

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

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**Coordination between the Natural Gas  
and Electricity Markets**                    )

**Docket No. AD12-12-000**

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**COMMENTS OF THE ORGANIZATION OF MISO STATES**

Pursuant to the Federal Energy Regulatory Commission’s (“FERC” or “Commission”) Request for Comments issued on February 3, 2012, the Organization of MISO States (“OMS”) hereby submits the following comments in response to the Commission inquiry regarding the role of FERC in coordinating issues between the natural gas and electricity markets. The Commission originally requested that Comments be submitted no later than February 29, 2012, but subsequently extended that deadline to March 30, 2012.

**I. EXECUTIVE SUMMARY**

The OMS supports the Commission’s initiative to examine the relationship between natural gas and electricity, as well as, to address those issues identified for improving the electric and natural gas systems. With impending coal unit retirements (due primarily to environmental regulations), the nation's growing reliance on renewable energy resources (solar and wind) and the lower prices of natural gas, it is projected that natural gas dependency will increase as it becomes a major source of fuel for electric generation. Understandably, as demand for timely and reliable access to natural gas increases, to backstop the intermittent nature of solar and wind or as an alternative source of fuel upon the retirement of coal units, concerns about the differences between the gas and the bulk electric systems develop. Given the interconnected nature of both the electric and natural gas markets and the various factors impacting electric generation and dispatch, there is

a growing need to analyze and discuss "system reliability" in the context of a coordinated electric and natural gas industry. As explained in greater detail below, the OMS commends the FERC for establishing a forum to further this important process and encourages the Commission to take three immediate steps.

First, the OMS requests that FERC provide the natural gas industry the necessary policy guidance that emerged from the multi-year North American Energy Standards Board ("NAESB") gas-electric coordination meetings undertaken as a result of FERC's Order 698 directive.<sup>1</sup>

Specifically, OMS is asking FERC to respond to the questions of: 1) whether the existing policy that precludes firm natural gas transportation from bumping interruptible gas transportation can and should be eliminated; and 2) if the "no bump" rule is maintained, what is the minimum amount of hours that interruptible gas transportation should be guaranteed to flow so as to make room in the day to allow the addition of more nomination cycles to the NAESB gas day? To be clear, OMS is not taking a position for or against eliminating the no-bump rule, but stresses that it is time to address it.

Second, armed with this policy guidance, the OMS requests that the Commission provide a deadline by which industry representatives, under the direction of NAESB, should increase the number of nomination cycles in the Gas Day to more closely align with the reliability needs and market trading/dispatch deadlines and clearing times of the Electric Day.

And third, the OMS requests that FERC establish a technical conference that encourages all segments of the natural gas and electric industries (including gas pipelines, RTOs, power generators and local natural gas and electric distribution companies) to collaborate and identify

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<sup>1</sup> *Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities*, Order No. 698, 72 FR 38757 (July 16, 2007), FERC Stats. & Regs., Regulations Preambles 2006-2007 ¶ 31,251, 31,800 (June 25, 2007) (*hereinafter*, "Order No. 698"), *order on clarification and reh'g*, Order No. 698-A, 121 FERC ¶ 61,264 (2007)

additional mechanisms for strengthening the inter-relationship between natural gas and electricity operations, along with maintaining and improving both electric and natural gas system reliability, where applicable.

**A. Background on the Gas and Power Markets**

Currently, the Regional Transmission Organizations ("RTOs") do not have simultaneous market clearing times and their clearings do not align with the pipeline scheduling deadlines. The gas nomination/scheduling timelines are not aligned with electric generation dispatch notification timelines and the physical Gas Day is a different 24-hour period than the Electric Day. The Gas Day runs from 9:00am CT to 8:59am CT the next day whereas the Electric Day which is from 12:00am local time to 11:59pm local time.<sup>2</sup>

In order for gas to be guaranteed to flow for a full Gas Day, a shipper must have firm contractual rights to capacity and must submit a nomination for such capacity in either the Timely Nomination Cycle ("Cycle 1") at 11:30 am CT the morning before the gas flow day or in the Evening Nomination Cycle ("Cycle 2") at 6:00pm CT the evening before the gas flow day. Confirmed nominations in Cycle 1 or Cycle 2 begin to flow at 9:00am CT on the Gas Day. Shippers that hold firm capacity for natural gas only have the guaranteed right to flow to their full contracted capacity on a pipeline for a 24-hour period if they nominate (schedule) their full contracted capacity during Cycle 1 or Cycle 2 the day before the Gas Day. In the absence of making such a nomination, a firm shipper has only one more guaranteed opportunity to access its firm capacity, in the Intraday 1 Cycle ("Cycle 3") which is nominated at 10:00am CT on the Gas Day but such gas only flows for sixteen (16) hours beginning at 5:00pm CT. Under the Commission's existing policy, a firm shipper is not allowed to access its unused contracted-for

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<sup>2</sup> Some RTOs observe daylight saving time, while some do not. PJM, for example, operates its markets on daylight saving time, while MISO does not.

capacity in the final Intraday 2 Cycle ("Cycle 4") if an interruptible shipper was awarded the capacity in a prior cycle. This Cycle 4 preclusion, referred to as the "no-bump" rule, essentially guarantees an interruptible shipper a minimum of sixteen hours of "firm" capacity, despite the fact that the contracted for service is defined as "interruptible" and that a firm shipper has already paid for such capacity.

Because of the time differences between the Gas Day and the Electric Day, one problem that arises is that the gas that is scheduled straddles two Electric Days requiring two days of gas nominations to cover one day worth of electric generation.

A second problem that arises is that RTOs with Day-Ahead Markets (*i.e.*, PJM, MISO and CAISO) all have Day-Ahead Clearings times that are posted at or after 4 pm EPT the day before the Electric Day. As a result, situations have developed where gas-fired generators have insufficient time after electric dispatch notification to meet the gas pipeline nomination deadlines to schedule the delivery of an entire day's worth of gas supply needed for generation committed to RTO markets. This makes it difficult for the generators to accurately determine their marginal costs for offers into RTO Day Ahead markets. It also makes it difficult for the generators to assure deliveries of gas supply and thus avoid either supply interruption and the resulting exposure to real-time electric prices (for replacement resources) and the costs of redispatch in RTO markets, or exposure to real time natural gas prices for the committed gas-fired generating unit. This has the potential to increase costs in RTOs as the amount of natural gas fired generation increases and natural gas fired generation is "on the margin" more frequently, establishing the RTO market price.

Five years ago, Dynegey succinctly summarized the problem of reconciling the RTO Day Ahead Clearing with the NAESB gas nomination schedule in its comments to FERC inquiry in a FPA Section 206 multi-RTO proceeding by saying

Current timely gas nomination cycles occur long before the time when most organized electric markets clear their timelines and commit for the Day-Ahead Market. This disconnect leaves some generators two main options of either a) purchase and nominate gas transportation on a timely basis and risk not having their bid subsequently clear the power market or, b) wait to see if their bid clears the power market and risk relying upon the intraday gas transportation nominations without the level of assurances offered in the timely cycle for firm gas transportation services.

The end result of the lack of synchronization between the gas market and the Midwest ISO's scheduling procedures is that power prices do not always reflect the cost to fuel gas fired units. This undercuts the very foundation on which ISOs and RTOs are based – efficiency and price transparency.<sup>3</sup>

Similarly, in the same timeframe, in Order No. 698, the Commission itself initiated a Notice of Proposed Rulemaking whereby it sought "to improve coordination between the gas and electric industries in order to improve communications about scheduling of gas-fired generators."<sup>4</sup> In paragraph 69 of Order 698, FERC instructed NAESB "to consider whether to add another intraday nomination opportunity with bumping rights prior to the final non-bumping opportunity or to develop additional changes to its nomination timeline to better coordinate with electric scheduling."<sup>5</sup> In response to this order, the NAESB Wholesale Gas Quadrant instructed the Business Practices Subcommittee to address the appropriateness of modifying the NAESB Intraday Nomination and Scheduling Timeline. For over a year, industry representatives met,

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<sup>3</sup> See Comments of Dynegy Power Marketing, filed in *Midwest Independent Transmission System Operator, Inc.*, Docket no. EL07-4-000, February 6, 2007, <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=11247484>, responding to FERC inquiry asking whether "additional procedures are needed to determine whether their scheduling and compensation mechanisms need to be revised to ensure that gas-fired generators can obtain gas when the gas-fired generation is necessary for reliability."

<sup>4</sup> *Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities*, Order No. 698, 72 FR 38757 (July 16, 2007), FERC Stats. & Regs., Regulations Preambles 2006-2007 ¶ 31,251, 31,800 (June 25, 2007) ("Order No. 698"), *order on clarification and reh'g*, Order No. 698-A, 121 FERC ¶ 61,264 (2007).

<sup>5</sup> *Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities*, 119 FERC ¶ 61,317 at P69. (2007).

circulated and discussed more than a half dozen proposals but despite the vast number of votes cast in favor of the various proposals to change the gas standard timeline to more closely align with the electric industry dispatch notifications, no single proposal garnered sufficient votes across the industry segments to satisfy NAESB's threshold to develop a new standard timeline. However, a Joint Coalition consisting of RTOs, ISOs, end-users, electric generators, gas users and state commissions informed FERC that the reason an industry solution could not be reached was because some industry representatives believed that the issue before NAESB required immediate policy guidance from FERC. The Joint Coalition specifically explained that no further progress could be made without policy guidance from the Commission on the issues of: 1) whether the "no bump" rule, in its entirety, should be eliminated and/or; 2) if the "no bump" rule is maintained, what is the minimum amount of hours that interruptible service should be guaranteed to flow (and does the minimum amount of flow have to be as a result of the last cycle of the day). No action was taken by FERC in response to these comments.

Today, the historical problems associated with the mismatch between the existing Gas Day and Electric Day are further exacerbated by introduction of the nation's increased reliance on intermittent renewable resources like solar and wind and the associated need to call upon gas-fired generation on short notice to respond to unanticipated declines in the output of such renewable resources. Additionally, the OMS has three concerns with the reliability of the current natural gas and electric infrastructure upon retirement of coal-fired generation units, to comply with EPA Mercury and Air Toxic Standards (MATS) Rule. The first concern is the location of pipelines and gates for delivering gas, in relation to generation facilities. The gas pipeline transportation distance sensitive rate components create an economic incentive to locate gas fired generation close to the gas supply and then rely on electric transmission to deliver the power to load. This could create the need for additional electric transmission, especially where the generation is further from load

than the generation that it replaces. The second concern is the transmission and transportation that may be needed between delivery locations and load; identifying what infrastructure currently exists and what is needed to ensure reliability. A third concern is the location of storage and available capacity on the pipelines given the potential for an increase in supply needed to meet the demands created by the retirements of coal units. Because of, among other things, the need to prepare the electric grid for an increase in intermittent renewable resources and the retirements of coal-fired generation, OMS supports the Commission's efforts to revisit these important issues at this time as OMS believes that resolving these issues is an important step towards achieving enhanced reliability and security for the nation's electric grid.

**B. The Commission Should Provide Policy Guidance and Impose Deadlines**

The OMS supports the policy inquiry raised by the Joint Coalition and believes that in order to ensure reliability of the electric grid, the Commission must address the fundamental question of how firm is "firm" natural gas capacity and how does the "no-bump" rule fit into the Commission's current day policy objectives of encouraging fixed cost contribution for infrastructure development and ensuring the reliability of the electric grid?

It is important to note that the so-called no-bump rule was a product of an industry settlement many decades ago and therefore predates both the established Day Ahead Electric markets and significant advancements in technology in both the electric and the natural gas industry. As a result, the no-bump rule was never subjected to the associated scrutiny of a Commission rulemaking process, court review or the current focus on infrastructure development. Recognizing these points and the fact that pipelines are generally constructed based on firm contractual commitments, OMS is concerned that the current no-bump rule may be acting as an obstacle to both infrastructure development because a firm shippers contribution to a pipeline's

fixed cost recovery may not be providing the shipper with sufficient access to the firm capacity in the current environment so as to justify the firm contract investment.<sup>6</sup>

Once FERC provides the requested policy guidance, FERC should impose deadlines on NAESB to report back on the results of how the industry recommends that such policy guidance be implemented. Finally, the nation's increased reliance on intermittent renewable generation sources backed by gas-fired generation suggests that this problem needs to be resolved now. While simply adding additional gas nomination cycles may be the only immediate fix needed to afford the electric markets the opportunity to respond on shorter notice with natural gas-fired electric generation, the OMS believes that establishing a technical conference to discuss additional, perhaps longer term, measures will facilitate needed dialog between the industries.

### **C. The Commission Should Establish a Technical Conference**

The interdependence of the gas and electric markets, and the desire to avoid gas disruptions that could lead to electricity shortages, suggests that some level of coordination is needed between the pipelines and the RTOs. For this reason, the OMS requests that FERC establish a technical conference: 1) to discuss whether it is appropriate to re-examine the definition of a resource and the qualifications required in order for a unit to receive full accreditation in resource adequacy constructs of RTOs and ISOs; 2) to discuss whether RTOs and ISOs, who currently have no basis for knowing whether dispatched generators are relying on firm or interruptible gas supplies, need additional information to ensure the dispatched generators are capable of satisfying the reliability standards of the nation's electric grid; 3) to examine and discuss the total natural gas pipeline capabilities on a regional basis relative to both the traditional natural gas utility needs to serve winter peak loads and the electric transmission infrastructure in

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<sup>6</sup> While Iowa believes it is important to review the rationale and implications of the no-bump rule, it is premature to speculate at this time upon what that analysis may find.



the same region to identify potential reliability and infrastructure issues; 4) to identify the anticipated level of intermittent resources in each region over the short and long term; and 5) to identify ways to increase the dissemination of valuable information between the gas and electric industries in a timely fashion.

## **II. CONCLUSION**

The OMS requests that the Commission provide the natural gas industry the necessary policy guidance that emerged from the multi-year NAESB gas-electric coordination meetings undertaken as a result of FERC's Order 698 directive. Armed with this policy guidance, the OMS requests that the Commission provide a deadline by which industry representatives, under the direction of NAESB, should increase the number of nomination cycles in the Gas Day to more closely align with the Gas Day with the reliability needs and market trading/dispatch deadlines and clearing times of the Electric Day. Lastly, the OMS requests that FERC establish a technical conference that encourages all segments of the natural gas and electric industries to collaborate and identify additional mechanisms for strengthening the inter-relationship between natural gas and electricity operations, along with improving system reliability.

The OMS appreciates the Commission's inquiry regarding its role in coordinating issues between the natural gas and electricity markets. The OMS respectfully offers the advice and recommendations herein for the Commission's consideration.

The OMS submits these comments because a majority of the members have agreed to generally support them. Individual OMS members reserve the right to file separate comments

regarding the issues discussed in these comments. The Illinois Commerce Commission, the Kentucky Public Service Commission, and the Manitoba Public Utilities Board did not participate in the vote on this pleading.

Respectfully Submitted,

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