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Natural Gas Council Asks FERC to Lead Effort Examining Gas-Electric Coordination and Market Rules Affecting Reliability

Washington, D.C. – The Federal Energy Regulatory Commission (FERC) should examine the coordination of the natural gas and electric sectors and determine if market rules properly optimize the ability of the natural gas industry to offer, and the electric power industry to purchase, the supply, transportation and storage services necessary to ensure electric reliability, according to comments filed at the Commission today by the Natural Gas Council (NGC). The Council collectively represents nearly all the companies that produce, transport and deliver clean, affordable, natural gas throughout the United States.

“The natural gas industry is prepared to meet the needs of future power demand,” the Council said, citing the immense size of the natural gas resource base, its history of reliability, abundant storage and a robust pipeline network that carries gas to consumers.

“Strong FERC leadership is needed to set a comprehensive, coordinated and continued course of action,” the Council said in its comments. *“FERC should work to ensure that natural gas and electric policies promote reliability for all customers – gas and electric.”*

According to the NGC, *“With greater reliance on natural gas for electricity generation, FERC must address whether the market rules governing wholesale natural gas and electric power markets optimize the ability of the natural gas industry to offer, and the electric power industry to purchase, the natural gas supply, transportation and storage services needed to ensure the reliability of the electric power grid.”*

NGC members cited differing approaches to contracting for pipeline transportation as an area in which FERC could play a leadership role. *“The price bidding structure within RTOs generally does not place an adequate value on the electric reliability achieved by retaining firm pipeline capacity,”* they wrote.

The North American Electric Reliability Corporation (NERC) and the North American Energy Standards Board (NAESB) also can play important roles, the Council said, with FERC’s leadership in setting policy guidance; NERC assessing reliability; and NAESB setting standards.

The Council concluded, *“Members of the Natural Gas Council look forward to being part of a constructive dialogue on gas-electric issues.”*

The full Natural Gas Council position statement filed at FERC follows.

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The Natural Gas Council collectively represents nearly all companies that produce, transport and distribute natural gas consumed in the United States. It includes members of the American Gas Association, America’s Natural Gas Alliance, the Independent Petroleum Association of America, the Interstate Natural Gas Association of America and the Natural Gas Supply Association.



March 30, 2012

The Honorable Jon Wellinghoff
Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

RE: Coordination between the Natural Gas and Electricity Markets, Docket No. AD12-12-000

Dear Chairman Wellinghoff:

Pursuant to the Federal Energy Regulatory Commission's Notice Assigning Docket No. and Requesting Comments, Docket No. AD12-12-000, issued on February 15, 2012, the Natural Gas Council (NGC) submits the attached position statement. The NGC collectively represents nearly all companies that produce, transport and distribute natural gas consumed in the United States. It includes members of the American Gas Association, America's Natural Gas Alliance, the Independent Petroleum Association of America, the Interstate Natural Gas Association of America and the Natural Gas Supply Association.

Sincerely,

Dave McCurdy
President & CEO
American Gas Association

Regina Hopper
President and CEO
America's Natural Gas Alliance

Donald F. Santa
President and CEO
Interstate Natural Gas Association
of America

Barry Russell
President and CEO
Independent Petroleum
Association of America

R. Skip Horvath
President and CEO
Natural Gas Supply Association



Natural Gas Council Position on Coordination Between Natural Gas and Electricity Markets

The Natural Gas Council (NGC) requests that the Federal Energy Regulatory Commission (FERC) lead an effort to ensure that electric reliability is not impaired as generators increasingly turn to clean-burning natural gas.

Natural gas is an abundant fuel for U.S. power generation. America's natural gas supplies are immense, with a large, economically accessible natural gas resource base that includes significant sources of unconventional gas such as shale gas. Natural gas has the ability to supply generations of demand at today's consumption rates. In addition, gas storage capacity is available in nearly all major supply and market areas.

The U.S. pipeline and storage network is highly reliable. The natural gas production, transmission, storage and distribution systems in the U.S. support the most flexible and resilient natural gas market in the world. Production can be accessed from multiple North American locations and delivered via a highly integrated pipeline transportation network across the U.S. using many different transportation paths. Firm pipeline transportation and storage services are highly reliable; outages are rare. Onshore shale gas located in more than 20 states greatly reduces exposure to the disruptive effects that hurricanes may have on offshore supplies and spot market prices.

The natural gas industry is prepared to meet the needs of future power demand. The electric power industry is the fastest growing sector for U.S. natural gas consumption, and the gas industry is prepared to serve increased power generation requirements. The natural gas industry has served gas-fired generators for decades; there are no operational impediments to serving power market demand.

The natural gas industry relies upon customers individually contracting for a portfolio of natural gas transportation and storage services tailored to meet their particular needs for reliable service. Electric generators can be supported by an appropriate mix of firm and interruptible transportation contracts; however, if new gas pipeline capacity is required, it must be supported by firm contracts. The Commission's "incremental" pricing policy facilitates such infrastructure expansion because it avoids the need to resolve cost-subsidization issues.

Organized electric markets may not appropriately value the need for gas-fired generation to ensure reliability. One reason that power generators often rely on interruptible pipeline transportation services is that the costs associated with firm pipeline contracts can make these generators uncompetitive in organized markets. Thus, the price bidding structure within RTOs generally does not place an adequate value on the electric reliability achieved by retaining firm pipeline capacity. This should be a concern because on a coincident peak day for electric and natural gas demand, all available pipeline capacity may be utilized by firm pipeline transportation customers, leaving no capacity for those holding interruptible transportation contracts.

Strong FERC leadership is needed to set a comprehensive coordinated and continued course of action. With greater reliance on natural gas for electricity generation, FERC must address whether the market rules governing wholesale natural gas and electric power markets optimize the ability of the natural gas industry to offer, and the electric power industry to purchase, the natural gas supply, transportation and storage services needed to ensure the reliability of the electric power grid. FERC should work to ensure that natural gas and electric policies promote reliability for all customers – gas and electric. Electricity pricing rules and other practices, particularly those in RTOs, may adversely affect electric reliability, given the increased reliance on gas-fired generation.

The North American Energy Standards Board's (NAESB) role should be focused on developing standards that will implement the policy guidance resulting from FERC's actions. We also ask FERC to work with the North American Electric Reliability Corporation (NERC) to address reliability issues. Members of the NGC look forward to being part of a constructive dialogue on gas-electric issues.