

TO: NAESB

FROM: Michael Novak, National Fuel Gas Distribution

DATE: July 2, 2008

RE: Comments on Proposed Revisions to NAESB Nomination Cycles

National Fuel Gas Distribution (NFGD) actively participated in the BPS Committee discussions related to proposed modifications to the existing NAESB gas nomination timeline. While NFGD voted in favor of the APS/TVA proposal, it understands the positions of those in opposition both within the LDC segment and from those in other segments. While not a direct participant within the gas-fired generation market, NFGD found some common ground with APS/TVA on the issue of enhancing the utility of firm transportation, i.e. the APS/TVA proposal represented an attempt by a firm shipper to more closely align the use of firm transportation with a market demand.

Never the less, those opposing the APS/TVA proposal could correctly point to the limited geographic nature of the gas-electric coordination issue as it exists today. Where interruptible transportation can be used to serve the gas-fired generation market, there appears to be little incentive or logic to incur increased staffing costs associated with covering nomination cycles outside normal business hours. If there is little or no demand for service, suppliers won't make themselves available to sell gas and transportation service providers (pipelines and LDCs transporting to gas fired generators) see little logic in staffing for nominations that won't be forthcoming. The paradox is that there appears to be a critical need in certain markets year-round and in other markets upon occasion for changes similar to those proposed by APS/TVA. Given the diversity views expressed by industry participants attending the BPS meetings, it became apparent the likelihood of NAESB coming to a consensus on change was somewhat limited. Given this diversity, as well as the time and effort spent on discussion, NFGD believes the best course of action at this time is to leave the grid-wide gas nomination timeline as is.

NFGD notes that relative to prior attempts to address gas-electric coordination issues at NAESB, the discussion evolved more towards coordination of gas nomination and flow-effective times with corresponding electric market timelines and demand periods. In other words, while no standard evolved, most would agree that a common energy day is not the solution to the gas-electric coordination issue that some believed it would be a few years ago. This is a positive for the NAESB process, i.e. the issue is now better defined. Additionally, it is now apparent that cooperation and compromise from the electric industry will be critical to any further resolution of this issue. The gas industry should not bear the entire burden and associated cost of change on this issue – it needs a willing partner.

Absent a regulatory directive for change, there's little reason to believe in the short term that further discussion at NAESB would yield a different result. Over the longer term, many industry forecasts point to increasing use of gas for electric generation, primarily

to address carbon issues. Simply waiting a couple years may change the dynamics of industry participation; those without justification for change in the short term may become advocates for change at NAESB and/or FERC in the long term.

Within the existing NAESB timeline, there are policy actions¹ FERC could take to provide some relief for existing gas-electric coordination issues. These actions are as follows:

1. Modifying the current bumping policy to allow firm (primary or secondary) **in-path** transportation nominations placed during the evening cycle to bump secondary firm **out-of-path** nominations scheduled from the timely cycle would allow those firm shippers serving electric generation markets a second opportunity to utilize their firm transportation contracts to serve generation load. During NAESB discussions, some of these shippers stated they did not know whether they would have a market to serve in time to place timely nominations. Such a change would also help firm shippers who placed nominations at the timely cycles but are not scheduled due to inadvertent nomination errors² discovered during confirmation.
2. In addition to the nomination cycles supported grid-wide, several pipelines offer additional nomination cycles on very short notice. These nominations are typically processed on a no bump basis, i.e. if capacity is available the gas will flow and no other shippers are subject to a potential loss of their market or supply. While NFGD applauds the pipelines that offer this service, such nominations are often limited to supply sources requiring little or no confirmation, e.g. a pipeline's storage service or park & loan services. There is no requirement to confirm with interconnected parties across the grid outside of those times specified within the NAESB standards. Storage service providers seem to be a logical supply alternative for the gas-fired electric generation market yet if pipelines do not accept nominations or confirm with such providers, supply options could be limited. If third party providers (including producers and upstream pipelines) identify themselves as willing to confirm and flow gas to pipelines at these additional nomination cycles, pipelines should be required to permit shippers to place nominations from such receipt points, and otherwise confirm, schedule and flow the gas. NFGD believes this would extend the useful life of the existing nomination timeline and permit market forces to drive development of supply options for gas-fired generation loads without burdening those not involved in the generation market. In addition to benefiting those suppliers and generators, others who would be unaffected by change have less reason to oppose change.

¹ NAESB cannot change policy and NFGD acknowledges these actions would not receive consensus support at NAESB. Policy changes might, however, set the stage for future standards development at NAESB.

² For example, if an upstream supplier transposes a downstream firm shipper's contract number on a timely nomination, the lesser of rule dictates the gas will not be scheduled. When the shipper and supplier attempt to use the evening nomination cycle to place a corrected nomination, even if the firm shipper is nominating at its primary receipt and delivery points, the nomination may not be scheduled if other secondary out-of-path transportation has been scheduled through transmission constraint points.