

To: NAESB@naesb.org

From: American Gas Association

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Re: Comments on Gas-Electric Harmonization Forum Meeting – February 18-19, 2016

I. Introduction

The American Gas Association (“AGA”)¹ respectfully submits these written comments on its perspectives on the presentations discussed during the recently reactivated North American Energy Standards Board (NAESB) Gas-Electric Harmonization (GEH) Forum meeting held on February 18-19, 2016. The additional discussions on the possibility of faster, computerized scheduling that took place during this first series of meetings provided an opportunity for the natural gas and electric industries to continue their dialogue to better understand the issues that currently exist, and to explore whether there are any additional scheduling improvements that may resolve gas-electric coordination issues.

As noted further in these comments, however, AGA believes that several of the presentations discussed proposals that, while providing thoughtful background information or identifying possible new approaches, are beyond the scope of assessing faster, computerized

¹ The AGA, founded in 1918, represents more than 200 local energy companies that deliver clean natural gas throughout the United States. There are more than 72 million residential, commercial and industrial natural gas customers in the U.S., of which 95 percent – just under 69 million customers – receive their gas from AGA members. AGA is an advocate for local natural gas utility companies and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets more than one-fourth of the United States’ energy needs. For more information, please visit www.aga.org. AGA members participate in the NAESB Wholesale Gas Quadrant (WGQ). Some AGA members are transportation service providers as well as distributors and are subject to the same scheduling challenges as the interstate pipelines.

scheduling, and may entail a restructuring of the natural gas industry, which would be disruptive and costly to the industry and their ratepayers. Furthermore, because many of the issues address policy matters, they are beyond NAESB's ability to address, and are more appropriately addressed, if at all, by FERC in another, separate forum.

The timing of the meetings is also somewhat awkward. The meetings are being held in advance of the implementation of the revised nomination timeline on April 1, 2016, at which time market participants will be implementing new protocols and otherwise acclimating themselves to the Commission's new scheduling guidance. No recommendations for any further changes should be finalized until participants have had the opportunity to gain experience from operating under the new timelines.

II. Background

The NAESB GEH Forum has been reactivated by the NAESB Board based largely on FERC statements in Order No. 809 and rehearing of that Order.²

In paragraph 107 of Order No. 809, FERC stated:

While NAESB's modified standards represent an improvement over the currently effective standards, we continue to recognize that additional intraday nomination opportunities could promote more efficient use of existing pipeline infrastructure and provide additional operational flexibility to all pipeline shippers, including gas-fired generators. The modified NAESB standards reflect reduced intraday processing times from the current NAESB standards (i.e., three hours instead of the current four hours), and existing operational limitations, including the manual processes utilized by pipelines for processing nominations, may affect the ability of the gas industry to add additional standard nomination cycles applicable to all shippers. However, the use of computerized scheduling would appear to provide an opportunity for faster and more frequent scheduling of intraday nominations for those shippers and their confirming parties willing to commit to scheduling electronically. ***We request that gas and electric industries, through NAESB, explore the potential for faster, computerized scheduling when***

² *Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities*, Order No. 809, 80 Fed. Reg. 23197 (Apr. 24, 2015), FERC Stats. & Regs. ¶ 31,368 (cross-referenced at 151 FERC ¶ 61,049 (2015) (Order No. 809) and *Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities*, Order on Rehearing, 152 FERC ¶ 61,212 (2015), respectively.

shippers and confirming parties all submit electronic nominations and confirmations, including a streamlined confirmation process if necessary. Providing such an option would enable those entities that need greater scheduling flexibility to have their requests processed expeditiously.³

In its September 17, 2015 order on rehearing, FERC further stated:

In addition, while we recognize the time commitments in implementing the revised nomination timeline, *the Commission requests that the natural gas and electric industries, through NAESB, begin considering the development of standards related to faster, computerized scheduling* and file such standards or a report on the development of such standards with the Commission by October 17, 2016.⁴

In light of this request, the NAESB Board of Directors reactivated the GEH Forum and provided additional guidance by directing the Forum to address the request through the following steps: (1) provide a forum for industry education from both the natural gas and electric industries regarding gas-electric coordination specific to computerized scheduling, and confirmations, including a streamlined confirmation process, if necessary; (2) identify potential issues specific to computerized scheduling, and confirmations including a streamlined confirmation process, if necessary which could be based on the education provided in step 1; (3) identify potential solutions to the issues identified in step 2; and (4) identify potential schedules for standards development. Therefore, the reactivated GEH Forum process has, as its primary purpose, to further explore the potential for faster, computerized scheduling when shippers and confirming parties all submit electronic nominations and confirmations, including a streamlined confirmation process, if necessary.

³ Order No. 809 at P 107 (emphasis added).

⁴ *Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities, Order on Rehearing*, 152 FERC ¶ 61,212 (2015) (emphasis added).

III. Due to Complexities in the Art of Scheduling Time Savings Opportunities Are Limited and Existing Flexibility May Be at Risk

As a starting point, AGA supports the revised nomination timeline to be implemented on April 1, 2016. The modifications reflect significant consensus among participants in the electric and natural gas industries and is reasonably calculated to provide enhanced scheduling flexibility for electric generators to improve electric reliability. In the review of whether faster, computerized scheduling is possible, AGA notes that the gas industry has yet to implement the revised nomination schedule, which will reduce the processing time of nominations from five and one-half to four hours for the Timely cycle, and further reduce the processing time for some of the other cycles. Time is needed in-between the various nomination cycle deadlines for pipelines, LDCs, shippers and other stakeholders to assess the complex scheduling variables, using both computer analysis and expert human judgment.

AGA appreciated the NAESB WGQ Pipeline Segment's presentation and its description of the "art of scheduling" – a complicated multi-step process that occurs in the time period between when a nomination is submitted and confirmed, and a schedule is issued. This process involves the coordination of many parties' needs, contract and tariff requirements, as well as managing scheduling variables, including the pipeline system's operational capability. As pointed out by the presentation, much time is spent running multiple iterations of the applicable pipeline's scheduling model, reviewing results, and thus trying to accommodate as many nominations as possible. This is a multi-step process that cannot be fully automated, and requires the experienced review of humans in order to factor in many of the variables and to more flexibly meet the needs of parties requesting gas transportation.

The pipeline segment presentation also provided a detailed, multi-page list of potential challenges to further automation. Among them, it was noted that automation may actually have

the result of restricting or eliminating certain customer service activities that currently take place, such as correcting obvious errors, conflict resolution, working out physical solutions, and providing flexibility on the Elapsed Prorated Scheduling Quantity (EPSQ) calculation within NAESB guidelines. Consequently, when considering whether and to what extent additional time can be cut out of the scheduling process, further compression may result in an unintended consequence of less scheduling flexibility than exists today by forcing pipeline into a more conservative and rigid approach to scheduling. AGA submits that it remains important to maintain sufficient time for pipeline operators to confirm as many nominations as possible before the deadline. In any event, any further action should await the chance to meaningfully analyze the impact of changes still to take place on April 1, 2016.

AGA points out that LDCs engage in processes similar to the interstate pipelines and are also using the same time period between when nominations are submitted and when the schedule is issued to address requests for transportation on their systems, including for their state retail access and Customer Choice Programs. Additionally, just as interstate pipelines are not all similarly configured, LDC systems are not all the same – LDCs have their own individualized customer profiles, their own unique operational characteristics and constraints, and each meets its peaking requirements in a different way.

AGA also wishes to stress that nomination clean-up cycles, where offered by interstate pipelines, are important tools, particularly on constrained pipelines, and must be maintained. Late in the Gas Day (i.e. the hours leading up to the closing of the Gas Day at 9:00 a.m. Central Time), LDCs rely on the ability to make adjustments to their nominations, such that the day's business can be closed in good order. These clean-up cycles provide flexibility and allow

shippers to better manage balancing requirements, as well as to correct for other errors/mismatches.

The presentation by Fidelity National Information Services (FIS) acknowledged the “art of scheduling,” and focused on the currently approved timelines and opportunities for improvement. The presentation offered some ideas – such as best-efforts nominations between cycles and the use of a consistent data set for confirmation – that could be further explored. Regarding the potential to update confirmation datasets to XML, AGA submits that requiring XML would be problematic as a standard, but it would be worthwhile to consider XML as an additional option comparable to flat-files and EDI.

IV. Quality of Service Versus Quantity of Opportunities to Nominate Service

In the previous GEH Forum process, there were valuable discussions regarding whether generation needs would be better met with more firm contracted pipeline capacity or more scheduling opportunities. That discussion resurfaced around several of the presentations in this meeting of the Forum.

The presentation by ACES, a national energy management company, observed that generators have relied on interruptible pipeline transportation for operational flexibility and, in many situations, interruptible transportation has been “highly reliable.” As noted in the ACES presentation, 60% of the PJM gas-fired generation relies on interruptible transportation to deliver gas supplies. ACES suggested that a tighter scheduling window may result in decreased operational flexibility, and recommended that the industries “proceed with caution.”

Skipping Stone’s presentation made similar observations, noting that there is an increased demand by generators to have pipelines provide additional intraday nomination cycles so generators may have the ability for increased variability from ratable take requirements. Further,

Skipping Stone stated that generators have predominantly received this non-ratable service for “free,” and because it has been “free,” the generators want more of it. As Skipping Stone’s presentation correctly notes, “a free service cannot be relied upon.”

Reliability of service for customers is an overarching priority for both the gas and electric industries. In this regard, to reliably meet customer needs during winter heating peak consumption periods, LDCs develop a diverse portfolio of gas supply sources, including contracting for firm pipeline transportation capacity to move gas supplies, which is capacity that the LDCs subscribe and pay for – whether they use all of that capacity every day during the course of a year or not. LDCs also contract for and own storage and, among other tools in the overall gas supply portfolio, use on-system assets such as local production, storage, LNG and/or propane air storage systems. Most of these contracts and assets are firm in nature and the costs of subscribing to, or owning, the assets are built into the LDCs’ cost-recovery mechanisms and enable them to provide highly reliable gas service to their customers. As noted in the ACES presentation, the amount of cost recovery of firm transportation capacity for generators is not necessarily a long term certainty, for example, with recovery linked to auctions that clear one year at a time.

With the increased use of natural gas for power generation, concerns regarding the ability of electric generators, with highly-variable loads, to be able to arrange for gas supplies on short notice, are better addressed by means other than the pursuit of additional nomination cycles through faster, computerized scheduling. AGA submits that the increased reliance by electric generation on the use of natural gas should be accompanied by an appropriate expansion of the natural gas infrastructure that is needed to meet the needs of all of the customers on the gas system, that the costs of expansion must be fairly allocated, and that robust communications

between the electric and gas industries, while important, cannot substitute for the timely planning and construction of necessary infrastructure. Additionally, in this regard, AGA notes that, to the extent that shippers desire additional no-notice services from their pipeline(s), they should discuss the creation of additional no-notice service with such pipelines. As stated above, AGA believes that simply increasing the intraday nomination opportunities, as Skipping Stone suggests, will not turn interruptible transportation into firm, particularly on fully subscribed pipelines during constrained circumstances.

V. Certain Issues and Proposals Presented Are Not Within NAESB's Purview to Standardize and Are Out of Scope for This GEH Forum Process

Skipping Stone's "Statement of Principles," suggesting that allowing pipelines to create rate schedules for non-ratable service to electric generators, provided that existing firm and no-notice services would not be impacted, could be something that could be discussed further, but in another forum. AGA submits that no-notice pipeline service held by LDCs should not be required to be "scheduled," as this would result in unacceptable service degradation.

Additionally, the ideas regarding sub-day releases of "no-notice," and biddable capacity release cycles could be explored further, again in another forum. Discussions regarding Skipping Stone's proposal for reserving and bumping and whether there would be a variance charge is also not within the current charge of the GEH Forum discussion, nor within NAESB's ability to address by standards.

Certain other presenters suggested either wholesale change to the existing scheduling or modeling techniques. For example, AGA appreciates the Coalition of Energy Technology Firm's presentation, and believes that it contains some good observations. However, it does not make any immediate proposals that would impact the scheduling timeline, including faster, computerized scheduling, which is the issue under discussion by the GEH Forum. Further, while

AGA believes that building a simulator would not fall within the purview of NAESB, it could be explored through a separate joint industry effort in another forum. AGA supports modeling and/or simulating a change before committing the industry to making any change, as long as the numerous variables can be reflected in the model, including LDC scheduling processes.

AGA also believes that the gas eTag concept roughly framed up by OATI Inc.'s presentation might provide for some additional level of automation, but would need a significant amount of additional refinement, including ensuring that it is not cost prohibitive for the natural gas industry, before integrating it into the current gas scheduling process. For example, there are numerous questions that were not addressed, including: who would fund implementation of an eTag system, who would administer the program, and how it would address Order No. 787 information sharing restrictions, confidentiality concerns, third party transportation services, service quality (firm versus interruptible transportation), or flowing constraints, among others. In summary, AGA believes that the proposal is at a very early stage conceptually, and that further details and modeling are needed.

VI. Conclusion

In summary, AGA appreciates all of the time and effort by each of the presenters at the meeting. While each of the presentations provided insightful information and presented unique perspectives on a number of issues, most of the presentations were outside of the directive by FERC of looking into the possibility of faster, computerized scheduling. AGA believes the real issue at hand is reliability, both for LDCs, including AGA member companies and their customers, but also for industrial customers, such as electric generators. The foundation for providing the needed reliability is having adequate infrastructure, and no increase in scheduling

or confirmation frequency will have a material impact on moving more gas into the pipeline and make up for the lack of needed infrastructure.

The electric generators appetite for infrastructure has been stimulated by those pipelines that have capacity to provide interruptible service on a near-firm basis, and have been increasingly frustrated by those pipelines that are not, or cannot provide short-term services. To resolve the long-term issues of providing needed infrastructure, the gas and electric industries, as well as regulators, need to engage in meaningful discussion around:

- The appropriate expansion of the natural gas infrastructure where it is needed to meet the needs of all of the customers on the gas system, and with the costs of any such expansion fairly allocated.
- Expanding the array of short notice or no-notice services offered by pipelines, and ensure costs are appropriately allocated to ensure the principles of cost causation are maintained.
- Streamlining the nomination and confirmation process where possible while maintaining the “art of scheduling” efficiencies.

AGA recognizes that many of these discussion items are well outside the scope of the current NAESB GEH undertaking, but nonetheless believe that 1) they are a prerequisite step to truly addressing the industry-wide issue of ensuring long-term reliability for both the gas and electric customers and 2) it is necessary to deliver this message to FERC.

Respectfully submitted,

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