

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Integration of Variable Energy Resources)

Docket No. RM10-11-000

**COMMENTS OF
THE NATURAL GAS SUPPLY ASSOCIATION**

Pursuant to the Notice of Inquiry issued by the Federal Energy Regulatory Commission (the "Commission") on January 21, 2010 in the above-captioned docket (the "NOI") and the Notice Extending Comment Period issued by the Commission on March 3, 2010 in the above-captioned docket, the Natural Gas Supply Association ("NGSA") hereby submits the following comments.

I. IDENTITY OF NGSA AND COMMUNICATIONS

NGSA represents integrated and independent companies that produce and market domestic natural gas. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas to U.S. consumers.

Notices and communications concerning these comments should be addressed as follows:

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II. BACKGROUND

In the NOI, the Commission sought comment on the extent to which barriers may exist that impede the reliable and efficient integration of variable energy resources (“VERs”) into the electric grid, and whether reforms are needed to eliminate those barriers. The Commission sought to explore whether reforms are necessary to ensure that wholesale electricity tariffs are just, reasonable and not unduly discriminatory. This inquiry would help the Commission to meet the challenges posed by the integration of increasing numbers of VERs, eliminate impediments to open access transmission service for all resources, facilitate the efficient development of infrastructure, and ensure that the reliability of the grid is maintained. The NOI was intended to enable the Commission to determine whether wholesale electricity tariff reforms are necessary.

III. EXECUTIVE SUMMARY

NGSA supports efforts to create policies that help to more fully integrate all sources of power onto the electric grid. While striving to maintain a level playing field, the Commission must ensure that no sources are unfairly favored at the expense of others. As long as there is non-discriminatory open access to the grid, the market can decide the best mix of these sources in a manner that ensures that consumers are not adversely impacted in terms of either reliability or cost. In addition, as new policies in the context of this proceeding are considered, we ask that the Commission continue to recognize the beneficial role that natural gas plays in providing reliable and clean energy. We look forward to working with the Commission as it strives to appropriately

expand the electric grid and make the existing energy transmission systems function in the most efficient and fair manner to the benefit of the nation's electricity consumers.

IV. COMMENTS

A. The Highly Responsive Nature of Natural Gas Generation Plays A Key Role In Ensuring VERs Can Be Accommodated Into The Grid.

While natural gas reliably provides nearly a quarter of the nation's overall energy supply today, anticipated incremental demand will require that existing and future natural gas generation will be increasingly relied upon to provide a significant amount of base-load generation, as well as the load response and system reliability required for intermittent VERs to be integrated into the power grid. In fact, given the intermittency of VERs, there will be an increased need in both magnitude and frequency for responsive natural gas generation facilities to ensure that load is reliably available to consumers.

Dispatchable resources, particularly quick-start gas generation technologies, can offset the reliability challenges posed by renewable resources, and represent a generation source perfectly suited to providing the swift responsiveness needed for growing intermittent renewable resources. Quick-start gas-fired units can come online in as little as ten minutes, and can respond reliably in real time when renewable generation is interrupted.

As the Department of Energy pointed out in a 2008 report on incorporating 20% wind energy by 2030,

[t]o achieve balance in a power system using wind energy, the 20% Wind Scenario would require the use of the existing fleet of flexible, dispatchable, mainly gas-fired generators

designed for frequent and rapid ramping. There would need to be enough dispatchable units to balance the system as fluctuations occur in wind plant output and load.¹

This same report states that increased wind development could increase the need for additional combustion turbine natural gas capacity (quick-start units) to maintain electric system reliability.²

As our nation takes steps to reduce greenhouse gas (“GHG”) emissions, natural gas is an immediately available, abundant, domestic, and clean power alternative with the lowest GHG emissions of any hydrocarbon fuel. Increased use of natural gas can have a significant and immediate impact in reducing carbon emissions and should receive consideration similar to renewable energy sources as we work toward a low-carbon future.

B. All Energy Resources Must Be Treated Fairly and Any New Flexibility Afforded In This Proceeding Should Apply Equally To All Sources of Energy.

NGSA is encouraged by the statement made by Commissioner Spitzer that “[t]he NOI does not seek to change rules for certain types of resources to incent certain types of energy resources or create preferences as between types of resources.”³ Also, as noted by Commissioner Spitzer, the NOI specifically seeks comment on whether any rule or practice changes that facilitate the integration of renewable energy sources

¹ U.S. DEPARTMENT OF ENERGY, OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY, 20% WIND ENERGY BY 2030, INCREASING WIND ENERGY’S CONTRIBUTION TO U.S. ELECTRICITY SUPPLY, July 2008, at 100, available at <http://www1.eere.energy.gov/windandhydro/pdfs/41869.pdf>.

²*Id.* at 12.

³ Statement of Commissioner Marc Spitzer on Efficient Integration of Renewables into the Grid, Docket No. RM10-11-000 (January 21, 2010).

should also apply to conventional resources to ensure there is no undue discrimination.⁴ We ask the Commission to apply any future proposed changes in its rules or policies regarding VERs in an equitable and fair manner and to closely examine each potential policy change to ensure that it does not result in unfairly tilting the balance toward one type of energy over another.

NGSA agrees that no sources should receive unduly preferential treatment. To the extent, however, that VERs are exempted from certain Commission policies or rules, such exemptions should also be extended to those energy sources which are naturally suited to quickly respond to support the reliability of the grid due to the intermittency of VERs. For instance, if the Commission were to provide enhanced balancing procedures over broad geographic regions, such flexibility should be provided not only to VERs but also to conventional sources to avoid discrimination. Also, the costs of transmission system upgrades to accommodate VERs should be allocated in a fair manner.

Understandably, it can be difficult to discern which FERC policies should and should not apply to particular sources of energy; yet, the Commission must be mindful not to inadvertently, or otherwise impose unduly restrictive policies on other generation sources, or provide greater incentives for VERs, in an attempt to facilitate the viability of these new technologies. The marketplace itself should determine the best generation mix. FERC's role should be to ensure equal and fair access to that marketplace for the full portfolio of energy resources. In this effort to fully

⁴ *Id.*

accommodate VERs and to ensure that VERs are not discriminated against, we ask that the Commission refrain from tilting the balance to discriminate in favor of VERs.

Some sources of energy are inherently not suited to participate in all aspects of the market's operation, such as the day-ahead market, yet this distinction is not necessarily indicative of discrimination. Rather it is an indication that each source has its own individual inherent operational strengths and limitations that can legitimately limit their participation in some portions of the market.⁵

Lastly, the Commission should not restrict the flexibility of natural gas generation in an effort to create parity among all energy sources. Nor should the entire transmission system pay for, or support, the operational limitations of VERs.⁶ Those costs should be borne by the responsible source.

C. The Commission Must Carefully Weigh The Possible Impacts of VERs Policy Changes.

While still examining the possible impacts associated with VERs policy changes in this proceeding, NGSa raises some general concerns in advance of additional steps that the Commission may take.

First, the Commission should consider the implications that potential new scheduling timelines for power transmission may have on the current gas day

⁵ As Commissioner Moeller pointed out in his statement in this proceeding, "we also need to address the difficulties of integrating into the grid an energy supply that is variable, which by its very nature has characteristics unlike those of traditional generation sources that are easily controlled and dispatched." Statement of Commissioner Phil Moeller on Efficient Integration of Renewables into the Grid, Docket No. RM10-11-000 (January 21, 2010).

⁶ If VERs are held to a more restrictive standard than other energy sources, perhaps due to natural limitations, such restrictions should not be applied across the board to all sources of energy to which they are clearly not applicable.

scheduling standards for interstate pipeline companies. Currently, Commission policy allows individual pipeline companies to increase flexibility for shippers by implementing incremental customized changes to their existing nomination schedules that “accommodate specific conditions of their systems and the needs of gas-fired generation within their regions.”⁷ Some pipelines already provide generators the ability to propose additional optional, no-bump, late night nomination cycles in order to better adjust for operating, weather, demand, or other contingent variables. In addition, new, experimental programs have recently been implemented that provide the accommodations necessary to offer the type of pipeline services required for power generation.⁸ Any changes to electric dispatch and market rules can significantly impact the natural gas industry.

Additionally, there are other unanswered questions that should be addressed. For instance, would VERs’ scheduling changes give VERs scheduling priority over other types of power generation? If overly ambitious steps lead to the premature integration of VERs, would total transmission costs rise? Would decreased penalty assessments for VERs that do not meet scheduled bid levels translate into subsidization of costs by other energy sources? What impact would VERs have on congestion and related congestion costs? If additional flexibility is afforded to wind and solar energy, will existing system flexibility that is utilized by conventional resources be eroded, thereby also increasing scheduling penalties on other fuels? We ask the Commission to

⁷ *Standards for Business Practices for Interstate Natural Gas Pipelines*, Notice of Proposed Rulemaking, 128 FERC ¶ 61,031 at P 22 (2009).

⁸ *See Texas Gas Transmission, LLC*, 130 FERC ¶ 61,158 (2010).

carefully consider these questions as it decides what further steps, if any, should be made in this proceeding.

V. CONCLUSION

In summary, as our nation seeks to reduce GHG emissions, natural gas should be considered as part of a comprehensive energy portfolio that can have an immediate and meaningful positive impact on the environment. Proven, domestic natural gas supplies are now available for the foreseeable future, and natural gas has the lowest GHG emissions of any hydrocarbon fuel. Therefore, as the Commission examines the development of policies that advance the use of VERs in a fair and equitable manner, care should be taken to avoid barriers to the use of natural gas, as the most immediate, reliable, flexible, cleanest-burning, and economical fuel source available in reducing carbon emissions. Simply put, no energy resources should be disadvantaged in this process. NGSA appreciates the opportunity to comment on these important issues as we move toward a cleaner energy future.

Respectfully Submitted,

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