

Recent FERC Gas-Electric Coordination Initiatives

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December 1, 2006

Background

- On October 25th, FERC issued two Orders—both of which relate to gas-electric market coordination issues:
- Order Instituting Inquiries into Gas-Electric Coordination Issues (Dockets EL07-1 thru EL07-6)
- NOPR proposing to adopt certain NAESB standards regarding communication protocols between gas pipelines, transmission operators and owners and power plant operators (Dockets RM96-1-027 & RM05-5-001)

January 2004 Cold Snap

- Both of these FERC initiatives have their origin in the gas acquisition problems which occurred in New England during the January 2004 cold snap
- While referencing the cold weather procedures that were subsequently adopted by ISO-NE, FERC has expressed its concern for any time period or region when gas supplies to electric generators may be disrupted
- Refer to ISO-NE revised procedures filed on 9/1/06 and FERC's approval on 10/20/06 (Docket ER06-1464)

FERC Order (Dockets EL07-1 thru EL07-6)

- Order addressed to all ISO/RTO regions
- Issued under FERC's Section 206 authority
- *Purpose:* To examine whether ISO/RTO scheduling and pricing mechanisms need to be revised, to ensure that:
 - *Gas-fired generators that are needed for reliability can obtain gas supplies, and*
 - *Gas-fired generators are appropriately compensated when volatility in gas prices creates difficulties in recovering costs*
- FERC notes concerns raised by NAESB regarding the “lack of coordination” between ISO/RTO scheduling rules and gas nomination schedules

FERC Order: Procedural Issues

- Each ISO/RTO is directed to file by January 16, 2007 to:
 - *Propose necessary changes to its scheduling and compensation systems; or*
 - *Demonstrate why such rules do not pose a problem on its system*
- Each ISO/RTO is directed to examine its needs during:
 - *Hot weather emergencies;*
 - *Cold weather emergencies; and*
 - *Other types of emergencies (e.g. – Hurricane Katrina)*
- Order also indicates that public hearings will be held
 - *Unclear whether these are to be before or after the 1/16 filings*

NYISO Proposed Response

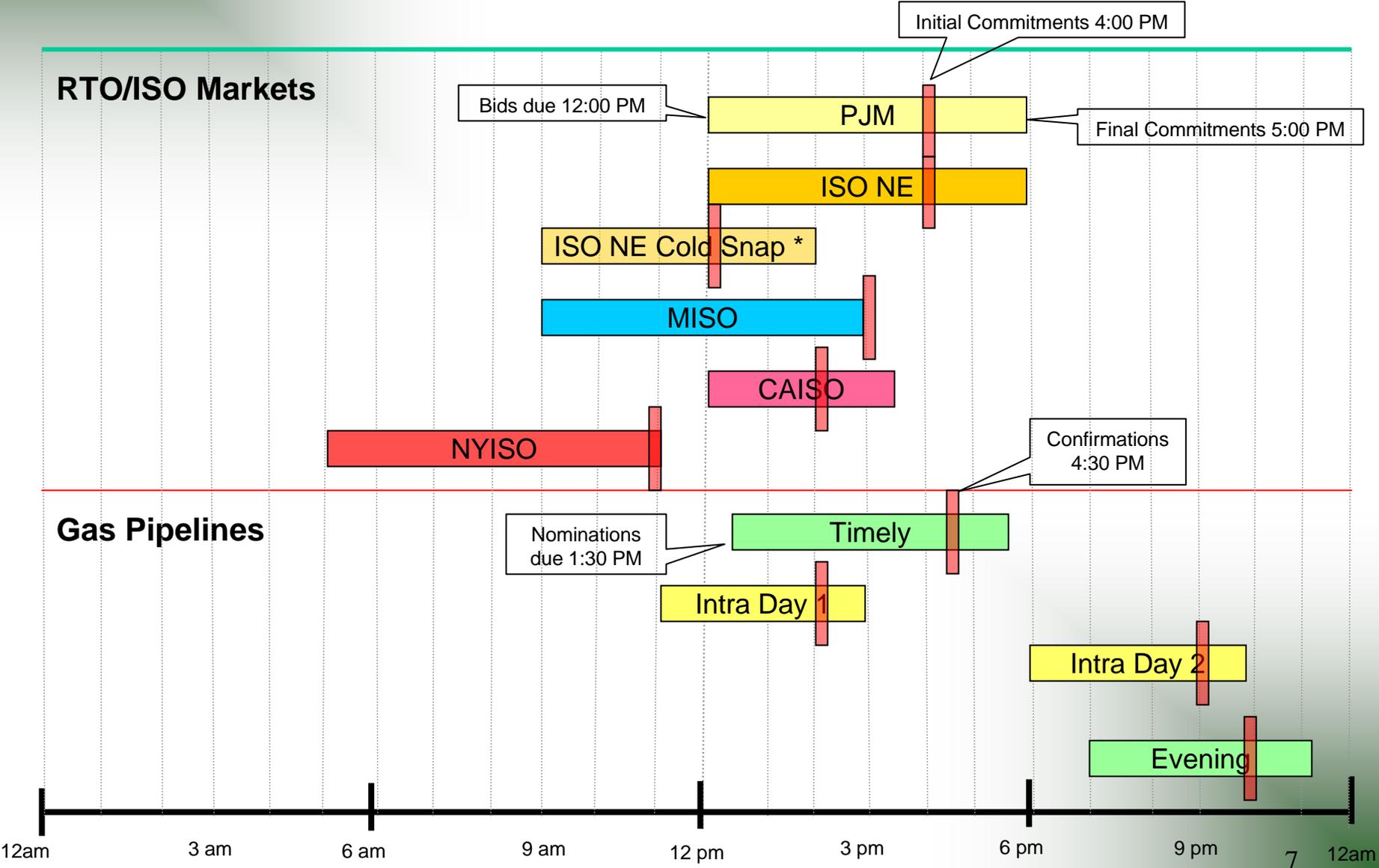
➤ Scheduling Issue

- *NYISO DAM posting time is prior to the gas nomination period allowing generators to know their commitment schedules in advance of locking in their gas supplies*

➤ Compensation Issue

- *NYISO has a process in place which allows reference price adjustments to be made on an emergency basis*
- *NYISO procedures allow for after-the-fact compensation adjustments to be made to generators upon demonstration of costs incurred under extraordinary circumstances (e.g. – high gas prices under shortage conditions; gas penalty charges)*

Electric DAM and Gas Nomination Scheduling



* During "Cold Weather Event" only

FERC NOPR

(Dockets RM96-1-027 & RM05-5-001)

- Proposes to adopt certain standards promulgated by NAESB
- To establish communication protocols between:
 - *Interstate gas pipelines*
 - *Power plant operators; and*
 - *Transmission owners and operators*
- Refers to reports filed with FERC by NAESB's Gas-Electric Coordination Task Force
 - *June 27, 2005*
 - *February 24, 2006*
- Comments on NOPR due: Dec 18th

Proposed NAESB Standards

➤ FERC gives examples of the proposed NAESB Standards:

- *Pipelines & Power plant operators to communicate material changes in circumstances that may affect hourly flow rates*
- *Pipelines to provide information to power plant operators as to their ability to honor hourly flow deviations*
- *Pipelines to provide critical information (eg -operational flow orders) to power plants and transmission operators*
- *Power plant operators to provide gas supply and transportation information to transmission operators*

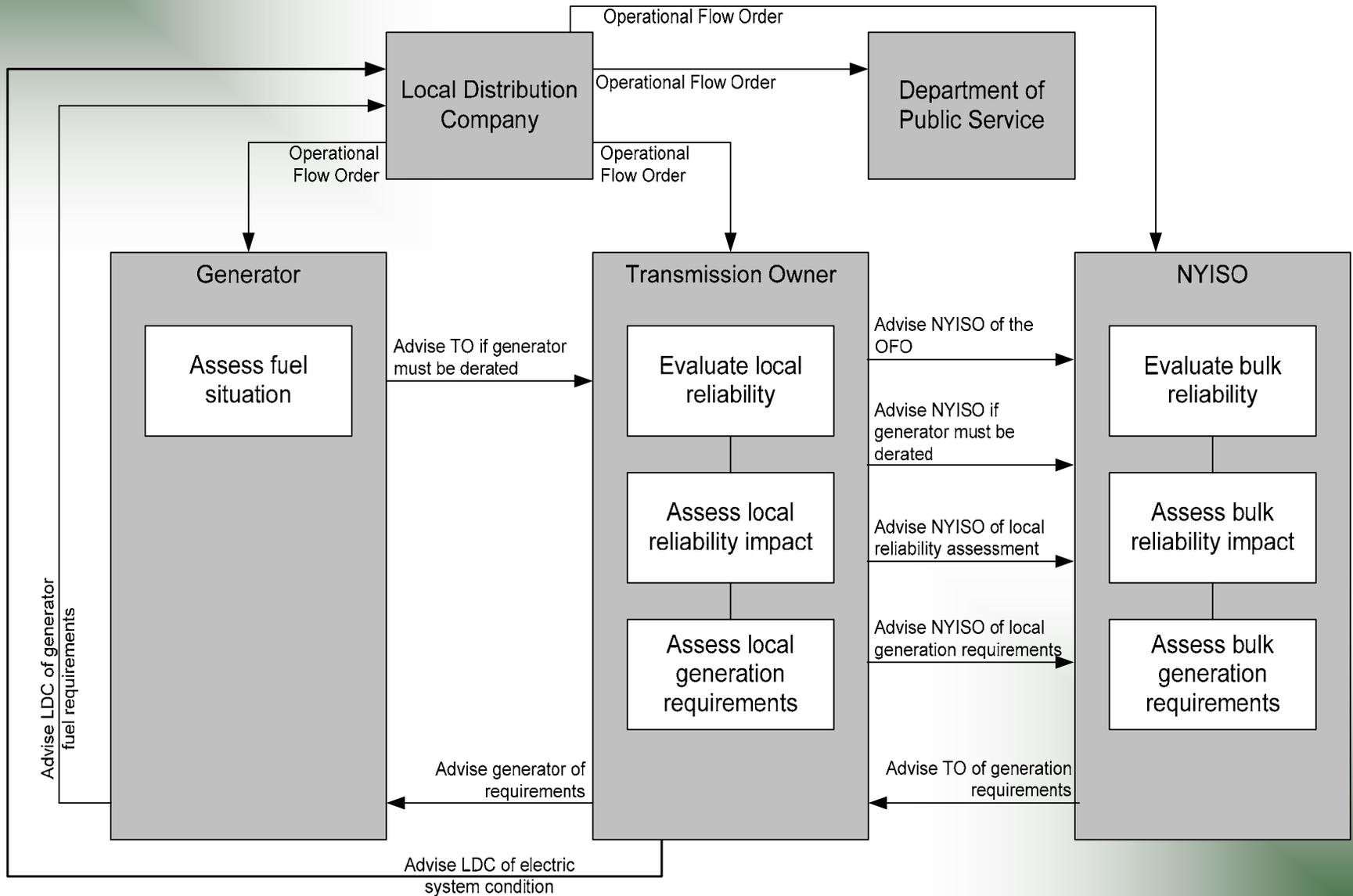
FERC NOPR: Procedural Issues

- FERC proposes to amend Parts 38 and 284 of its regulations to incorporate these standards by reference
- Tariff filings are not required at this time
- Each pipeline and public utility must demonstrate compliance by filing a statement that it has established the required procedures with each relevant entity on its system or taken the appropriate action as required by the standards
- Specifics are left to the parties to negotiate
- Disputes may be brought to the Commission for resolution

NYISO Proposed Response

- NYISO has been working with the PSC Staff, in-City and Long Island LDC's and TOs to develop a protocol for coordination between gas & electric operations during an Operational Flow Order (OFO)
- Downstate generators have also been consulted
- The protocol leverages on existing communications procedures
- Protocol will be incorporated in NYISO Operations procedures
- Protocol can be expanded to upstate region which is served directly by the interstate pipelines

OVERVIEW OF ELECTRIC-GAS COMMUNICATIONS DURING AN OFO



Other Issues Raised by NAESB

- NAESB raised six issues for which it seeks clarification or guidance from the Commission
- Use of gas indices for pricing capacity release transactions
 - *FERC Response: Releasing shippers may use the same type of pricing arrangements, including gas indices, as long as the rate does not exceed the maximum pipeline tariff rate*
- Pipeline's ability to permit shippers to use alternate delivery points
 - *FERC refers to Order 637-B which establishes the priorities for shippers seeking to use a secondary delivery point*

Other NAESB Issues (Cont'd)

- Changes to Intra-day nomination gas schedule
 - *FERC encourages NAESB to pursue the development of any standards that would allow better coordination between gas scheduling and electric markets*
- ISO/RTO Scheduling Standards("Gas day" vs "Electric Day" issue)
- Standards for "Commercial Relationships" (Firm gas supply/transportation contract issue)
 - *FERC notes that its Order in Dockets EL07-1 through EL07-6 is intended to address these issues*
- Standards for Supporting Definitions
 - *FERC indicates the intent is not clear and therefore does not provide guidance at this time*

QUESTIONS??

COMMENTS??