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To: NAESB Wholesale Gas Quadrant Executive Committee

cc: Rae McQuade

Date: July 2, 2008

Re: Annual Plan Item 7(c), FERC Order No. 698

NEPGA's Interest

NEPGA is the largest trade association representing competitive electric generating companies in New England, representing approximately 25,000 megawatts of generating capacity throughout the region. NEPGA's mission is to promote sound energy policies which will further economic development, jobs, and balanced environmental policy. In furtherance of that mission, NEPGA's member companies have been involved in the design and development of all of the competitive wholesale markets in the United States during the last ten-years.[1]

NEPGA's generation fleet is largely consistent with the regional fuel mix which is comprised of 40% natural gas. Accordingly, the issues involved in this initiative are of paramount interest to NEPGA members and may not be adequately represented by other parties.

Background

The Commission's intent behind the issuance of Order No. 698 [2] was to improve coordination between the gas and electric industries. Order No. 698 required certain communication protocols to be adopted between interstate pipelines and power plant operators and transmission owners and operators. In addition, the Final Rule made clarifications on a number of issues at the request of NAESB and other parties.

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[1] The views expressed in these comments do not necessarily represent the positions of each of NEPGA's members. In addition, nothing in these comments should be deemed to waive any rights that NEPGA or any of its members may have to challenge the administrative, procedural or substantive validity of the proposed regulations in any forum.

[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 Statutes and Regulations ¶ 31,251 (June 25, 2007)

One of these issues related to the addition of an intraday nomination cycle with rights for firm shippers to bump interruptible. A number of parties commented on this issue representing different points of view. Some did not object to the addition of a new cycle as long as it would not bump interruptible transportation. Others advocated that the Commission eliminate the "no-bump" cycle altogether.

The Commission attempted to balance the interests of both firm and interruptible shippers with its direction to NAESB:

> As we stated in the NOPR, the Commission has recognized the interest of interruptible shippers in achieving business certainty by making the last intra-day nomination opportunity one in which firm nominations do not bump interruptible nominations. However, within the confines of current Commission policy, NAESB should actively consider whether changes to existing intra-day schedules would benefit all shippers, and better provide for coordination between gas and electric scheduling. In addition, the NAESB nomination timeline establishes only the minimum requirement to which pipelines must adhere. We fully expect that individual pipelines supporting gas-fired generators will be considering the addition of other intra-day nomination opportunities that would be of benefit to their shippers.[3]

NAESB participants discussed different proposals in an attempt to come to some resolution of this issue. At the May 19-20, 2008 Meeting of the WGQ Business Practice Subcommittee, three proposals were put to a vote of the subcommittee. The proposals were made by the Pipeline Collaborative, APS/TVA and FPL Energy.

NEPGA participated in this meeting and voted against the Pipeline Collaborative Proposal and the APS/TVA Proposal. It voted to support the FPL Energy Proposal. The first two proposals would have made several changes to the scheduling practices. The most significant to NEPGA's membership would have been to move the ID 1 Cycle later in the day. Since this is a cycle that would bump shippers with interruptible transportation, the fact that scheduled gas quantities would not be known until as late as either 5:00pm or 7:30pm would make it very difficult for IT shippers to make alternate arrangements for gas supplies. The FPL Energy proposal would have added one new no-bump cycle (ID 3) at 4:00 am. This proposal would have allowed generators to match up their gas supplies to their scheduled power schedules to avoid imbalance penalties.

<u>Comments</u>

NEPGA appreciates that there is no silver bullet to solving this issue. This is especially difficult because all power plants are not the same. Geographic location, ownership, load profile all dictate different interests. Even NEPGA's members are not all similarly situated. Some are gas-fired, some dual-fuel while others are coal or nuclear plants and they range from baseload to peaking facilities. They are served by a variety of

[3] *Supra* at ¶ 69.

transport arrangements including firm and interruptible transport, capacity release, and delivered gas to the plants. Each of these arrangements is an important part of the portfolio. If either the Pipeline Collaborative Proposal or the APS/TVA Proposal were adopted, one of these transport options that the plants rely on – interruptible transportation – would be compromised. If a generator's interruptible transport was bumped so late in the day, it would make it next to impossible to find alternate supplies since most of the gas suppliers would have already left for the day.

Some participants at the May Subcommittee advocated eliminating the no-bump rule completely. This suggestion runs directly counter to FERC's longstanding policy on this issue and more importantly, it would also *severely disrupt* many gas arrangements. In Order 587-G, FERC held that interruptible shippers should have the assurance by mid afternoon of the Gas Day that they would receive their scheduled gas.[4] As the Commission did in Order No. 698, there it weighed the arguments of firm and interruptible shippers and believed that the ID 2 no-bump cycle represented a fair balance. The industry has not changed in such a way that would dictate a reversal of this important policy. NEPGA is not arguing that firm shippers should have the advantage over interruptible shippers when scheduling gas, but this advantage should not leave interruptible shippers without any options to reschedule their gas so late in day.

Conclusion

NEPGA believes that this particular issue is just one example of many that confront the gas and electric industries as they seek closer coordination. NAESB members have devoted considerable time and effort to solving these problems and NEPGA appreciates their efforts. In fact, the WGQ's attempt to agree on the limited issue of additions to the intra-day cycles was made even more difficult by the fact that it was being done without the full participation of electric market participants. Without both sides at the table, the necessary changes will be very difficult to accomplish. It is apparent that both the gas and electric industries will need further direction from FERC.

NEPGA believes that NAESB should encourage the Commission to take further action in this regard and issue a Notice of Inquiry to ask industry participants how to best solve this critical problem of lack of coordination between the gas and electric industries.

Respectfully submitted,

/s/ *Angela O'Connor*

Angela O'Connor
President

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[4] *See Standards For Business Practices of Interstate Natural Gas Pipelines*, Order No. 587-G, 63 Fed. Reg. 20072 (Apr. 23, 1998), FERC Statutes and Regulations, Regulations Preambles July 1996-December 2000 ¶ 31,062 (Apr. 16, 1998).