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July 2, 2008

Via US Mail and Email NAESB@NAESB.org
Ms. Rae McQuade
Director
North American Energy Standards Board
1301 Fannin, Suite 2350
Houston, TX 77002

Re: Comments to AP 2007 Item 7C/AP 2008 Item 4C:
FERC Order 698 Directive: Intraday Nomination Timeline
Proposals

Dear Ms. McQuade,

Please include, as part of the record in the above referenced NAESB Wholesale Gas Quadrant ("WGQ") matter, the attached Joint Comments of Arizona Public Service Company, The Boeing Company, El Paso Electric, ISO New England, Inc., Midwest Independent Transmission System Operator, Inc., Missouri Public Service Commission, New York Independent System Operator, Old Dominion Electric Cooperative, PJM Interconnection, L.L.C., Salt River Project Agricultural Improvement and Power District, Southwest Power Pool, Tennessee Valley Authority, Tucson Electric Power Co., UNS Gas, Inc. and Virginia Power Energy Marketing, Inc. to the June 3, 2008 Recommendation of the Business Practices Subcommittee.

Please post this to NAESB WGQ committee webpage.

Sincerely,

/s/Kelly A. Daly
Kelly A. Daly
Attorney for Arizona Public Service Company

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JOINT COMMENTS TO AP 2007 ITEM 7C/AP 2008 ITEM 4C
FERC ORDER 698 DIRECTIVES

Ensuring Value of Firm Capacity Contracts in a Changing Industry
(The Need for Workable Gas Nomination Cycles under the NAESB Timeline)[1]

I. Executive Summary

In Order 698, the Commission stated that "[t]hrough this rulemaking, the Commission is seeking to improve coordination between the gas and electric industries in order to improve communications about scheduling of gas-fired generators."[2] In paragraph 69 of Order 698, NAESB was instructed "to consider whether to add another intra-day nomination opportunity with bumping rights prior to the final non-bumping opportunity or to develop additional changes to its nomination timeline to better coordinate with electric scheduling."[3] In response to this order, the NAESB Wholesale Gas Quadrant ("WGQ") instructed the Business Practices Subcommittee ("BPS") to address the appropriateness of modifying the NAESB Intraday Nomination and Scheduling Timeline. During the last 11 months, more than a half dozen proposals were presented and discussed in BPS. Despite the vast number of votes cast in favor of the various proposals to change the standard timeline, no single proposal garnered sufficient votes across the industry segments to satisfy NAESB's threshold to develop a new standard timeline. As a result, on June 4, 2008 BPS recommended to the WGQ Executive Committee that no change be made to the existing gas nomination timeline. These comments are submitted in response to this recommendation.

The NAESB Gas Nomination Timeline needs to be modified to ensure that holders of firm capacity have the right and ability to reliably schedule and use their firm capacity when they need it most. Maintaining the *status quo* dilutes the value of firm service, jeopardizes the development of pipeline infrastructure and ignores the real and serious reliability concerns confronted by many firm shippers. In particular, electric (and gas) utilities, whose gas demands fluctuate throughout the day as a result of factors outside their control (e.g., changes in weather, unit outages, human

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[1] The instant comments are jointly sponsored by the following entities: Arizona Public Service Company, The Boeing Company, El Paso Electric, ISO New England, Inc., Midwest Independent Transmission System Operator, Inc., Missouri Public Service Commission, New York Independent System Operator, Old Dominion Electric Cooperative, PJM Interconnection, L.L.C., Salt River Project Agricultural Improvement and Power District, Southwest Power Pool, Tennessee Valley Authority, Tucson Electric Power Co., UNS Gas, Inc., and Virginia Power Energy Marketing, Inc. These entities also reserve the right to file supplemental comments on their individual behalf. In addition, the RTO/ISO signatories to these comments do not take a position at this time on the specifics of the particular recommendations herein, but support action on this matter rather than maintenance of the *status quo*. Reforms to the gas market rules are needed to ensure that more options are available for natural gas fired generation to meet real time operating conditions and system needs.

[2] *Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities*, Order No. 698, 72 FR 38757 (July 16, 2007), FERC Stats. & Regs., Regulations Preambles 2006-2007 ¶ 31,251, 31,800 (June 25, 2007) ("Order No. 698"), *order on clarification and reh'g*, Order No. 698-A, 121 FERC ¶ 61,264 (2007).

[3] Order No. 698 at P 69.

needs and electric bid market dispatch notification) are in immediate need of a late afternoon/early evening cycle due to significant changes in the gas and electric industry and increased reliance on gas that have occurred since the original nomination timeline was developed in the early 1990s.

Signatories to these comments therefore urge NAESB's Executive Committee to request that the Commission expeditiously provide policy guidance on the following two issues: 1) Can the "no bump" rule be eliminated; and/or 2) if the "no bump" rule is maintained, what is the minimum amount of hours that interruptible service should be guaranteed to flow and does the minimum amount of flow have to be as a result of the last cycle of the day.

II. Background

A "Gas Day" begins at 9:00 am CCT and ends at 8:59 am CCT the following day.

Currently, a shipper can submit a nomination to flow gas twice during the day before the Gas Day ("Timely Cycle 1" and an "Evening Cycle 2") and/or attempt to adjust that nomination twice during the actual Gas Day ("Intraday 1 – Cycle 3" and "Intraday 2 – Cycle 4"). Once a shipper submits a "Nomination" the third party supplier of the natural gas is required to submit a "Confirmation" that the gas is available to be introduced into the pipeline. The pipeline uses this Confirmation to then "Schedule" the transaction. The chart below (Diagram – A) is the current NAESB Intraday Nomination and Scheduling Timeline that is used nationwide as the minimum standard by which all interstate pipelines must conform.

Diagram - A

Nomination Cycle	Nomination Deadline	Third-Party Confirmation Deadline	Pipeline Scheduled Quantity Deadline	Flow Time
Timely (Cycle 1)	**11:30 a.m.** the day before the gas flows	**3:30 p.m.** the day before the gas flows	**4:30 p.m.** the day before the gas flows	**9:00 a.m.** the next day
Evening (Cycle 2)	**6:00 p.m.** the day before the gas flows	**9:00 p.m.** the day before the gas flows	**10:00 p.m.** the day before the gas flows	**9:00 a.m.** the next day
Intraday 1 (Cycle 3)	**10:00 a.m.** the Gas Day	**1:00 p.m.** the Gas Day	**2:00 p.m.** the Gas Day	**5:00 p.m.** the same day
Intraday 2 (No Bump - Cycle 4)	**5:00 p.m.** the Gas Day	**8:00 p.m.** the Gas Day	**9:00 p.m.** the Gas Day	**9:00 p.m.** the same day

This chart identifies the deadlines (in Central Clock Time "CCT") for each of the respective activities and identifies the time at which the gas associated with each Cycle will flow. Note that the last nomination opportunity, Intraday 2 – Cycle 4, is a "No-Bump" cycle which means that a holder of interruptible capacity that has been previously scheduled cannot be bumped off the system by a shipper that has a firm capacity contract. In other words, if a shipper holding a firm contract becomes aware of a change in his expected gas use (i.e., due to an unexpected weather, system utilization or plant outage) after 10:00am on the Gas Day (9:00 am/ 8:00am on the west

coast depending on the season or state), the firm shipper is not permitted to gain access to the capacity he has paid for if an interruptible shipper's nomination has already been confirmed in an earlier cycle.

When the above NAESB Timeline was agreed to over a decade ago, the pipeline industry indicated that four cycles was the maximum amount that could be provided because the pipeline required sufficient time in between cycles to coordinate activities which often times involved manually processing various nominations which were being submitted via facsimile or phone calls. That time requirement no longer exists due to the availability of electronic processing.

III. Discussion

A. The Problems that Prompt the Need for Change

The need to modify the intra-day Gas Day nomination cycles is driven by several industry factors that were not at issue when the existing NAESB timeline was developed in the early 1990s, including:

- New gas reliability concerns and requirements that have prompted the imposition of strict pro rata hourly take obligations and/or exorbitant imbalance charges and penalties;
- The development of the organized electric bid market that has increased the need to synchronize the scheduling of natural gas-fired generation units with dispatch notification timelines;
- The introduction of more third party storage and service providers that require synchronization of scheduling opportunities in times of peak usage; and
- The introduction of hourly gas contracting without hourly gas scheduling.

While changes in technology have developed that have automated and expedited the nomination and scheduling process and provided pipelines with real-time metering capabilities (to monitor actual system receipts and deliveries of gas on a daily and hourly basis), the rights of firm shippers to access their capacity has not similarly evolved. Consequently, the value of firm service has diminished. Similarly, under the auspices of satisfying reliability concerns, pipelines are now requiring firm capacity holders to more accurately predict their gas usage on a daily (and even an hourly) basis. In order to accurately schedule daily (and hourly) usage, firm capacity holders must be able to access their firm capacity and be able to call upon third party storage services later in the day. The existing NAESB nomination schedule presents the following problems:

1. A Lack of Uniform Late Day Nomination Opportunities

Under the current NAESB timeline, a firm shipper's last guaranteed ('bumping") opportunity to change its gas nomination occurs at 10:00 a.m. CCT. This means that for the remaining 23 hours of the flow day, a firm shipper has no guaranteed ability to access its contracted for capacity to respond to unforeseen circumstances (e.g., changes in weather patterns, electric generator outages or even electric dispatch notification).[4] A shipper cannot use its excess capacity after 10:00 a.m.

[4] Note - A late afternoon/early evening "bumpable" nomination is needed because even though a firm capacity holder "reserves" capacity on the pipeline, it is not like having a season ticket to a baseball game that allows the holder to use the seat whenever he shows up.

CCT even if it has lined up the associated gas and properly nominated the capacity unless the pipeline concludes that it has excess capacity on the system and has confirmed the gas supplies and scheduled the nomination. Similarly, a shipper cannot simply over-nominate (or under-nominate) its anticipated gas demands for the day with the expectation that it will automatically have the guaranteed option to adjust its nomination consistent with its actual demands, because a decrease (or increase) to an existing nomination cannot be effectuated without a confirming party. In other words, without having a place (like storage) or an entity (like a storage provider, a marketer or a producer) that is willing to take (or supply) the excess (or increased) level of gas, the pipeline will not confirm and schedule the corrective nomination. Absent an industry-wide late afternoon/early evening "bumpable" nomination cycle, there currently is no opportunity or uniform time when all of the necessary confirming parties in the nomination process are available to effectuate a changed nomination.

2. A Lack of Access to Firm Capacity

The lack of a late afternoon/early evening nomination opportunity is a particular problem for load serving shippers on pipelines that have imposed tighter imbalance restrictions, hourly service contract obligations and/or flow control meters.

For example, under the current NAESB timeline, due to the fact that the nomination deadline is triggered off Central Clock Time, the only "bumpable" intraday cycle occurs in the desert Southwest in the very early hours of the Gas Day (8 a.m. local time), which can be as many as three (3) hours before the close of the morning peak usage period and eleven (11) hours before the evening peak usage period and only one (1) hour into the Gas Day. On pipelines that require hourly contracting, firm shippers (like electric utilities) that already have contracted for such "premium" hourly services oftentimes experience load changes throughout the day that are beyond their ability to forecast (e.g., weather events, mechanical outages, natural disasters such as forest fires, etc.). Without a late afternoon guaranteed ability to access their firm capacity, firm shippers can be, and in some instances already have been, subject to flow control interruptions implemented by the pipeline and penalties. These flow control measures can result in a loss of service, a compromise to service reliability and/or exposure to prohibitive financial penalties (despite the fact that the shipper has purchased more than adequate capacity rights under a firm contract).

3. An Inability to Synchronize Gas Generation with Organized Bid Markets

The evolution of organized electric markets, the difference between the "Gas Day" (9:00 a.m. to 8:59 a.m. CCT) and the "Electric Day" (Midnight to 11:59 p.m.), and the new NERC reliability rules have created unanticipated problems synchronizing gas needs for the midnight to 9:00 a.m. period (which is the last 9 hours in the current gas "Flow day" but the first 9 hours for the electric Day-ahead). Specifically, electric generation loads need an opportunity to adjust their nomination for firm supplies of natural gas to match the electric Day-ahead bid confirmations/dispatch notifications and to be compliant with directives issued by the balancing authority pursuant to FERC reliability standards. Because dispatch notifications are usually provided by 3:00 p.m. for the next electric day, the only remaining gas nomination cycle that can be utilized to synchronize the next day's electric demands with the associated gas requirements is the gas "Evening Nomination – Cycle 2," which only adjusts gas flow beginning at 9:00 a.m. the next day. As a result, electric generators do not have an opportunity to get gas supplies on or off the pipeline to accommodate their electric usage for the midnight to 9:00 a.m. period (*i.e.,* the last 9 hours of the Gas Day/the first 9 hours of the Electric Day.

B. Balancing the Industry Segment Needs & Wants

During the NAESB BPS discussions, members of the various industry segments identified the problems with the existing NAESB cycle and suggested primary objectives that should be included, to the extent possible, in any proposals to revise the NAESB Nomination Timeline. These objectives included the following:

- to provide firm shippers an additional "bumping" cycle to adjust daily nominations with updated end of the day gas demands (all firm contract holders);
- to include a "bumping" nomination cycle that is after the 3:00 p.m. electric dispatch notifications (for electric utilities in the East and Midwest);
- to include a "bumping" nomination cycle as close to the evening peak usage period as possible (for electric utilities in the West);
- to schedule "bumping" and other high volume nomination cycles as close as possible to normal business hours (for producers and pipelines);
- to provide three (3) hours, where possible, in between nomination and confirmation (for pipelines);
- to minimize overlap of computer utilization during the nomination/confirmation process (for pipelines); and
- To provide that the Timely – Cycle 1 deadlines occur during core business hours (for pipelines).

The only proposal that incorporated all of these objectives was the joint proposal submitted by Arizona Public Service Company and Tennessee Valley Authority ("APS/TVA" Proposal"), which provided the following:

Nomination Cycle	Nomination Deadline	Confirmation Deadline	Scheduled Quantity Available By	Flow Time
Timely (Cycle 1)	**11:00 p.m.** the day before the gas flows	**2:00 p.m.** the day before the gas flows	**3:00 p.m.** the day before the gas flows	**9:00 a.m.** the next day
Evening (Cycle 2)	**5:00 p.m.** the day before the gas flows	**8:00 p.m.** the day before the gas flows	**9:00 p.m.** the day before the gas flows	**9:00 a.m.** the next day
Intraday 0.5 (Cycle 2)	**7:00 a.m.** the Gas Day	**10:00 a.m.** the Gas Day	**11:00 a.m.** the Gas Day	**12:00 p.m.** the same day
Intraday 1 (Cycle 3)	**3:30 a.m.** the Gas Day	**6:30 p.m.** the Gas Day	**7:30 p.m.** the Gas Day	**9:00 p.m.** the same day
Intraday 2 (Cycle 4) **No Bump**	**8:30 p.m.** the Gas Day	**11:30 p.m.** the Gas Day	**12:30 p.m.** the Gas Day	**1:00 p.m.** the same day

C. Solutions to the Existing NAESB Nomination Cycle Problems

Despite the 11-month process that addressed the various problems with the existing NAESB timeline and considered over a half-dozen proposed changes to the NAESB nomination timeline, no single proposal was able to garner sufficient votes from all segments of the industry-wide to produce a unified proposal for Commission acceptance. This stalemate resulted primarily because BPS concluded that it was precluded from contemplating a proposal that was inconsistent with current FERC policy, namely that the last cycle must be a "no bump" cycle.

There are three possible scenarios that would resolve the problems with the current NAESB nomination timeline. The first involves complying with the existing Commission policy, but the remaining two require a change in FERC policy:

1. Move the Existing "No Bump Cycle Later in the Gas Day and Add a New "Bumpable" Intraday Cycle after 3:30 p.m.

This option recognizes the advances in technology and ensures that firm contract holders, load serving shippers and electric generators receiving dispatch notification have adequate and appropriate access to their firm capacity in order to respond to changes in daily load forecasts. However, this option contemplates a reduction in the amount of hours that interruptible contract holders can flow gas on a guaranteed basis and requires gas schedulers to be available to process the later "no bump" cycle.

2. Eliminate the "No-Bump" Rule

Allowing "bumping" to the maximum extent practicable is consistent with Commission policy that firm service is a superior service and its policy to encourage the contracting of firm service which promotes the construction of needed infrastructure. While interruptible shippers understandably are opposed to losing their *de facto* daily firm service, the elimination of the "no-bump" rule simply means that their interruptible transportation service is, in fact, interruptible. If such interruption poses a problem, interruptible shippers have other options: they can seek short-term firm services from the pipeline or they can participate in the capacity release market to avoid the risk of interruptions.

3. Maintain Cycle 4 as "No Bump" But Eliminate the Requirement that the Last Cycle be "No-Bump" Thereby Allowing a Subsequent Bumping Cycle

If the Commission were to eliminate the requirement that the last cycle of the day must be a "no bump" cycle, an additional "bump" cycle could be added to the NAESB nomination timeline after the current Cycle 4. This option would accomplish the dual objectives of providing firm contract holders with the ability to access their capacity in the late hours of the day, while at the same time providing interruptible contract holders with a minimum amount of guaranteed flow on the system once their nomination is confirmed (i.e., from Cycle 4 until gas flows pursuant to the last bump cycle).

D. Policy Considerations and Industry Perspectives

The following policy considerations and industry perspectives should be weighed seriously in reaching a resolution to the problems with the existing NAESB nomination timeline:

- **Pipeline Infrastructure Development** - Long-term firm contractual commitments are the backbone to the development and construction of pipeline infrastructure. In order to

encourage firm contracting, the FERC needs to insure that the rights of firm contract holders keep pace with changes in the industry to insure access to reliable service.

- **Pipeline Imbalances** - Technological improvements to real-time metering allow pipelines to levy strict limitations on hourly and daily use of capacity and related requirements to maintain actual deliveries in balance with nominations. The new services (daily and hourly) that are now being offered by pipelines as a result of these same technological improvements are creating the corresponding need for shippers to have the tools to adjust their nominations throughout the course of the day in order to remain in balance.
- **Pipeline Reliability** - Maximizing intraday adjustments to scheduled gas flow through adequate nomination cycles improves pipeline system reliability and increases the value of pipeline services. In addition, pipelines may see an increase in revenue from new firm service contracts entered into by former interruptible shippers.
- **Shippers' Reliability and Reduced Risk** - Firm contract holders (especially load serving shippers) need to have flexibility to meet unforeseen changes throughout the day on a reliable basis. For shippers that must respond to unforeseeable intraday changes in requirements, firm service contracts provide them with reliable service only when shippers have access to their contracted firm capacity throughout the Gas Day. Increased intraday access to firm capacity is more valuable to firm shippers than any offsetting interruptible revenue sharing crediting mechanism.

III. Joint Recommendation

For the reasons discussed above, maintaining the *status quo* is not an option: the NAESB Gas Nomination Timeline must be modified. The only proposal that currently accomplishes all of the objectives identified herein is the APS/TVA proposal. Absent approval of the APS/TVA proposal, NAESB cannot make further progress without policy guidance from the Commission on the issues of: 1) whether the "no bump" rule, in its entirety, should be eliminated and/or; 2) if the "no bump" rule is maintained, what is the minimum amount of hours that interruptible service should be guaranteed to flow, and does the minimum amount of flow have to be as a result of the last cycle of the day. Subject to the caveat in Footnote 1 above, the Joint Parties therefore recommend that the WGQ Executive Committee expeditiously approve the APS/TVA proposal or, at a minimum, certify these issues to the Commission for policy guidance, along with the full record and request for formal consideration of the solutions proposed above.

Respectfully Submitted On Behalf of:

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