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Gavin J. Donohue, *President &
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TO: NAESB Wholesale Gas Quadrant Executive Committee

CC: Rae McQuade

DATE: July 2, 2008

RE: Annual Plan Item 7(c), FERC Order No. 698

Background

The Commission directed NAESB in Order No. 698¹ to review the Gas Day intra-day schedules and consider possible changes that would allow for better coordination of the gas and power scheduling markets. The Commission stated with respect to changes in the intraday nomination schedule,

As we stated in the NOPR, the Commission has recognized the interest of interruptible shippers in achieving business certainty by making the last intra-day nomination opportunity one in which firm nominations do not bump interruptible nominations. However, within the confines of current Commission policy, NAESB should actively consider whether changes to existing intra-day schedules would benefit all shippers, and [] better provide for coordination between gas and electric scheduling. In addition, the NAESB nomination timeline establishes only the minimum requirement to which pipelines must adhere. We fully expect that individual pipelines supporting gas-fired generators will be considering the addition of other intra-day nomination opportunities that would be of benefit to their shippers.²

Based on FERC's direction in Order No. 698, NAESB tasked its Wholesale Gas Quadrant ("WGQ") Business Practice Subcommittee to review suggested proposals to better coordinate the gas and electric markets. After several meetings of the WGQ

¹ *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 Statutes and Regulations ¶ 31,251 (June 25, 2007) [hereinafter "Order No. 698"].

² Order No. 698 at 31,812.

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Business Practice Subcommittee the participants were unable to reach a consensus position on how to coordinate the two markets and NAESB opened a comment period. The following are IPPNY's comments on the importance of coordinating the gas and power scheduling markets.

Comments

Under the current gas and power day schedules, it is difficult for gas-fired generators to meet the demands of the electric market, which calls on generators to run after the timely and evening gas nomination cycles and changes power scheduling throughout the gas flow day and sometimes outside of the intra-day gas nomination opportunities. As such, many gas-fired generators are called on to run on short notice and sometimes must turn on before they have an opportunity to confirm their gas scheduling, which typically gets confirmed during the next available gas nomination and scheduling opportunity. Despite NAESB's failure to reach an acceptable solution to the current disconnect between the gas and power schedules, IPPNY would support continuing efforts by FERC or other organizations to coordinate the gas and power markets.

That said, IPPNY would not support changes to the gas intra-day schedule that would compromise the market for interruptible transportation service by adopting a bumping opportunity very late in the Gas Day when interruptible supplies are already flowing and there is no opportunity to reschedule them in order to avoid a scheduling penalty and to meet market demand. The Commission recognized in the NOPR leading to Order No. 698,³ "[a]ny standards that would allow better coordination between scheduling of gas and electric markets would be of benefit to both industries, ..., however, the Commission has recognized the interest of interruptible shippers in achieving business certainty by making the last intraday nomination opportunity one in which firm nominations do not bump interruptible nominations." The Commission reiterated in Order No. 698 that interruptible shippers should be able to achieve business certainty by making the last intra-day nomination opportunity one in which firm nominations do not bump interruptible nominations.⁴ Allowing for bumping during an additional nomination opportunity late in the Gas Day, as proposed by certain participants in the NAESB process, would make it difficult or even impossible for interruptible shippers to achieve business certainty and would devalue interruptible service as an option for many suppliers and most end users.

The interruptible market is an important service option for many gas-fired generators. Gas-fired generators come in all shapes and sizes. Some are base-load units that run consistently, while others run only during peak seasons, and still others are peakers that may run only a couple of days a year. For those units that run only sporadically, it does not make sense to take on the cost of year-round, long-term firm pipeline service. Rather, most of these units rely on delivered spot sales of gas from marketers. Marketers serving the generation market rely on a portfolio of gas transportation services, including interruptible service. Marketers delivering spot supplies are able to keep gas supply costs lower by being able to rely, at least in part, on interruptible service during off-peak periods. Adoption of an intra-day bumping cycle very late in the Gas Day, when

³ *Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities*, 71 Fed. Reg. 64,655 at 33,103-04 (November 3, 2006).

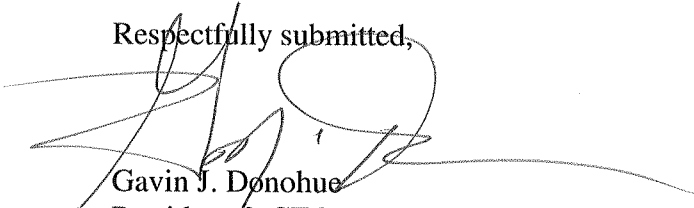
⁴ Order No. 698 at 31,812.

an interruptible shipper will have no opportunity to reschedule their gas supplies, will crumble the interruptible service market and force unnecessary, higher gas transportation costs on the power producing market. For these reasons, IPPNY would not support changes to the gas intra-day schedule that would compromise the market for interruptible transportation service by adopting a bumping opportunity very late in the Gas Day

Conclusion

Based on the foregoing, FERC should continue the process to coordinate scheduling the gas and electric days in a manner that strikes the appropriate balance between coordinating power and gas scheduling while still allowing interruptible shippers to achieve business certainty.

Respectfully submitted,



Gavin J. Donohue
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