**Supplemental Comments of the Natural Gas Supply Association**

November 8, 2022, Forum Questions

Submitted November 28, 2022

The comments filed in conjunction with the latest series of questions and the discussion during the November 8th forum highlighted some areas in which NGSA believes clarifications would be beneficial for future discussions. Also, at a high level, we have noticed an underlying thread in the conversations that reflects some misconceptions regarding where responsibilities lie with respect to ensuring reliable gas delivery to gas generators. This misconception manifests into various proposals and solutions that are being offered. For this reason, NGSA believes that clearly distinguishing each industry’s responsibilities can facilitate progress in this forum.

1. **The Natural Gas and Power Sectors Both Have Important Yet Distinct Reliability Responsibilities to Support Reliable Natural Gas Delivery in Power Markets.**

Both the gas industry and its customers have important responsibilities that must be met for reliable service. The natural gas industry is responsible for:

* Providing safe and reliable operation of its assets,
* Offering flexible and diverse product offerings,
* Meeting contractual commitments to its customers, and
* Expanding system assets to meet incremental contractual commitments for capacity subscribed in advance by firm shippers.

Likewise, natural gas generators, like all natural gas customers, are responsible for:

* Assessing their own fuel needs and the level of reliability they require and
* Ensuring those needs are adequately backed by contractual commitments and assets.

While natural gas industry system operators can encourage their customers to select product offerings that better match their needs, it is up to the individual customer to ultimately select and commit to services that they desire with the understanding that the natural gas operators will be planning their services around meeting those commitments as specified in the contract and pipeline tariffs. Thus, it is up to the customer to invest in their own reliability.

Similarly, while we understand that there are complexities inherent in organized markets that create various obstacles that make it difficult for gas generators to enter into contractual commitments for the fuel that is essential to run their natural gas units, another industry cannot be expected to take actions or provide special entitlements without payments or contractual commitments in place consistent with its own operational capabilities and risk tolerance. As with any type of business, the choice of what and when to purchase is left to the consumer.

While these responsibilities may appear rather obvious, a number of the comments and proposals suggested in this forum appear to be looking for the natural gas system operators to take on what is the responsibility of the customer in order to accommodate a generator’s special circumstances that result from power market uncertainties and their inability to pay for services in organized markets. For example:

* Signing long-term contracts is not a “good fit” for generators because they do not know when they will be dispatched.
* Expectations that more gas infrastructure will be built without customer commitments that provides: (1) the financial viability for the project, (2) the project developer the ability to secure financing, and (3) supporting a strong “needs” showing to FERC.
* Creating a “premium capacity reservation product” to accommodate daily peak for those with unanticipated demand, which is available today if there is sufficient investment to pay the costs of the investment required.
* Looking for ways to better manage risk associated with just-in-time procurement practices when advance arrangements are not in place by:

1. Proposing that pipelines include reserve capacity to account for contingencies in lieu of customers investing in their own contingency planning.
2. Reprioritizing gas supplies and pipeline capacity during emergencies or considering confiscation of capacity from other shippers with reserved capacity despite the fact that the availability of secondary points will be significantly restricted on any peak day.
3. Securing real-time flow information and more transparency to assess the likelihood of meeting just-in-time procurement needs and actual pipeline utilization.
4. Questioning whether pipelines may be too conservative in their use of line pack to manage operations, which is their expertise.
5. Proposing hourly nominations despite the fact that nominations during the Timely Cycle dictate flow priorities and more nominations will not make more gas and capacity suddenly appear.

While there may be ways to make some marginal improvements that enhance a generator’s ability to secure gas deliveries absent pre-arrangements, focusing too heavily on just-in-time procurement enhancements will not provide the level of reliability that is going to be required, especially as more frequent ramping is required with less notice to support the integration of variable energy resources. Power customers are the natural gas industry’s largest customer segment, representing about a third of our customers, which makes them extremely important, and we want to make sure there are good service options available to serve them. However, the needs of all natural gas customers are important, and each customer has their own uncertainties and financial burdens that they must contend with when balancing those circumstances against the need to make contractual commitments and the importance of ensuring reliable operations.

Given that most commenters prefer a market solution, it may be helpful for the power generation industry to examine the creative ways that LDCs procure adequate capacity to meet their peak needs while defraying a large part of that cost (i.e., reservation charges). In Order No. 712 (Docket No. RM08-1),[[1]](#footnote-1) FERC clarified its capacity release rules to allow for Asset Management Agreements (“AMAs”). AMAs allow a capacity holder to release all or a portion of its capacity to an asset manager who agrees to supply the gas needs of the releasing shipper. An AMA is a mechanism that enables an entity to acquire capacity to meet its peak needs (with primary rights to its delivery location), to release that capacity to an asset manager when it is not needed so it can be used to create revenues for the releasing entity, and to ensure the capacity is always reserved to meet the releasing entity’s peak gas needs. Order No. 712 defines an AMA as:

“…any prearranged release that contains a condition that the releasing shipper may, on any day during a minimum period of five months out of each twelve-month period of the release, call upon the replacement shipper to deliver to the releasing shipper a volume of gas up to one-hundred percent of the daily contract demand of the released transportation capacity. If the capacity release is for a period of less than one year, the asset manager’s delivery obligation described in the previous sentence must apply for the lesser of five months or the term of the release. If the capacity release is a release of storage capacity, the asset manager’s delivery obligation need only be one-hundred percent of the daily contract demand under the release for storage withdrawals.”[[2]](#footnote-2)

In approving use of AMAs, FERC acknowledged they provide important benefits to the natural gas and electric industries and savings for end-use customers.[[3]](#footnote-3) Any type of pipeline shipper, including gas-fired electric generators and local distribution companies, may use AMAs to optimize their capacity when not in use, and to ensure competitive gas supplies to decrease the as-delivered cost of natural gas to those customers. Thus, AMAs can serve to lessen the costs that need to be recovered in organized electricity markets to ensure electricity reliability.

1. **It is Time to Begin Looking in Earnest at Changes in Market Design in Organized Markets**

The natural gas industry does not often weigh in on specific market design proposals in organized markets because generally, we believe those are issues to be resolved by direct stakeholders in each region. However, we do assume that regional operators and their stakeholders are designing market mechanism that allow resources to invest in their ability to reliably perform. Despite known deficiencies, however, there continues to be a strong resistance to taking a hard look at whether there should be market reforms in power markets that would make them a “better fit” by increasing certainty of dispatch and cost recovery of fuel-related costs, establishing ancillary services that compensate resources for their special attributes needed to maintain system reliability, as well as reexamining the duration of commitments made through capacity auctions. Recognizing that even more uncertainty of dispatch is likely to be introduced with increased balancing requirements to support growing levels of variable energy resources, the time is ripe for regional operators to provide greater certainty through the design of their market constructs.

Additionally, NGSA requests that NAESB schedule education sessions for forum stakeholders to learn more about how each regional power market treats the cost recovery of generator investments in fuel procurement and whether generators in that region believe those processes are sufficient.

1. **Regional Operators Can be Advocates for Eliminating Risks to Reliable Operations of All System Resources While Also Remaining Fuel Neutral.**

During the November 8th forum discussion, questions were raised about whether ISOs and RTOs should weigh in to support expansion of pipeline infrastructure that may be important to maintain operational flexibility and reliable services to gas generators in their region. There was some interest shown by regional operators, but some commenters suggested that RTOs are precluded from supporting gas infrastructure because they are committed to being fuel neutral. In the past year, we have seen some RTOs weigh in at FERC to support a more balanced certificate policy given the importance of gas infrastructure for system reliability and we hope that regional operators will continue to weigh in when they believe pipeline projects are needed to maintain electric reliability because the voices of regional operators are credible voices that FERC should hear from as they evaluate the need for new projects.

In our view, there are two ways that regional operators can maintain fuel neutrality: (1) do not support any resources or (2) support all resources. If there is anything hindering the ability of assets in a region from being readily available to operate, the RTO should have not only the right but also the obligation to weigh in to support removal of those hindrances whether it is for transmission constraints for wind, rail transport for coal or pipeline capacity for gas units. Also, during the last forum discussion, the regional operators called for more pipeline coordination on long-term planning. Long-term planning discussions may be helpful in increasing an RTO’s understanding of whether there is sufficient capacity in their region and the role they can play in facilitating the building of needed infrastructure.

Related to long-term planning and coordination, we agree that modeling extreme weather events and disruptions is a critical component to prepare for emergency situations. However, we cannot lose sight that, with the expected new usage patterns that may be required to support more frequent and increased ramping requirements of gas generators to balance variable energy resources, we must make sure we are sufficiently equipped to manage even normal daily operations, especially on peak days. If day-to-day operations are at risk, those issues must be prioritized for immediate action.

1. **Understanding the Limitations of Some Suggested Gas Market Changes**

If natural gas product offerings and services are not providing the types of flexibility that is needed to manage power generation needs, we want to collaborate with our customers to find ways to develop products that can help better meet those needs. There are a number of physical market products available today that can ensure supply and pipeline capacity are reserved to manage generator contingencies and, at the same time, defray some of the costs of holding capacity when it is not needed. For example, as discussed above, a generator can buy firm capacity and then enter into an AMA with a marketer, who can optimize the use of the capacity when not in use with recall rights for the generator. Typically, these deals are negotiated to include some cost-sharing among the two parties for the optimization of the capacity. While adding more nominations may provide some flexibility to make minor adjustments to a customer’s nominations, hourly nomination will not create more capacity and provides no real benefit during periods in which all capacity has been fully nominated during the Timely Cycle, which is typically the case during peak demand periods and extreme weather events.

Capacity release and other secondary market transactions as well as unused pipeline capacity in the form of interruptible transportation can also be utilized by generators yet each of these options have restrictions and risks that must be considered when weighing how reliable these options will be for providing the level of reliability required. Most secondary market transactions, including capacity releases, will require the use of a secondary point on the pipeline, which has a lower priority when scheduling than primary points and may be cut entirely during system constraints. Therefore, on a peak day, if a generator is lucky enough to secure capacity that was previously reserved by a firm shipper, they will also need to be able to confirm that the pipeline will have the ability to deliver that gas to a secondary point, which is not always possible, especially on a peak day. If a customer needs reliable service, relying on secondary point capacity is not the way to achieve that. It may be beneficial in this forum for pipeline companies to provide some percentages on how often secondary points are available during peak day periods.

1. **Further Changes to the No-bump Rule Provides No Meaningful Solution and are More Likely to Hurt Most Gas Generators**

During the last forum discussion, a participant asked that the forum consider changes to the no-bump rule, which allows parties with flowing interruptible transportation capacity to avoid being bumped by a firm shipper in the last intraday nomination cycle. The chat discussion indicated that perhaps more education is needed on the no-bump rule because some were under the misconception that the no-bump rule unduly undermined the firmness of a firm contract and, by extension, the basis for firm contracting. That simply is not the case.

There have been several cases and a rulemaking proceeding in which changes to the no-bump cycle were proposed and in each of those proceedings, FERC considered the arguments and rejected them for good reason -- it would be imprudent to eliminate the IT no-bump rule that plays a significant and valuable role in the natural gas market.

While a limited number of parties might see some incremental benefit from removal of the no-bump rule and have continually challenged it, FERC has repeatedly rejected requests to do so and settled this issue. In Order No. 809, FERC stated: “**We find sufficient support for retaining a no-bump cycle and respecting the gas industry consensus that was achieved**. As several commenters maintain, and as the Commission has previously recognized, **interruptible shippers need some stability in the nomination system.** In Order No. 587-G, the Commission accepted a consensus of the gas industry, including both firm and interruptible shippers, and accepted standards that provide that the last intraday nomination opportunity would not permit bumping of interruptible service. In adopting this standard**, the Commission recognized that making the last intraday nomination opportunity no-bump would provide stability to the nomination system.** Moving the last bump cycle to later in the day helps to accommodate the needs of the firm shippers, while maintaining the No-Bump Rule during NAESB’s Intraday 3 Nomination Cycle will provide stability for interruptible shippers. As such, we find that it achieves a reasonable balance of interests.”[[4]](#footnote-4)

In addition to the points outlined by FERC in Order No. 809, there are other important considerations that must be considered for why expending more time on the no-bump rule is not a valuable use of stakeholder resources in this forum including:

1. During peak periods and extreme weather events, it is highly unlikely that pipelines will have any available interruptible transportation available; making the issue of whether IT will be bumped or not a moot point.
2. The amount of gas that may still need to be nominated by ID3 (flows that begin at 10pm CT) under a firm transportation contract that was not previously committed in earlier cycles is likely to extremely minimal. The vast majority of gas is scheduled in the Timely Cycle; making ID3 primarily a balancing cycle and not a cycle that has a significant impact on the firmness of a customer’s contract.
3. The value of interruptible transportation capacity would be severely diminished for market participants that rely on it to any significant degree. For example, gas generators that depend on interruptible transportation could be bumped in the ID3 cycle when gas market liquidity is extremely low and alternative supply options are likely to be extremely limited, if available at all. Additionally, gas producers will often use interruptible transportation to get unused supply into pools which helps to manage the overall system.

1. *Promotion of a More Efficient Capacity Release Market*, 123 FERC ¶ 61,286 (2008), 73 Fed. Reg. 37058. [↑](#footnote-ref-1)
2. Id. at ¶144. [↑](#footnote-ref-2)
3. Id. at ¶ 125 – 126, stating: “LDCs are not the only entities that benefit from AMAs. As evidenced by certain comments on the NOPR, many other large gas purchasers, including electric generators and industrial users, may desire to enter into such arrangements. AMAs increase the ability of wholesale electric generators to provide customer benefits through superior management of fuel supply risk, allow generators to focus their attention on the electric market, and eliminate administrative burdens relating to multiple suppliers, overheads, capital requirements and the risks associated with marketing excess gas and pipeline imbalances. (Footnotes omitted).

   Finally, AMAs bring benefits to consumers, mostly through reductions in consumer costs. AMAs provide in general for lower gas supply costs, resulting in ultimate savings for end use customers. The overall market benefits described above also inure to consumers.” [↑](#footnote-ref-3)
4. *Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities,* 151 FERC ¶ 61,049 (2015)*,* pp. 77-78(footnotes omitted and emphasis added). [↑](#footnote-ref-4)