

VIA E-MAIL

July 2, 2008

TO: North American Energy Standards Board (NAESB) Office (naesb@naesb.org); NAESB Wholesale Gas Quadrant Executive Committee

CC: Rae McQuade, NAESB President and COO

FROM: Interested LDCs

RE: Comments on Proposed Revisions to NAESB Nomination Model

NAESB has requested industry comments regarding its attempt to modify the gas nomination model (Standard No. 1.3.2) and consequent recommendation to maintain the existing nomination timeline. The Interested LDCs¹ have been active participants in this important effort, and they respectfully submit these comments to the NAESB WGQ Executive Committee for its consideration. The comments provided herein are intended to articulate those significant principles and concerns that are shared by the Interested LDCs; however, each individual company retains the right to advocate additional positions.

Pursuant to the Federal Energy Regulatory Commission's June 25, 2007 order (FERC Order 698, Docket Nos. RM05-5-001 and RM96-1-02), NAESB carefully considered "whether changes to existing intra-day schedules would benefit all shippers and provide better coordination between gas and electric scheduling." From August 2007 until May 2008, NAESB deliberated this question and reviewed a substantial number of proposals for revising the existing nomination timeline; however, it was not able to reach consensus on any of the proposed models. Because of the lack of consensus at NAESB, it may be best to adhere to the status quo at this time.

In order to reach a meaningful resolution—one that would achieve FERC's goal of ensuring that gas-fired generators can readily acquire gas supplies to meet electric peak loads and at the same time meet the needs of other shippers—it is important to consider the following issues.

Electric Scheduling Timelines: One of the primary goals of FERC Order 698 is to afford gas-fired generation operators more flexibility in responding to daily weather-induced and other demand fluctuations. LDCs recognize the complex requirements of electric power generators and share a common interest of serving energy consumers reliably and cost-effectively. We acknowledge the legitimate need to effectively coordinate gas nomination timelines and electric scheduling deadlines and events. However, it is not clear that only adjusting the gas nomination schedule nationwide would resolve inconsistencies in gas and electric schedules.

The end user segment, similar to the larger group of NAESB deliberators, could not agree on a specific gas nomination timeline, including the two that were proposed by electric-company end users. The diverse requirements of electric companies (e.g., differing electric peak times, varying mixes of generation, reliance on IT gas service in some areas and firm service in other areas) and different electric scheduling timelines (unlike the one gas nomination timeline) have made it difficult to address this broad spectrum of scheduling needs. Thus revisions may be needed on the electric side before gas scheduling procedures can be productively revisited. For instance, the New York and the New England ISOs have revised their electric schedules to allow markets to clear in time for the Timely Nomination cycle deadline.

¹ Interested LDCs: Baltimore Gas and Electric Co., Consolidated Edison Company of New York, Inc., National Fuel Gas Distribution Corporation, National Grid Gas Delivery Companies, New Jersey Natural Gas, NiSource Distribution Companies, PSEG Energy Resources and Trade LLC, Southern California Gas Company, Washington Gas Light Company

Benefit to All Shippers: A new gas nomination timeline will not necessarily secure cold weather peak load supplies for generators, because scheduling flexibility, by itself, does not make gas commodity or pipeline capacity available in constrained areas. This will be increasingly true in a carbon-constrained economy where a growing number of power generators will switch from coal to natural gas to meet capped greenhouse gas emission targets. At the same time, changing the gas scheduling protocols creates real costs for other gas buyers, including LDCs. Therefore, changes to the gas nomination timeline, while granting more flexibility to gas-fired generators should also benefit all firm shippers in terms of maintaining flexibility and reliability.

Bumping Rights: Among the criteria participants developed for a feasible gas nomination timeline was that it “provide an adequate number of bumpable cycles to allow firm shippers to maximize the use of their pipeline capacity.” A recurring theme in the deliberations was the issue of no-bump cycles, with stakeholders making arguments on both sides of the issue. One question raised was whether to continue having the last nomination cycle in the gas day as a no-bump cycle, and if so when it should occur. On the other hand, others advocated the elimination of no-bump cycles.

Gas Nominations Affecting Physical Flow: In response to FERC’s October 2006 Notice of Inquiry into the need for changing electric scheduling mechanisms, organized and non-organized electric market operators asserted that scheduling revisions were not warranted for ensuring that gas-fired generators can obtain gas supplies necessary for reliability. Changes to the gas nomination timeline should result in nominations and changes to physical gas deliveries prior to the need for the supply, which would justify the costs associated with modifying existing systems. Adjustments to the gas nomination timeline should not be made merely to satisfy the desire of some shippers to make nominations or changes to nominations after gas has already flowed in order to avoid pipeline imbalance charges.

Common Confirmation Practices among Pipelines at Interconnects across the Grid: Other than perhaps the Timely Nomination cycle, there is no good reason for keeping the current long periods between nomination deadlines and release of scheduled quantities. During the past decade, advances in computer technology have generally speeded up transaction processing times. Nevertheless, the NAESB timeline continues to be based on processing and transaction times applicable to 1996 technologies. Subcommittee discussions revealed a non-uniform approach to processing nominations and confirmations at pipeline interconnects, including the use of differing data elements and manual systems, such as facsimile machines. This reliance on divergent, non-electronic communication systems serves to protract the process. Shortening the lags within cycles could 1) permit having a Timely Nomination cycle closer to flow time and 2) provide more opportunities to insert another intraday nomination cycle to benefit shippers that are concerned about bumping.

The Interested LDCs commend the serious efforts of the WGQ Business Practices Order 698 Subcommittee. However, the protracted deliberations have made it abundantly clear that divergent needs across the broad spectrum of interests have made consensus unattainable. A simple, one-size-fits-all solution does not exist that will solve the complex issue of coordinating between the electric and gas industries. 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 coordination.

Respectfully submitted,

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Consolidated Edison Company of New York, Inc.
National Fuel Gas Distribution Corporation
National Grid Gas Delivery Companies
New Jersey Natural Gas

NiSource Distribution Companies
PSEG Energy Resources and Trade LLC
Southern California Gas Company
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