UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities	)))	**Docket No. RM14-2-000**

COMMENTS OF THE NATURAL GAS SUPPLY ASSOCIATION

The Natural Gas Supply Association ("NGSA") hereby submits its comments in response to the Federal Energy Regulatory Commission's ("FERC" or "the Commission") Notice of Proposed Rulemaking ("NOPR") on coordination of scheduling processes of interstate natural gas pipelines and public utilities.[1] Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets, thus encouraging increased supply and the reliable, efficient delivery of natural gas to U.S. customers.

I. Introduction and Executive Summary.

NGSA appreciates the Commission's interest in addressing potential regulatory hurdles that may inhibit a power generator's ability to secure natural gas capacity to meet its power market obligations. To meet this objective, NGSA strongly supports adopting the broadly-endorsed nomination schedule proposed by the North American Energy Standards Board ("NAESB") as well as maintenance of a 9 a.m. CT Gas Day to preserve the high degree of dependable service and operations that natural gas customers enjoy today.

In this NOPR, the Commission is considering changes to existing natural gas

[1] *See Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities*, Notice of Proposed Rulemaking, Docket No. RM14-2-000 (March 20, 2014) ("NOPR").

industry practices in order to provide greater opportunities for generators to schedule pipeline capacity. Such an endeavor has merit to the extent that such changes can be operationally and economically accommodated. However, expanding scheduling opportunities will only produce marginal improvements in the availability of natural gas capacity in stressed regional power markets.

Predominantly depending on "just-in-time reliability" is unlikely to continue to be a valid market option for gas-fired generators to rely upon as power demand increases and gas system flexibility diminishes. Gas-fired generators have been able to obtain natural gas by: (1) buying it at the point of consumption; (2) securing interruptible pipeline transportation; and/or (3) securing capacity released from firm shippers. However, as demand for natural gas has grown, some gas pipeline companies are operating their systems at increasingly high utilization rates, resulting in constrained pipeline capacity in some regions that makes it more challenging to execute deliveries of natural gas. Thus, as pipelines become more constrained, absent firm contracts, it will become increasingly difficult for gas-fired generators to access available pipeline capacity and/or to rely on the pipeline flexibility they require for managing variable loads.[2]

Therefore, as a critical policy matter, we urge the Commission to ensure that organized power market operators promptly establish rules and pricing structures that allow generators to fully recover all of their costs and to contract for a portfolio of services that ensures electric reliability. Such actions will ultimately lead to adequate infrastructure in place to meet the increased natural gas demand and provide the level of

[2] Pipeline expansions or new construction to meet increased demand or to provide additional flexibility needs of generators cannot be built absent financial support in the form of firm transportation contracts to underpin these investments.

service flexibility required to meet the varying load requirements of gas-fired generators. Admittedly, tackling power market obstacles to investment is a much greater challenge than implementing generic changes in the NAESB scheduling timeframes and/or the national Gas Day. Yet, after the experience with last winter's Polar Vortex, which exposed weaknesses in some regional power markets, several organized power markets have recognized deficiencies in their power market rules and are taking steps toward addressing those concerns.[3] Also, most recently, the Commission has taken its first major step to comprehensively review fuel assurance initiatives in each regional power market.[4] We applaud such efforts to finally begin to address the fundamental problem with respect to gas-electric coordination.

As FERC and industry participants address transitional issues of increased reliance on natural gas by the power sector, the natural gas industry's achievement in serving the power sector's substantial growth in natural gas demand cannot be overlooked. Because the United States is blessed with an abundant supply of clean-burning natural gas, and new technologies to develop shale gas, growth in natural gas production has been enormous. Over the past decade alone, production has increased by approximately 43 percent; growing from nearly 50 Bcf/d in 2005 to 71 Bcf/d projected

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[3] *See* PJM Capacity Performance Updated Proposal (Oct. 7, 2014), *available at:* http://pjm.com/~/media/documents/reports/20141007-pjm-capacity-performance-proposal.ashx (last visited Nov. 19, 2014); New York Independent System Operator Fuel Assurance Initiative: Fuel and Performance Incentives, *Critical Operating Day Incentives*(Oct. 27, 2014), *available at:* http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_icapwg/meeting_materials/2014-10-27/ICAP%20WG%20FA%20Initiative%20Presentation.pdf (last visited Nov. 19, 2014).

[4] *See Centralized Capacity Mkts. in Reg'l Transmission Orgs. and Indep. Sys. Operators, et al.*, 149 FERC ¶ 61,145 (2014).

for 2015. In fact, production has increased by 28 percent in just the past five years,[5] allowing gas sellers to accommodate the 25 percent growth in power generation demand in the same timeframe.[6] However, to take full advantage of these abundant new supplies, additional gas infrastructure must be in place to transport and store natural gas from the wellhead to the point of consumption.

II. Modifying the Start of the Gas Day.

After much consideration, NGSA has concluded that changing the Gas Day to 4 a.m. CT is not a prudent action, given that it has the potential to create more challenges in coordinating and managing natural gas operations at the same high level currently achieved under a 9 a.m. CT Gas Day. Such an outcome is not beneficial for the gas industry or its customers.[7]

In the NOPR, the Commission states that, "the overall benefits to both industries of moving the Gas Day earlier so that the morning ramp period for gas-fired generators and other gas consumers is included in a single Gas Day outweigh the potential for increased costs that may be incurred."[8] NGSA disagrees with this preliminary determination. To the contrary, NGSA believes that the purported benefits gained in some regional power markets do not outweigh the heightened operational impacts that

[5] *See* Energy Information Administration Short-Term Energy and Winter Fuels Outlook, October 2014, *available at:* http://www.eia.gov/forecasts/steo/archives/Oct14.pdf (last visited Nov. 19, 2014).

[6] Natural gas consumption by the power generation sector has increased by nearly 25 percent (from 16.2 Bcf/d to a projected 20.2 Bcf/d) over the past five years, making the power sector responsible for 23 percent of total winter natural gas consumption. *See* NGSA's Annual Winter Outlook (November – March) consumption by sector for 2009/2010 and 2014/2015, *available at:* http://www.ngsa.org/download/analysis_studies/winter%20outlook%20final%20ppt%202010-2011.pdf; http://www.ngsa.org/download/FINAL%20Winter%20Outlook%20%2714-15%20Presentation.pdf (last visited Nov. 21, 2014).

[7] The impact of any proposed changes on non-power customers should not be overlooked given that residential, commercial, and industrial customers account for more than two-thirds of total U.S. natural gas consumption.

[8] NOPR at P 40.

could ensue in the natural gas industry.

A. Moving the Gas Day to 4 a.m. CT does not provide a sustainable solution for regional pipeline capacity availability concerns experienced by power generators.

As detailed below, NGSA is not persuaded that a 4 a.m. CT Gas Day would provide the significant benefits expected by the power sector nor would it solve the critical pipeline capacity availability issues that some regions are experiencing, particularly on a long-term basis.

1. *There is a lack of documented evidence to substantiate the scope of the problems experienced in regional power markets associated with the time in which the Gas Day begins.*

As a threshold matter, the power sector must identify the underlying reasons why generators find themselves short of natural gas capacity nearing the end of the current Gas Day.[9] Such situations should not be a normal occurrence and should only happen in limited situations that are generally unanticipated in regional power markets. In fact, insufficient capacity contracting should be independently addressed by the Commission to avoid gas system integrity issues that could ensue and to prevent such practices from becoming more commonplace.

RTOs and generators have yet to provide specific data to show a causal link between the start of the Gas Day and problems experienced by the generators, nor have they explored other means of correcting their issues. Therefore, prior to instituting a fundamental change in natural gas operations on a national basis, at a minimum there should be concrete evidence presented that details:

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[9] *See, e.g.*, NOPR at P 37.

a) How many generators have voiced a desire or need for a 4 a.m. CT Gas Day in comments in this proceeding?

b) How many regional power markets have experienced issues associated with a 9 a.m. CT Gas Day?

c) How many plants were unavailable to run when dispatched due to an inability to schedule gas prior to the start of a 9 a.m. CT Gas Day?

d) How many plants were forced to curtail dispatched generation due to a failure to schedule sufficient gas deliveries?

e) How many plants were forced to curtail due to their attempts to balance their usage from the prior Gas Day?

f) In each instance in which a problem is identified, FERC should compile a detailed assessment of the underlying issues including:

  i. Did the generator sufficiently contract for firm pipeline capacity or flexible pipeline services that are in line with its power market commitments, or was the generator relying on Interruptible Transportation ("IT") or capacity release to meet its requirements?
  ii. Did the generator utilize its opportunities for intraday nomination to adjust its nominations later in the Gas Day or were they dispatched after the last opportunity to nominate?
  iii. Was the situation created due to the generator drawing more gas than is permitted by its daily nomination or pursuant to the pipeline's tariff on ratable takes? If so, identify the pipeline tariff provisions and/or power market rules for which the generator was exposed.
  iv. Were the problems experienced by the generator's economic decisions? If so, please identify the power market rules to which the generator was exposed.
  v. Were there actions in the power market that contributed to the need for incremental or emergency dispatch that consequently led to the generator's inability to anticipate its daily supply requirements consistent with its dispatch order?

From the general concerns expressed to date, it appears that the purported benefits of the proposed 4 a.m. CT Gas Day are limited to the organized power markets in the Northeast.[10] Therefore, to avoid potential unintended consequences, a national solution

[10] *See* NOPR at P 37 (summarizing comments received from ISO-NE and the NYSO that urge the Commission to shift the start of the Gas Day because of problems NYISO and ISO-NE face).

should not be imposed on the entire natural gas industry to address limited regional power market issues. Unless more evidence is presented that provides a better understanding of the underlying causes of those problems and the extent of such problems, such a fundamental change in gas industry operations cannot be supported.

2. *A 4 a.m. CT Gas Day does not address the underlying pipeline capacity availability issues in regionally-constrained power markets.*

A 4 a.m. CT Gas Day does not address the root cause of the problems associated with a generator's inability or unwillingness to obtain and nominate pipeline capacity at levels that sufficiently cover their daily requirements. The Commission itself states in the NOPR that a change in the Gas Day is needed in order to "address instances in which gas-fired generators find that they are ***running out of scheduled natural gas capacity*** during the morning ramp" and to "eliminate the concern that some gas-fired generators will be unable to run...because they have ***burned through their nominated gas*** before the start of the next Gas Day."[11] In other instances, a generator's desire to move the Gas Day earlier is motivated by its desire to improve its opportunities to retain balance, which is often caused by insufficient contracting for pipeline capacity.

At first blush, changing the Gas Day may appear to some to be a logical solution. However, when examined more closely, it is evident that a 4 a.m. CT Gas Day is merely a band-aid that will not provide a long-term solution to the concerns outlined in the NOPR. If contracting practices are not addressed, issues such as "burning through their nominated gas," taking more than their scheduled quantity of gas, or being out of balance will persist ***regardless of when the Gas Day begins***. Such behaviors are not sustainable without compromising pipeline system integrity and, over time, are likely to result in

[11] NOPR at PP 39-40 (emphasis added).

more widespread impacts on the operations of interstate pipeline systems; impacting gas deliveries to all gas customers, including power generators.

3. *Existing service options, coupled with the broadly-supported NAESB nomination schedule, provide ample opportunities for generators to manage nominations for the morning ramp period.*

There are existing means by which generators can ensure that they have pipeline capacity available on short notice or that they can use to correct imbalances outside of the morning ramp period. In the same way that LDCs ensure they have an adequate portfolio of services to manage any unexpected natural gas needs, issues associated with pipeline capacity availability prior to or around the time of the morning ramp will be significantly minimized if generators begin to contract in a manner consistent to meet their power obligations.[12]

To meet both expected and unexpected power obligations, generators have an array of flexible service options, including no-notice, storage, non-hourly rate, park-and-loan services, as well as asset manager agreements, that can provide flexible capacity and shaped product offerings in which marketers stand ready to serve.[13] While there is a premium to such services that provide more flexible pipeline services at a moment's notice, securing these services is likely necessary for electric reliability and should significantly improve RTO confidence in generator performance without a need for wholesale changes to the natural gas industry.[14] This is simply a cost versus risk analysis

[12] As noted earlier, addressing underlying cost recovery issues in regional power markets will help generators take the steps necessary to ensure that they can contract for an adequate portfolio of natural gas services to meet unexpected load requirements.

[13] To avoid shutting in production, producers must sell all flowing gas and there is no "on/off switch" to accommodate varying demand. For these reasons, if gas is required at a moment's notice, service will be limited to what can be provided through regional or local delivery assets.

[14] It should also be noted that dispatching multiple generators at once, due to a lack of associated contracting and performance, only serves to undermine competition in constrained markets.

for generators that have the responsibility to secure advance arrangements commensurate with their performance obligations – or to fully understand the financial risks associated with not doing so.

In addition, and as set forth more fully below, the broadly-supported gas nomination schedule proposed by NAESB in this proceeding provides additional opportunities for a generator to adjust its nominations, including an additional late-day intraday cycle with nominations due at 7 p.m. CT with a 10 p.m. CT flow, an extended timeframe to submit their nominations in the Timely Cycle, as well as an additional opportunity to bump interruptible customers.

B. A 4 a.m. CT Gas Day introduces new challenges for resolving typical natural gas operational issues that are more effectively addressed during daylight hours.

NGSA's members have seriously considered the impacts of moving the Gas Day within their individual companies as well as in conjunction with more than 70 operations personnel who populated the technical working group assembled as part of the Natural Gas Council's effort to consider modifications to the Gas Day. Such an examination has been a difficult one, primarily due to the fact that the proposed changes are untested and we do not know the full extent of the impact of a non-daylight Gas Day. While our members' views vary on the overall impact of a 4 a.m. CT Gas Day, all agree that operations are more effectively managed under the existing national 9 a.m. CT Gas Day.[15]

Gas flowing from the wellhead is relatively constant based on the well production profile, regardless of when the Gas Day begins. Points where adjustments can be made

[15] It should be noted that while the natural gas industry operates under a single Gas Day, the power industry currently operates under four separate electric days with each electric day having its own unique scheduling timelines.

to accommodate flows are typically downstream of wellhead production - at a processing plant, on a pipeline system, or at the city gate. For these reasons, we do not anticipate that upstream operations associated with flowing gas ratably would be significantly influenced by a change in the Gas Day.[16] Nevertheless, new challenges will likely be introduced into all natural gas system operations under a 4 a.m. CT Gas Day that could impact deliveries into the downstream market to natural gas customers. Thus, producers have a direct interest in ensuring that the same level of operational coordination is preserved so that downstream natural gas deliveries to natural gas customers are not adversely impacted.

1. *The natural gas industry has a long history of successful coordination under a 9 a.m. CT Gas Day.*

The vast majority of natural gas deliveries are set up in advance of the start of the Gas Day, with many areas operated by automated controls. Therefore, if all goes as planned, gas deliveries to natural gas customers should be generally unaffected by the start of the Gas Day. However, ***all does not always go as planned***. In an industry as expansive as the natural gas industry, problems arise on a day-to-day basis that require a high degree of coordination among the various gas sectors to reduce the risk of interrupted deliveries to gas customers. Prior to and near the beginning of the 9 a.m. CT Gas Day, there are numerous issues that may need to be resolved to ensure uninterrupted deliveries, such as:

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[16] NGSA does not believe that there will be a material impact on the actual flow of natural gas as a consequence of implementing a 4 a.m. CT Gas Day. However, there may be occasions in which producers need to take action in the field. For instance, situations could arise in which pipeline and/or midstream operators are unable to reach a compressor to make adjustments at 4 a.m. CT and the pipeline and/or gathering system may experiences high system pressures. In these situations, producers may be required to take actions, such as adjusting nominations, selling gas to a new market or injecting into storage, to avoid gas deliveries being reduced or shut-in.

- Gas flow rates not matching nominations;
- Gas not coming on line as planned or expected;
- Possible equipment failure or lack of automation, particularly in winter when equipment is more prone to failure;
- Manual redirection of gas flows from one pipeline to another; and
- Completion of prior day maintenance projects.

The vast majority of these issues are typically resolved without difficulty for a 9 a.m. CT Gas Day, because all of the segments of gas value chain have their full staff in place at an early time (around 7 a.m.) to iron out problems that may have developed during the overnight hours. Resolution of these issues in the daylight hours and near the beginning of the Gas Day avoids the possibility that larger issues will develop when customers begin their takes based on their nominations for the coming day. Often, resolution of these issues requires extensive communication between not only various industry segments, but also between all the various lines of expertise (e.g. controllers, operators, schedulers, field crew, and commercial personnel, such as marketers). Yet, through a long history of working together, the gas industry has achieved a remarkably high level of coordination and reliability under a 9 a.m. CT Gas Day. Thus, the 9 a.m. CT Gas Day has contributed to the natural gas industry's ability to provide seamless gas operations in an unbundled environment.

2. *The same level of coordination among all segments of the natural gas value chain currently achieved under a 9 a.m. CT Gas Day cannot be achieved during nighttime hours.*

The same level of coordination among the gas industry segments that is possible under a 9 a.m. CT Gas Day is a much greater challenge under a 4 a.m. CT Gas Day because there are additional hurdles to coordinating joint industry actions during nighttime hours. To resolve situations that arise in advance of the start of a 4 a.m. CT Gas Day, gas industry coordination must begin several hours in advance of 4 a.m. CT.

During non-daylight hours, it is much more difficult to coordinate industry solutions, which is likely to result in fewer opportunities to iron out issues and a greater potential that routine issues, otherwise effectively addressed under a 9 a.m. CT Gas Day, could unintentionally develop into larger concerns.

Each day, gas traders and schedulers are responsive to accommodate the few commercial requests received during non-daylight hours, and field crews are on call primarily to handle critical emergency situations. However, to date, the gas and electric markets have not economically supported the gas industry moving to a fully staffed workforce on a 24 hours-a-day basis. This is because the bulk of natural gas is sold in the Timely Cycle with only a minimal number of transactions occurring after normal business hours. There are minimal transactions occurring at other times because the vast majority of natural gas customers have gas requirements that are relatively constant without large variations in demand throughout the day.

The ability of field crews to resolve issues during non-daylight hours is more limited due to operational practicalities that often dictate the capabilities in the field, thus creating a need to delay field work until daylight hours when conditions are more conducive to a safe working environment. During the night, there is an increased likelihood that conditions will not be sufficiently safe to warrant sending workers out, particularly to remote locations, through difficult terrain, and especially during bad winter and icy conditions, which create dangerous situations such as non-passable roads.

Additionally, the natural gas industry was restructured over two decades ago and the industry is no longer vertically-integrated. While unbundling of the industry introduced increased competition in gas markets and substantially benefited gas customers, it also led to the necessity for high levels of coordination among the various segments of the gas industry, as opposed to coordination in just one segment or a single company. This additional layer of complexity in connecting with all the affected parties during nighttime hours adds to the difficulties of coordination during that timeframe.

3. *If a 4 a.m. CT Gas Day is imposed, there is a greater potential for service interruptions to natural gas customers, including power generators.*

The reduced ability to coordinate actions among the various natural gas segments under a 4 a.m. CT Gas Day, as compared to a 9 a.m. CT Gas Day, increases the possibility of unintended consequences along the entire value chain. Below, we briefly describe some of the unintended consequences in which there is a greater risk of exposure under a 4 a.m. CT Gas Day relative to a 9 a.m. CT Gas Day.

- ***Gas flow rates not matching nominations***. Resolution of mismatches in nominations and gas flow requires coordination between schedulers and operators in all affected segments including pipelines, customers, processors and producers. Such mismatches can become problematic if they occur over an extended period, which is more likely to occur under a 4 a.m. CT Gas Day.

- ***Completion of prior day maintenance projects***. Under a 9 a.m. CT Gas Day, if maintenance work is not fully completed on the first day, there are a few additional daylight hours on the second day (between 7 a.m. and 9 a.m. of the next morning) to complete the project in order to be ready to accept nominations for the upcoming 9 a.m. CT Gas Day. Under a 4 a.m. CT Gas Day, this same opportunity to have additional daylight hours on the following day to wrap up maintenance work would no longer exist; requiring customers to continue to divert supplies into the next Gas Day because gas would not be flowing during the 4 a.m. CT to 9 a.m. CT timeframe.

- ***Operational issues such as: (1)*** g***as not coming on-line as planned or expected, (2)*** p***ossible equipment failure or lack of automation that then requires crews to perform work in the field, or (3) manual redirection of gas flows.*** When an interruption is not corrected until daylight hours and a gas customer has made arrangements to begin relying on a particular supply source to meet its needs for the upcoming Gas Day, a customer securing a new source of supply scheduled for the next Gas Day is at risk of losing at least five hours of gas flow as compared to what is likely under a 9 a.m. CT Gas Day start.[17] Under a 9 a.m. CT Gas Day, the customer's needs would be more reliably met by their prior day's supply source through the overnight hours and until 9 a.m. CT, making any disruptions less likely or at least limited to a shorter duration. However, it is much less likely that operational issues would be addressed in advance of when a customer begins to rely on flows that start under a 4 a.m. CT Gas Day. Thus, a 9 a.m. CT Gas Day is better able to manage continued deliveries under these circumstances.[18]

- ***Managing pipeline imbalances***. In addition to the increased possibility of disruptions of deliveries to end-use gas customers, there is also a potential increase in the level of pipeline imbalances if the operational issues mentioned above are not readily addressed prior to the start of the Gas Day. Since such imbalances are more likely to occur during cold weather events, pipeline imbalances associated the operational issues above will also likely coincide with the time when end-users, such as generators, are also heavily drafting on the other end of the pipeline. Such a situation could result in system integrity issues due to significant swings in pressure and the possibility that pipelines will not have the capability to meet customer commitments.

In conclusion, NGSA believes that changing the 9 a.m. CT Gas Day to 4 a.m. CT has not been sufficiently supported by any evidence and will not provide benefits that outweigh the potential impact on natural gas operations. Instead of changing the Gas Day, in addition to implementing the industry-endorsed NAESB nomination schedule, the Commission should encourage organized power market operators to expeditiously establish rules and pricing structures that allow generators to fully recover all of their costs and to contract for services in a manner that ensures electric reliability. This is the long-term "fix" that deserves the industry and FERC's full attention.[19]

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[17] Correcting this type of situation is generally unaffected by the Gas Day start time where a customer has arrangements for continual flows from a single supply source.

[18] As noted earlier in our comments, NGSA members see minimal impacts on flowing gas from the wellhead since production generally remains constant regardless of what time the Gas Day begins.

[19] NGSA supports the Commission's November 20, 2014 order that requires RTOs and ISOs to file status reports on their efforts to address fuel assurance issues, which the Commission recognizes "has a direct and immediate impact on generator performance and thus, system reliability." *See Centralized Capacity Mkts in Reg'l Transmission Orgs. and Indep. Sys. Operators*, 149 FERC ¶ 61,145 at P 1 (2014).

III. NGSA Supports NAESB's Proposed Natural Gas Transportation Timely Nomination Cycle and Modified Intraday Nomination Timeline.

NGSA strongly supports NAESB's consensus position, as outlined in NAESB's submission to the Commission.[20] These consensus standards will also help foster greater coordination between the gas and power industries. NAESB's broadly-endorsed proposal reflects input and consensus of all segments of the natural gas and electric industry, and is the culmination of an extensive and thorough process of discussion, debate, and voting by literally hundreds of industry participants, including representatives from NGSA and NGSA-member companies.[21] The culmination of this activity is a gas nomination schedule that can be managed operationally and reliably by the natural gas industry, while simultaneously providing considerable benefits to power customers.

1. ***Natural gas operators can reliably manage the adjusted and improved schedule proposed by NAESB.***

While staying true to FERC's objectives stated in the NOPR,[22] NAESB's proposed schedule improves upon FERC's proposal. First, NAESB's proposal modifies the NOPR's proposed Intraday 1 ("ID1") and Intraday 2 ("ID2") schedules, to eliminate the NOPR's cycle overlap. In FERC's proposal, nominations for ID2 were due at 10:30 a.m. CT, which is 30 minutes ***prior*** to the issuance of the scheduled quantity for ID-1 at 11 a.m. CT. Left unaddressed, shippers would lack the information about the result of the ID1 nominations that is needed to make accurate ID2 nominations.

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[20] *See* Comments of the North American Energy Standards Board, Docket No. RP14-2-000 (Sept. 29, 2014) ("NAESB Sept. 29 Comments").

[21] *See* NAESB Sept. 29 Comments at p. 2 ("[e]ach of the meetings were attended by approximately 100 participants in person and approximately 200 participants by phone and web cast."); Appendix A (list of Gas-Electric Harmonization Forum participants).

[22] *See* NOPR at P 2 (explaining that the purpose of the NOPR is to "better coordinate the scheduling practices of the natural gas and electricity industries, as well as to provide additional scheduling flexibility to all shippers on interstate natural gas pipelines.").

Furthermore, NAESB's proposal addresses the issues arising from an overly compressed nomination schedule, such as nominations and scheduling occurring simultaneously, which hinder effective and reliable operations. Natural gas schedulers require a minimum of one and a half hours between cycles to have sufficient time to adequately address issues that arise. For instance, once a pipeline issues its Scheduled Quantity Report ("SQR"), schedulers must determine how much gas was "cut" from the nomination, how to resolve the cut and subsequently renominate to an alternative point prior to the next nomination deadline, if necessary.[23] Thus, during this time, schedulers must interpret and react to numerous reports for multiple pipelines simultaneously.

Without sufficient time, schedulers are faced with more opportunities for error, which is the case under the NOPR proposal. For instance, under FERC's proposal, the ID3 SQR schedule would be issued at 6 p.m. CT, just as the Evening Cycle nominations are simultaneously due. Handling these two cycles simultaneously is difficult to accommodate and can create confusion, especially since the FERC NOPR proposes to allow only one hour before the next nominations are due for ID4, which is not enough time for schedulers to reliably confirm, schedule, and manage gas flow.

Finally, NAESB's proposal reflects the overwhelming consensus of industry participants that four intraday cycles are not operationally manageable, and will create the potential for chaotic scheduling situations and reliability concerns. From the very beginning of the NAESB voting process, there was wide-spread support for three

[23] The SQR shows schedulers the quantity nominated versus the actual flow for the cycle. In other words, the SQR informs the scheduler how much gas will be cut. Although each cut volume will have a code on the SQR telling the scheduler why the gas was cut, sometimes the reasons for the cut are unclear. The scheduler must then take action to investigate the cut to determine the party they must contact to ascertain whether the cut will be remedied the following cycle, or whether the scheduler must find gas elsewhere. If the cut resulted from pipeline constraints, the scheduler would attempt to locate gas on an alternate route and then re-nominate.

intraday cycles across both the gas and electric industries, as opposed to four intraday cycles.[24] Three intraday cycles can be more reliably accommodated, while still achieving FERC's objective to provide all shippers added flexibility with the addition of a third intraday cycle later in the day. The new ID3 Cycle allows for closer alignment with the start times for the multiple electric days. Furthermore, since the proposed ID3 Cycle schedule is later in the day and closer to the start of the Gas Day, all shippers, including generators, would be better equipped to react to unforeseen demand changes.

2. *NGSA supports NAESB's Proposed Changes to the Timely Nomination Cycle.*

NGSA supports NAESB's proposed consensus standards that implement a 1 p.m. CT Timely Cycle nomination deadline. This deadline allows the natural gas industry to complete the vast majority of its confirmation and scheduling within the normal business day, while also giving generators an extended period of time to participate in the Timely Cycle after they receive their dispatch requirements in the regional electric markets.[25]

NGSA also supports extending the deadline for SQR to 5 p.m. CT in the Timely Cycle. This deadline provides adequate notice of scheduling results to buyers and sellers regarding their daily nominations prior to the end of the normal business day, giving all customers, including generators, more certainty that they can meet their commitments on the coming day.

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[24] *See* NAESB GEH Forum Survey Aggregated Straw Poll Results, Question 74 (May 13, 2014), *available at* http://www.naesb.org/pdf4/geh051314survey_results.docx (Motion for consideration: "Modify the current intraday nomination timeline to provide no more than 3 intraday nomination cycles." Voting Results: Electric Quadrant = 65.19% in favor; Gas Quadrant = 87.19% in favor).

[25] As the Commission noted, changing the Timely Cycle nomination deadline allows the ISOs and RTOs "additional time to schedule their day-ahead markets prior to the most liquid times for gas-fired generation to obtain natural gas supply and transportation capacity." Order Initiating Investigation into ISO and RTO Scheduling Practices and Establishing Hearing Procedures, 146 FERC ¶ 61,202 at P 14 (2014).

However, shifting the Timely Cycle nomination deadline will not accomplish the Commission's intended goals if "reciprocal changes" are not implemented in the electric industry.[26] In its Section 206 proceeding instituted the same day that the NOPR was issued, the Commission stated that changing the Timely Cycle to 1 p.m. CT must be "combined with appropriate changes in the timing of electricity market scheduling practices" to reach the goal of giving gas-fired generators "the option of arranging natural gas supply and transportation at the Timely Nomination Cycle knowing the results of the day-ahead electricity market.[27] NGSA strongly encourages the Commission to hold to its goal and to ensure that the appropriate corresponding power scheduling changes are in place prior to implementation of the consensus NAESB schedule.

IV. NGSA supports the Commission's clarification regarding the "no-bump" rules for pipelines with enhanced nomination services.

In the NOPR, FERC clarified that pipelines offering enhanced nomination services should be permitted to bump interruptible shippers through the second to last intraday cycle, but that the last intra-day cycle must remain no-bump to guarantee "any bumped interruptible shipper will have an opportunity to renominate its bumped volumes" before the end of the business day.[28] Such a determination shows that the Commission understands the importance of maintaining certainty that IT can be managed within the business day. That balance should not be negated, regardless of whether pipelines opt to offer enhanced nominations on their systems or not.[29] The proposed NAESB ID2 allows an IT shipper to know if it has been bumped through the issuance of

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[26] *See id.*

[27] *Id.* at P 16.

[28] NOPR at P 73.

[29] This is consistent with the Commission's recognition of the interaction between enhanced nominations and the national standard afforded by the NAESB consensus nomination timeline.

the SQR at 5:30, giving shippers sufficient time to figure out alternative arrangements and to resubmit nominations for the ID3 Intraday Cycle during regular business hours. NGSA appreciates this clarification. Preserving the no-bump rule and its timing within the normal business day is critically important to the functioning of the natural gas market.

V. NAESB's proposal to maintain the IT no-bump rule in the last cycle provides market certainty for gas and power industry participants.

In approving the no-bump rule over 16 years ago, the Commission reasoned that "making the third intra-day nomination non-bumping **creates a fair balance** between firm shippers, who will have had two opportunities to reschedule their gas, and interruptible shippers and will **provide some necessary stability** in the nomination system."[30]

Thus, in 1998, FERC approved the no-bump rule in Order No. 587-G so that interruptible shippers will be assured by mid-afternoon of the Gas Day that they will receive their scheduled gas.[31] The Commission re-iterated the importance of this rule nine years later, in Order No. 698.[32] It weighed the arguments put forward by firm and interruptible shippers and concluded that a no-bump ID2 cycle presented a fair balance between the two points of view.[33] The industry has not changed in such a way that would

[30] Standards for Business Practices of Interstate Natural Gas Pipelines, 63 Fed. Reg. 20,072, 20,078 (Apr. 23, 1998) (emphasis added).

[31] *See id.*

[32] Standards for Business Practices of Interstate Natural Gas Pipelines: Standards for Business Practices of Public Utilities, Order No. 698, Docket No. RM96-1-027 (June 25, 2007).

[33] *See id.* at PP 65-69. *See also* Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities, Notice of Proposed Rulemaking, 71 Fed. Reg. 64,655, 64,659 (Nov. 3, 2006).

dictate a reversal of this critically important, long-standing policy, where the Commission has fostered an environment that allows parties to choose IT as a viable market option.

With the IT no-bump rule firmly intact, the IT market provides critical market efficiencies and productivity by ensuring that existing gas pipeline capacity is used to the maximum extent possible, thus increasing capacity utilization and lowering costs for all shippers. IT service also provides beneficial market competition by providing market alternatives to pipeline firm transportation and the secondary capacity release market. Many natural gas users, including power generators and LDCs, rely upon IT as an option for attaining transportation capacity in instances in which they need to make alternative arrangements during maintenance periods or unforeseen outages. Indeed, gas-fired generators are a prime beneficiary of IT service, because such service assists in providing generators with natural gas service when unexpected variations in demand occur. Such an outcome would be counterproductive to the Commission's intent behind the issuance of the NOPR: to improve coordination between the gas and electric industries.

Eliminating the IT no-bump rule or implementing the rule too late in the day to maintain its usefulness does not merely represent a "tweak" to natural gas transportation regulations. Rather, such actions would devalue IT service, which plays an essential role in providing access to the gas transportation market. Without the IT no-bump rule, parties holding IT contracts would be subject to bumping by firm shippers during any nomination cycle with no certainty of flow – even during the last stages of the Gas Day. Without such assurance, most shippers would be much less inclined to use IT, thereby diminishing the value of IT and eliminating the significant benefits it brings to many customers. For natural gas sellers, late bumping of IT can have a cascading impact on gas sales in conjunction with the bumped IT pipeline capacity. Bumping can strand sold gas, which would then require the seller to scramble to find a new market for its gas to continue to flow. Also, there can be increased risk to end-use customers who must seek alternate supply sources late in the day and/or risk delivery disruptions if unable to secure alternative transportation that matches up with the original source of gas supplies procured.

Furthermore, eliminating the IT no-bump rule simply shifts costs and risks between market participants while providing only limited benefits to the handful of firm transportation shippers that would like the opportunity to bump IT during all nomination cycles. These costs/risks would be shifted to other customers, and would only benefit those who willingly entered into firm pipeline capacity contracts with the full knowledge that the long-standing no-bump policy was in place. Accordingly, it would be imprudent to eliminate the IT no-bump rule, which plays such a significant and valuable role in the natural gas market, in order to provide limited opportunities for firm capacity holders to expand their firm rights.

VI. Comments on Alternate (Minority) Position as Requested in the Commission's Notice issued October 15, 2014.

In its August 18, 2004 letter to NAESB, the Joint Parties and Desert Southwest Pipeline Stakeholders (DSPS) ("Southwest Parties") submitted comments requesting an alternative solution to problems experienced in the Southwest with respect to gas and power coordination. In their request, the Southwest Parties acknowledge that their "issues largely stem from the fact that shippers in the Desert Southwest are subject to a combination of ***unique circumstances*** that collectively distinguish the region ***from the rest of the country***" and "[n]o other region of the country experiences all of these unique circumstances and limitations."[34] We appreciate that the Southwest Parties recognize that the issues faced in the Southwest are regional in nature and that a host of national "fixes" imposed on the remainder of the country is not warranted, especially when such changes could be very disruptive if implemented on a national basis. NGSA encourages the Southwest Parties to work closely with the pipelines in their region to find effective ways to address their unique issues. Given the regional nature of the problems experienced by the Southwest Parties, they have proposed two national and two regional solutions to address their unique circumstances. NGSA's comments only speak to the national proposals offered by the Southwest Parties.

The Southwest Parties proposed an Evening Nomination Cycle at 7 p.m. CT to replace the industry-endorsed NAESB timeline proposal to maintain a 6 p.m. CT Evening Cycle. The Southwest parties did not specifically detail the benefits they expect from a one-hour delay in the Evening Cycle nomination time. However, delaying nominations in the Evening Cycle to 7 p.m. CT would occur at the same time as the newly proposed ID3 Cycle, causing overlap and making it more difficult for schedulers to manage their duties. Such overlap in nomination periods increases the likelihood of errors compared to a 6 p.m. CT Evening Cycle that staggers the workload.

During the NAESB process and deliberations, a 7 p.m. CT Evening Cycle was considered and, after much discussion, the majority of industry participants voted for a 6 p.m. CT Evening Cycle. Greater weight should be given to the broadly-endorsed 6 p.m. CT Evening Cycle, given that most industry participants believe that a 6 p.m. CT Evening Cycle provides a sufficient amount of time between the issuance of the SQR in

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[34] *See* Letter to the North American Standards Board from Tom Carlson at pp. 4-5, *available at*: https://www.naesb.org/pdf4/wgq_071814_11c_joint_parties_of_desert_sw_pl_stakeholders.docx (last visited Nov. 19, 2014) (emphasis added).

the Timely Cycle and the time in which nominations are due in the Evening Cycle and does not create the overlap issues with the newly proposed Intraday 3 nomination period. Therefore, absent some demonstration of the incremental benefits achieved by this one-hour delay, NGSA finds that any purported benefits of this proposal do not outweigh the negative aspects on a nationwide basis.

The Southwest Parties also propose to delay confirmation of secondary firm points until the Evening Cycle in order to provide an additional opportunity to nominate primary firm point capacity. [35] However, doing so is likely to create additional market turmoil and uncertainty for those who would, under the Southwest Parties' proposal, now have to wait until 9 p.m. CT or 10 p.m. CT (SQR issuance) to know if they are confirmed for flow on a firm basis on the next day using secondary firm point nominations. Such uncertainty stands to significantly reduce reliance on receipt and delivery point flexibility as a viable market option. If secondary firm point options are no longer considered a reliable market option, then the level of competition in the secondary market and the flexible rights envisioned and created by the Commission in restructuring the natural gas industry take a giant step back; with pipeline capacity sitting idle and in reserve until such time that a shipper with primary firm point priority decides to make a nomination on an intra-day basis, if at all. Costs, as a result, will increase for all customers.

Receipt and delivery point flexibility is a fundamental component in the natural gas market that allows the market to readily accommodate changes in demand. Since the

[35] NGSA is pleased that the Southwest Parties are not proposing modifications to the IT no-bump rule. Instead, they have opted to address what it is a more relevant concern for them; namely, secondary firm capacity rights that are confirmed in the Timely Cycle. As NGSA stated above and in accordance with the Commission's finding in the NOPR, it is most beneficial to keep the no-bump rule firmly intact to provide some level of certainty for interruptible shippers and maintain stability in the natural gas market.

market does not always align with primary-to-primary flow patterns on a day-to-day basis, creating unnecessary hurdles to the use of secondary point capacity could inhibit the way in which gas is consumed. Such an outcome runs counter to the Commission's objectives of increasing flexibility and efficiency in the natural gas market.

Moreover, some gas-fired generators regularly rely on secondary firm point entitlements or capacity release transactions to secure the capacity they need to meet their power market obligations. Therefore, delaying secondary firm point right confirmations to the Evening Cycle is likely to create more, not less, uncertainty for gas-fired generators on a national basis. Given that the Commission's goal in this proceeding is to improve the ability of gas-fired generators to secure pipeline capacity, the Commission must seriously consider the possible adverse consequences of this proposed change.

VII. NGSA Supports FERC's Proposal to Expand the Use of Multi-Party Transportation Contracts.

In the NOPR, the Commission proposes to require that all interstate pipelines offer multi-party service agreements for firm services, given that some pipelines already provide such services and these arrangements permit parties to share firm capacity without the need to engage in capacity release transactions. The ability to share the costs of pipeline capacity among shippers could make it easier in some instances for gas-fired generators to offset some of the cost and risks associated with holding firm pipeline capacity rights. Making it more economical for generators to sign up for firm pipeline capacity should ultimately result in additional investments in gas infrastructure that can better serve the power sector's growing demand for natural gas. For these reasons, NGSA supports pipelines offering multi-party contracts, subject to ensuring that such arrangements comply with all pipeline tariff provisions and that no other existing shippers are impacted.[36]

While supportive of multi-party contracts, the Commission should consider the possible consequences of exponentially expanding the use of such contracts to determine whether additional limitations should be imposed. The Commission states that circumventing the need for engaging in capacity release transactions is one of the benefits of multi-party contracts.[37] However, capacity release is a long-standing fundamental part of the operation of the natural gas market, which led to a well-functioning, non-discriminatory, and successful secondary market. Therefore, the Commission should closely observe and take action if increased utilization of multi-party contracts substantially reduces the competitiveness of the secondary market.

Additionally, the Commission will need to closely monitor multi-party transactions to detect any undue preferences or discriminatory practices that could ensue. For instance, it is possible that an advantage could be given to parties that consolidate their separately-obtained capacity into a multi-party contract, whether affiliated or not, in an open season for unsubscribed or new pipeline capacity. Given the greater potential for undue preferences, the Commission should require that all parties that enter into multi-party contracts adhere to the following safeguards:

a. Compliance with all tariff and rate provisions such as the shipper-must–have-title requirement, creditworthiness criteria, imbalance penalties and curtailment priorities
b. Compliance with the effective NAESB nominations and scheduling

[36] It should be noted that there are other means in today's market for pipeline shippers to "share" pipeline capacity today without concerns associated with multi-party contracts such as customer confidentiality, liability, confusion over which shipper actually holds title, and shipper priorities within a contract. Asset managers often will hold a firm pipeline contract on a pipeline and provide services to multiple parties by optimizing the capacity and creating efficiencies using multiple assets.

[37] *See* NOPR at P 77.

c. Express agreement by the parties that they will not engage in any discriminatory behaviors and by the pipelines that they will not provide any preferential access or treatment to parties in such contracts
d. Prohibition against parties consolidating their separately-obtained capacity into a multi-party contract, whether affiliated or not, in an open season for unsubscribed or new pipeline capacity.

The NOPR also requests comments on whether multi-party contracts should be extended to IT contracts. Because pipelines only offer interruptible service when it is available on a daily basis, it is unclear how such capacity could be shared among the parties. However, to the extent parties believe it would be beneficial and they can appropriately devise their own specific contractual terms for doing so, NGSA is not opposed to extending this type of contract to other types of services, including IT.

Lastly, NGSA requests clarification on other issues listed below regarding multi-party contracts.

1. Will the Commission permit parties to revise their existing contracts to consolidate existing agreements with other parties into a single multi-party contract?

2. How can parties entering into a multi-party contract maintain confidentiality of their contractual terms given that such parties are typically required to provide written "proof" to the pipeline that they have complied with certain terms and conditions of the pipeline's tariff?

3. Will the Commission permit parties to submit confidential information in a redacted or non-public form? Will the Commission require that the identity of the individual shippers be made public or just the identity of the contract agent?

With these questions answered, pipelines and customers alike will be in a much better position to decide whether to enter into multi-party arrangements.

VIII. Conclusion.

NGSA strongly encourages the Commission to approve the industry-endorsed proposed timeline developed through the NAESB process, which provides more flexible scheduling opportunities for power generators while still providing sufficient time for the natural gas industry to perform the actions required between cycles. Additionally, the Commission should maintain a 9 a.m. CT Gas Day, given that the purported benefits of imposing a 4 a.m. CT Gas Day have not been shown to justify the new challenges that would be imposed on the natural gas industry.

As the Commission considers the issues presented for resolution in this NOPR, we urge the Commission to also look beyond these proposals to encourage more permanent solutions to the significant root problems associated with the power market's inability to support firm contracts or infrastructure investment consistent to meet its performance obligations.

Respectfully Submitted,

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