



To: NAESB Wholesale Electric Quadrant Executive Committee
NAESB Wholesale Gas Quadrant Executive Committee

cc: Rae McQuade, NAESB Executive Director

Date: May 24, 2005

Re: Comments of New Jersey Natural Gas Company and NJR Energy Services Company in Support of Proposed Business Practices Adopted by the Energy Day - WEQ/WGQ BPS Subcommittee, April 25-26, 2005; NAESB Standards Request No. R04021

New Jersey Natural Gas Company (“NJNG”) and NJR Energy Services Company (“NJRES”) (together, “the NJR Companies”) appreciate the opportunity to express their support for the proposed business practices adopted by the Energy Day - WEQ/WGQ BPS Subcommittee (“Energy Day Subcommittee”) during its meetings held on April 18, 19, 25 and 26, 2005. The proposed business practices reflect substantial thoughtful discussion and debate, as well as careful crafting to encourage greater coordination while respecting existing FERC laws and policies, pipeline tariffs, regional differences, and established business relationships. Accordingly, and as explained below, the NJR Companies urge the WEQ and WGQ Executive Committees to approve the proposed business practices.

At the outset, the NJR Companies state their strong support for the overall objective Chairman Wood charged NAESB to facilitate - improved communication and coordination between the natural gas and electric power industries as a means toward improving energy service reliability.¹ The Energy Day Subcommittee participants have expended substantial time and resources to respond to this call.

As active participants throughout the deliberations of the Energy Day Subcommittee, the NJR Companies believe that the process itself has been very beneficial in raising consciousness and understanding among natural gas and electric power sector participants. The Subcommittee brought together participants in the different segments of each industry from various regions across the country to help educate each other about the various reliability and other operational issues they face, both every day and during extreme weather conditions. The issues discussed have been complex and at times contentious, but all have participated in good faith and with the

¹ See Letter of Chairman Pat Wood, III to Mr. Michael Desselle, dated December 14, 2004.

common goal of producing a workable, constructive response to the Chairman's charge. The participation of FERC Staff in these meetings has also been valuable in facilitating discussion and conveying the importance of this joint industry initiative.

The proposed business practices are designed to improve the communication process between natural gas transporters and electric industry participants - particularly those entities that purchase and transport natural gas for use as fuel in electricity generation and the regional transmission grids that manage power generated from natural gas. The NJR Companies believe the proposed practices will provide constructive protocols to enhance such communication. Of utmost importance though, the new practices stand subordinate to, and must be applied consistent with, the existing, statutorily required and FERC-approved frameworks that govern natural gas pipeline transportation service.² These frameworks include the pipelines' tariffs, approved NAESB nomination and scheduling standards, other behavioral rules such as the Commission's Standards of Conduct for Transmission Providers, and - above all - the Natural Gas Act's prohibition of undue discrimination and undue preference. In other words, establishing approved practices for communication between pipelines and electric generators cannot have the effect of disadvantaging, directly or indirectly, other pipeline customers. The NJR Companies are comfortable that the proposed business practices are consistent with this imperative.

It is important to understand what these proposed business practices do not and cannot do - they cannot result in "more" or "better" service to the electric generation sector than power plant operators contract for on the pipelines. A fundamental issue recognized in the aftermath of the 2004 New England Cold Snap was that interruptible natural gas service was, appropriately, interrupted when the demand from firm capacity holders left no interruptible capacity available. This had the effect of cutting service to electric generators that contracted for only the less expensive, less reliable interruptible service.³ This result did not evidence any "vulnerability" of the interstate natural gas delivery system, but a vulnerability of the contract portfolios of shippers that chose to avoid the cost of firm transportation and rely on interruptible service. Nothing about the proposed business practices should alter the fact that, to obtain reliable, secure transportation on interstate pipelines, shippers - including electric power plant operators - must contract and pay for firm service. Likewise, in order to obtain service quality or flexibility greater than the service historically provided by interstate pipelines, shippers must agree to be responsible for the additional costs associated with such enhanced service.

Natural gas is a proven and reliable fuel, and the natural gas transportation and delivery infrastructure has excelled in providing safe, reliable service over the years. The

² See, e.g., Proposed Standard S1B, which specifies that the standards "do not convey any rights or services beyond or in addition to those contained in the TSP's tariff and/or general terms and conditions and/or do not impose any obligation that would otherwise be inconsistent with FERC regulations, including affiliate code of conduct requirements."

³ See Final Report on Electricity Supply Conditions in New England During the January 14 -16 "Cold Snap," ISO New England Inc. Market Monitoring Department (Oct. 12, 2004) at 1-2.

NJR Companies hope and expect that with continued improvements in communication and understanding between the gas and electric industries, power plant operators that are pipeline customers can obtain and manage the appropriate pipeline services to meet their needs. The adoption and implementation of the business practices developed and approved by the Energy Day Subcommittee will facilitate this effort, and the NJR Companies urge the Executive Committees to approve them as presented.