UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Integration of Variable Energy Resources	)	Docket No. RM10-11-000

REPLY AND SUPPLEMENTAL COMMENTS OF THE INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA

In response to the Notice of Proposed Rulemaking ("NOPR") in this docket,[1] the Joint Parties, a group of electric generators, Independent System Operators ("ISOs"), cooperatives, *et al.*,[2] filed comments calling for the Commission to open a companion docket to "examine existing barriers on the natural gas 'input' side of the electric generation equation."[3] Through these reply comments, the Interstate Natural Gas Association of America ("INGAA") takes issue with Joint Parties' suggestion that natural gas pipelines' scheduling and nomination procedures have impeded electric-gas integration, and that the Commission can and should consider scheduling and nomination procedures apart from the broader and more fundamental matters of cost causation and responsibility.[4] These comments also supplement INGAA's initial comments, which referenced a draft INGAA Foundation study that has since been released and is attached to these comments for inclusion in the public record.

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1 *Integration of Variable Energy Resources*, 113 FERC ¶ 61,149, 75 Fed. Reg. 75336 (Dec. 2, 2010).

2 Joint Parties include the Arizona Public Service Company, The Boeing Company, El Paso Electric, New York Independent System Operator, Old Dominion Electric Cooperative, PJM Interconnection, L.L.C., Salt River Project Agriculture Improvement and Power District, Southwest Power Pool, Tennessee Valley Authority, Tucson Electric Power Company, UNS Gas, Inc. and the Vermont Department of Public Service.

3 Joint Parties at 4 (Mar. 4, 2011).

4 *Integration of Variable Energy Resources*, *supra*.

REPLY COMMENTS

I. INGAA agrees that the gas and electric industries should continue an open and broad dialogue on gas-electric integration issues.

The Joint Parties recognize that "natural gas will be the resource principally relied on to maintain back-up electric generation" for intermittent energy sources such as wind and solar energy, and state that the Commission must consider policy issues that go beyond the electric industry's role in supporting variable energy resources ("VERs").[5]

INGAA agrees. Any inquiry into gas-electric integration issues should look at broad policy issues that go beyond electric operational procedures raised in the NOPR. The Commission should consider not only the gas-fired electric generation needed to support VERs, but also the natural gas infrastructure and services necessary to support such generation. Further, any discussion of gas-electric integration should bear in mind that gas-electric integration raises issues that apply to all gas-fired electric generation, not just the gas-fired generation used to provide firming service for VERs.[6] Therefore, the Commission should maintain a broad examination into how any future policies, including wholesale electric power policies, might affect gas-electric integration.

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[5] Joint Parties comments at 2.

[6] The realization that gas-electric integration issues touch all gas-fired generation, not just the firming generation associated with VERs, prompted Joint Parties to ask the Commission to open a companion docket. INGAA does not have a strong preference whether the Commission opens a companion docket or discusses all gas and electric issues in the same docket, provided the scope of that discussion includes all of the points raised in these comments and all interested parties are able to participate.

II. Interstate natural gas pipelines do not impede the development of gas-fired electric generation; in fact, pipelines welcome these new customers and work to accommodate their unique needs.

The Joint Parties allege that natural gas transmission pipelines have impeded gas-electric integration, implying that the pipelines are creating barriers toward gas-fired generation.[7] INGAA objects. Serving gas-fired electric generation poses unique challenges and interstate natural gas transmission pipelines have worked, and will continue to work, diligently to develop the tariffs and install the facilities necessary to serve these shippers.

Interstate natural gas transmission pipelines currently work with their customers to provide a range of transportation services that increase the flexibility of the pipeline system to accommodate swings in gas use and enable generators to come online in short notice. For example, pipeline storage services (if available) provide the pipeline or its customers the ability to hold gas for future use or to inject gas quickly into the pipeline to meet a demand spike. Pressure guarantees and Park and Loan services allow electric generators access to additional gas or the ability to hold gas on the pipeline system until it is needed. (Park and Loan service often is a part of a company's imbalance management services.) Many pipelines provide "no-notice" firm service to ensure that natural gas is available instantaneously without the immediate need to nominate and schedule flow on the pipeline system under traditional firm transportation service. Additionally, many pipelines have implemented hourly flexibility and flexible nomination timelines. The Commission should take into account the successes that individual pipelines have had in working with individual customers to satisfy these needs before considering changes to scheduling requirements or other gas-electric integration issues.

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[7] *See*, *e.g.*, Joint Parties comments at 3 ("The Joint Parties therefore request that the Commission open a companion docket to examine barriers that may exist in the natural gas industry that inhibit the timely access to natural gas that is needed to ensure the seamless integration of VERs and the reliability of the nation's electric grid.").

If certain services currently are not available, pipelines will work with their customers to develop services, such as enhanced line pack options, that better meet the customers' needs. Pipelines also work with their customers to discuss how the pipeline could expand its system to provide for increased capacity and flexibility based on firm service commitments. With that said, customers must be willing to subscribe to these expanded services and contract for the firm capacity (including, where appropriate, capacity additions) necessary to furnish them. However the Commission proceeds on the subject of gas-electric integration, the Commission should continue to allow pipelines to work with their customers to discuss flexible services on an individual basis.

III. A policy discussion of gas-electric generation must include natural gas capacity contracting, cost causation and cost recovery; narrowly focusing on scheduling and nomination, as Joint Parties suggest, is inappropriate and unacceptable.

In its initial comments in this docket, INGAA stated that "[t]o adopt a truly comprehensive VERs policy, the Commission must examine and address the impact of fostering VERs on natural gas transmission pipelines"[8] and "[t]he Commission should recognize and make provisions that will allow natural gas pipelines to recover the costs associated with these resources."[9] The need to bring rate issues into the discussion of gas-electric integration also was voiced by parties as diverse as the Natural Gas Supply Association ("NGSA")[10] and The Business Council for Sustainable Energy ("BSCE")."[11]

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8 INGAA initial comments at 2 (Mar. 2, 2011).

9 *Id*. at 3.

10 NGSA comments at 2 (Mar. 2, 2011) ("While the proposed reforms in the VERS NOPR are intended to remove entry barriers for variable generation resources, in doing so, it is imperative that associated costs are appropriately allocated to those who actually benefit from these new programs.").

11 BCSE comments at 4-5 (Mar. 2, 2011) ("BCSE supports appropriate payment mechanisms and rates for balancing services including market-based rates as long as efficient mechanisms exist for the procurement of those services. In considering back up generation, all upstream services should be considered in the dialogue.").

While at first glance the Joint Parties' request for the Commission to open a companion docket appears to raise a broad inquiry into gas-electric integration issues, closer examination of their comments reveals a narrow focus. To the Joint Parties, the entire issue of gas-electric integration reduces to a single item: "failings" associated with the North American Energy Standards Board ("NAESB") Intraday Nomination and Scheduling Timeline (the "Timeline").[12]

It has been argued that issues concerning the Timeline have been raised and answered. The Joint Parties acknowledge that NAESB previously considered modifications to the Timeline and "no single proposal garnered sufficient votes across the industry segment to satisfy NAESB's requirement to develop a new standard timeline."[13] Based on the NAESB proceedings, the Commission decided in Order No. 698 not to modify the Timeline.[14] The Commission implicitly reiterated this decision recently in Order No. 587-U,[15] which incorporated by reference the most recent version (Version 1.9) of the standards promulgated by the Wholesale Gas Quadrant of NAESB. The Commission examined concerns about the Timeline, and determined that "a simple, one-size fits-all solution [to concerns about the Timeline] does not exist that will solve the complex issue of coordinating between the electric and gas industries, [because] the diversity within the electric industry (e.g., differing timelines, system peaks times, generation mixes, and prevalence of firm gas service), in particular, does not suggest that revising gas scheduling procedures is the most effective means to improve

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12 *See* Joint Parties comments at 2 ("[T]he "failure of the natural gas nomination and scheduling process to keep pace with the technology and with the needs of both the electric and natural gas industries" presents a "barrier to gas-fired generation coming online in short notice.").

13 Joint Parties comments at 3.

14 *Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities*, 72 Fed. Reg. 38757 (July 16, 2007) at 38765.

15 *Standards for Business Practices for Interstate Natural Gas Pipelines*, 75 Fed. Reg. 16337 (Apr. 1, 2010).

coordination."[16] Referencing the NAESB proceedings that prompted Order No. 698, the Commission concluded in Order No. 587-U that "[b]ased on the extensive NAESB record that we reviewed, we were not convinced that we have a sufficient basis for finding that any of the proposed revisions [to the Timeline] create a superior balance of interests compared with the original consensus."[17]

The Commission's consideration of gas-electric integration must be broad.[18] Included in any discussion of scheduling and nomination timelines must be a full examination of the natural gas transmission facilities and services that electric power generation requires, the costs associated with those facilities and services, and the mechanisms that must be implemented to ensure that electric power generators (or, perhaps, RTOs and ISOs) pay the fully allocated costs of the dedicated and common facilities and services they require.[19] Focusing immediate attention on modifying the nomination and schedule process masks the larger issue of ensuring that there is necessary natural gas infrastructure and services in place to support the anticipated increase in gas-fired generation.

Two examples illustrate the need to take a broader view of gas-electric integration issues.

First, natural gas pipeline facilities are designed and constructed based on peak-day firm contracted capacity. On peak flow days, the pipeline's firm transportation customers typically utilize their full contract capacity rights. Therefore, even with additional nomination and scheduling times, the pipeline will not be able to schedule interruptible transportation customers, including generators that rely on interruptible transportation service. Further, as VERs may turn

16 *Id.*, 75 Fed. Reg. at 16340.

17 *Id.*, 75 Fed. Reg. at 16340.

18 INGAA supports the comments of Spectra Energy filed in this docket on April 21, 2011.

19 AGA makes the same point, albeit in the converse: "The Commission should not, as the Joint Parties appear to suggest, focus narrowly on the gas nomination and scheduling cycle as a primary solution to the reliability issues which both industries face." AGA reply comments at 6 (Mar. 30, 2011).

to gas-fired generation in some regions to support intermittency, customers may need to contract for increased pipeline capacity and gas supply to support VERs. Services cannot be guaranteed without adequate supply and pipeline capacity. When discussing gas-electric integration, the Commission should include in its discussion whether generators have contracted adequately for gas supply and gas transportation.

Second, changing the scheduling and nomination timeline is not cost free, and the extent of those costs to pipelines and their shippers are partly unknown and will vary from pipeline to pipeline. The Commission acknowledged as much in Order No. 587-U: "For example, we do not know the costs to the pipelines and practical implications to shippers or others of creating more numerous intra-day nomination opportunities or adding a late nomination period well after normal business hours."[20] Electric power generation customers, like any other class of shippers, must be willing to pay the fully allocated cost of the services they require. Allowing these shippers to pay anything less than fully allocated costs necessarily implies that the shortfall must be absorbed by other shippers or the pipelines, contrary to fundamental Commission policy.

SUPPLEMENTAL COMMENTS

In its initial comments, INGAA referenced a draft report by The INGAA Foundation, Inc., INGAA's independent research arm, which examines many implications for natural gas infrastructure planning and pricing associated with the increased use of natural gas-fired generation for supporting VERs. The report, *Firming Renewable Electric Power Generators: Opportunities and Challenges for Natural Gas Pipelines*, has now been released. In fact, at the recent second annual reporter's roundtable, Chairman Wellinghoff cited the report "as a potential

[20] Order No. 587-U, n. 15, *supra*, 75 Fed. Reg. at 16340, n. 24.

benchmark for future discussion of the reliability interfaces between the [electric and gas] industries."[21] As promised in its initial comments, INGAA attaches a copy of the Foundation report to these comments so the report can be placed in this docket's public record.

CONCLUSION

Interstate natural gas transmission pipelines are proud to support fully the growth of the electric power generation market, including any growth attributable to the expanded deployment and integration of VERs. INGAA's members have supported and continue to supports efforts to discuss gas-electric integration issues, both within the Commission and outside it, in order to facilitate effective policies that recognize the needs of the gas and electric power industries and the integration of intermittent resources. Consistent with these principles, INGAA asks that when the Commission considers gas-electric integration issues, whether in this docket or elsewhere, the Commission recognize the continuing efforts of INGAA's members to serve the unique needs of gas-fired electric generation and address the broad issues of cost causation and cost recovery inherent in providing that service. To limit the dialogue to nomination and scheduling timelines would unfairly narrow the discussion and omit the numerous and more important issues at stake.

[21] *FERC Chairman Wellinghoff Aware of More Direct Interface Between Natural Gas Deliverability and Power Plant Reliability; Gas and Electric Company Rate Investigations Will Continue*. (April 8, 2011). Foster's Natural Gas Report, 1.

Respectfully submitted,

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