas supply that is shipped in that cycle is acquired in a very liquid, vibrant gas commodity market that closes at about 10:30 AM Central time each day. The later day-ahead cycle is less liquid as are the two current intra-day cycles. FERC's proposal to add intra-day cycles is not likely to add liquidity or flexibility to the natural gas commodity market and, therefore, the additional nomination deadlines are not likely to improve supply availability or price.

F. Gas LDCs serve their loads with a combination of firm transportation and no notice service and on-system storage or peaking capabilities to help supply their load variations. They do this not only at the start of the gas day and at the two current intra-day scheduling opportunities, but on a continuous and instantaneous basis throughout the day. Adding two new intraday cycles will not allow the kind of continuous and instantaneous load following ability that many gas-fired generators require. Rather, if natural gas is going to be successfully used to serve essential generation, key elements of the gas-fired generation fleet will require a similar combination of firm no-notice transportation and storage as the LDCs currently use.

G. FERC's natural gas certificate policies require that new pipeline and storage capacity be supported by customers willing to pay for service. Thus, gas pipelines are "right-sized" for those shippers that have made the financial commitment to pay for the existing infrastructure and necessary facility expansions. Until electric generators in organized markets can find a way to financially support required natural gas infrastructure, there will be times when interruptible and secondary pipeline capacity will not be available or will be available only at scarcity prices.

H. The reliability problems faced by the organized electric markets, as they depend increasingly on natural-gas-fired generation, will not be solved by changes to the gas day or gas schedules. Those problems will start to be addressed when essential gas-fired electric generators secure adequate contractual rights to firm and/or no-notice delivered gas supplies. Electric generation in organized markets should begin to contract for pipeline and storage capacity immediately because other important interests – including public utility-owned generation, industrial customers participating in the manufacturing renaissance, and natural gas export markets – are also vying for use of and expansion of natural gas infrastructure.

I. To make the most efficient use of precious resources and keep costs to consumers as low as possible, the nation's gas and electric industries must endeavor to get any necessary scheduling changes right the first time.

Contact:

Jim Blasiak
Washington Gas Light Company
703-750-5257
jblasiak@washgas.com

Michelle R. Mendoza
Piedmont Natural Gas Company
704.731.4296 | Fax: 704.364.8320
michelle.mendoza@piedmontng.com