**June 26, 2023**

**NAESB Staff**

**North American Energy Standards Board**

**Suite 3460**

**1415 Louisiana, Suite 3460**

**Houston, Texas 77002**

**Re: PJM Comments to NAESB Gas/Electric Harmonization Forum Recommendations**

 **PJM Interconnection L.L.C. (‘PJM’) appreciates the extraordinary effort that has been undertaken by the Gas/Electric Harmonization Forum Co-Chairs Pat Wood, Bob Gee and Susan Tierney as well as by the excellent NAESB Staff in hosting this Forum. PJM is the Regional Transmission Organization serving all or parts of the states of Illinois, Michigan, Indiana, Ohio, Kentucky, Tennessee, North Carolina, Virginia, West Virginia, Maryland, Delaware, Pennsylvania, New Jersey and the District of Columbia. Given our increased dependence on natural gas-fueled generation, these issues are of great interest to PJM as the regional grid operator.**

**PJM appreciates the issuance of the first draft of Recommendations. In order to provide timely input to those Recommendations and ensure a robust discussion among the Forum participants, PJM is submitting its preliminary recommendations on a number of the Recommendations as outlined below.**

**We stand ready to discuss these further at subsequent Forum sessions. In the interim, please feel free to contact Brian Fitzpatrick of PJM at 215-962-4508 (Brian.Fitzpatrick@PJM.COM) or Craig Glazer of PJM at 202-423-4743 (Craig.Glazer@PJM.COM).**

***PJM Comments***

***NAESB Recommendation 3—Owners and operators of natural gas production facilities should work with the producing community through the Natural Gas Supply Association and the Independent Petroleum Association of America to adopt best practices for sharing near or real-time operational information concerning production facilities that will improve communications and situational awareness for Bulk Electric System operators [and market participants], including, potentially, through the Argonne National Laboratory’s NGinsight tool.***

***PJM Comments on Recommendation #3—***Recommendation #3 is helpful as far as it goes but could be improved by providing additional clarity as to timelines, clarity of requirements and enforceability of the need for timely posting of information re: interruptions in supply. Given the sheer number of producers, PJM believes that rather than solely leaving this up to the producer community to adopt ‘best practices’, the goals of this Recommendation could be better achieved by using more standard contracting provisions as a means to effectuate the goal. Specifically, PJM suggests that the timely provision of supply information should be a standard contractual condition of producer’s making their commodity available on various trading hubs and should be a standard contract term in contracts and agreements between purchasers of natural gas and their counter parties. Standardized contract terms requiring the timely sharing of information on wellhead disruptions would provide a means to ensure greater consistency and completeness of the information provided. PJM raises this alternative for consideration since the present recommendation simply calling for agreement on’ best practices’ among the disparate community of hundreds of producers will inevitably lead to major gaps in both generators as well as system operators being able to have the wide area view as to commodity disruptions.

**NAESB Recommendation #4*—In a manner similar to the FERC NOPR concerning the Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities issued on March 20, 2014 (Docket No. RM 14-2-000) the FERC should direct the natural gas and electric industries to revise the business practice standards developed by NAESB to improve the efficiency and transparency of the processes to report, transact and facilitate capacity release.***

***PJM Comments on Recommendation # 4***—As noted at the last NAESB meeting, the language of the recommendation is unclear as to whether transparency is sought as to the *‘processes’* to report, transact and facilitate capacity release vs. transparency as to the actual secondary market itself in real time. The secondary market promotes the efficient use of capacity on the pipeline system. However, without greater transparency and more detail on the reporting of available capacity, the market’s value as a price discovery tool as well as its value as a tool to locate and purchase capacity in real time is limited. PJM agrees that this recommendation is within FERC’s authority but recommends that the Recommendation provide more specifics as to the elements of the needed transparency including timely posting of available capacity, pricing and transactions.

***NAESB Recommendation #5—The FERC should consider policy modifications necessary to better facilitate advanced agreements between end users and providers of natural gas supply and delivery capacity similar to those adopted as part of FERC Order No. 712 to support the use of asset management agreements.***

***PJM Comments on Recommendation #5—***Further clarity as to this specific Recommendation is requested. Specifically, it is not clear what the authors have in mind re: ‘policy recommendations’ and ‘advanced agreements’ to support the use of asset management agreements.

**NAESB Recommendation # 6*—State public utility commissions and applicable state authorities in states with competitive energy markets should engage with producers, marketers and intrastate pipelines to ensure that the natural gas markets are fully functioning on a 24/7 basis in preparation for and during events in which demand is expected to rise sharply for both electricity and natural gas, including weekends and holidays. Per current FERC regulations, interstate pipelines schedule and operate on a 24/7 basis to support the wholesale natural gas market. In instances where state authorities lack enabling authority to take such actions, the FERC should adopt regulations to achieve identical outcomes.***

***PJM Comments on Recommendation #6—***Although this recommendation is directed at states and their authority over intrastate transactions, PJM believes that the recommendation is equally applicable to FERC’s authority over interstate markets. As to the interstate transportation segment, while the pipelines themselves are available for scheduling gas on a 24/7 basis, the gas commodity market that supplies interstate pipelines is not as available, particularly on weekends and holidays and most notable during the winter months.

The natural gas markets originally evolved to meet the needs of LDCs who have more predictable weekend loads over multiple days and which have an obligation to serve their load each day. However, generators are not guaranteed to clear in the wholesale electric market each day to serve load making it unwieldy to require them to purchase gas throughout a weekend period and risk stranded gas supply (and potentially increased costs to load for gas not burned) should the generator not be dispatched each day of the weekend period. One option to address this issue could be the provision of increased daily gas balancing options through the expansion of pipeline storage capacity that could be dedicated to generator operations.

Concurrently, PJM notes that certain pipelines have offered open seasons to build more flexible services but have not received interest from the generation community for such services. The exact causes of this inability of buyers and sellers to come together on the nature and pricing of these products deserves greater focus and exploration. Making additional flexible services available could, in turn, encourage more liquidity in the markets for trading over weekends and holidays and mitigate the pressure on generators and LDCs to ‘lock up’ on Friday capacity for the entire weekend for fear of having no capacity available to purchase. Of course, any such flexible services need to be priced and designed to ensure that the pipeline can still achieve its revenue requirement.

 For these reasons, PJM recommends this Recommendation be restructured to focus more on flexible services and assign this task in the first instance to the FERC and the pipeline industry, obviously with continued discussion and coordination with states.

**NAESB Recommendation #7*—The ISOs and RTOs, through stakeholder processes or the FERC, through initiating and conducting proceedings should adopt changes to align day-ahead electric scheduling practices with the natural gas day, including earlier notification of successful bids, to ensure that schedules are known and made available to allow natural gas-fired generators to procure natural gas and pipeline capacity in periods when the market is most liquid.***

***PJM Comments on Recommendation #7***—PJM concurs that more can be done in the day ahead market to align the gas and electric days. Steps were already taken to change clearing times across the RTO markets although there remains a lack of uniformity across RTOs. Nevertheless, although these reforms can be made in the day ahead markets, there is not this same option for synchronizing real time market clearing with gas nomination cycles in the real time market which operates on a five minute basis. Real time markets are critical to ensuring reliability especially in stressed conditions. Although reforms to the time of closing of the *day ahe*ad market could help improve coordination, operators need the flexibility in the real time markets to clear and dispatch units in real time without having to face a whole new class of units that declare themselves long lead time units and therefore unavailable to the dispatchers.

Going forward, the Recommendation should reflect the limitations of applying this recommendation to address real time markets and the complexities and tradeoffs in implementing this Recommendation in real time markets.

**NAESB Recommendation #8*—If not already under consideration through stakeholder processes, ISOs and RTOs or the FERC, through initiating or conducting proceedings, should adopt multiday unit commitment processes to better enable the industry to prepare for and provide reliable service during events in which demand is expected to rise sharply for both electricity and natural gas.***

***PJM Comments on Recommendation #*8*—***Multi-day unit commitment is under discussion in PJM’s stakeholder processes. But PJM urges the authors to recognize that this solution is not without cost both to the efficiency of a dispatch which is matched closer in time to load conditions as well as the high cost this recommendation could bring to customers who would have to bear the burden of gas committed but not burned. The Recommendation reads as a blanket endorsement of the proposal without considering these trade-offs. Moreover, the Recommendation assumes that the inflexibility of the gas markets on weekends is a given and that the electric markets have to simply commit units on a multi-day basis on into the future based on that current situation. As noted in our response to Recommendation # 6 above, given the breadth of options available for consideration in this NAESB process, PJM believes it would not be prudent to simply accept that condition as inevitable and unchanged into the future. Instead both pipelines and the electric industry need to be challenged to make reforms on both sides of the ledger to reflect the need for new services and flexible markets that provide enhanced options for both LDCs and generators as outlined above.

**NAESB Recommendation #9—*State public utility commissions should encourage local distribution companies within their jurisdictions to structure incentives for the development of natural gas demand response programs, such as those being piloted by National Grid USA and Southern California Gas Company, and/or voluntary natural gas conservation public service announcements for residential, commercial and industrial customers in preparation for* *and during events in which demand is expected to rise sharply for both electricity and natural gas.***

***PJM Comments on Recommendation #9—***As discussed at the last NAESB meeting, this Recommendation has two different threads that should be separated into two separate recommendations. PJM supports the recommendation concerning public service announcements which is distinctly separate from the recommendation on the development of additional gas demand response products.

**NAESB Recommendation #10*—State public utility commissions with integrated resource planning or equivalent planning requirements should consider ways to improve upon cross-market, long-term planning by expanding collaboration requirements by relevant gas and electric market parties and considering an increased focus on fuel adequacy.***

***PJM Comments on Recommendation #10***—This recommendation appropriately focuses on the benefits of increased coordination of natural gas unit interconnection studies with the availability of natural gas pipeline service. Although state involvement in this area is helpful, planning of the interstate transmission grid is within FERC’s jurisdiction as is review of proposed pipeline expansions to meet new load requirements. As a result, this Recommendation better rests with being assigned to Planning Authorities and FERC in its oversight role for interstate pipelines and FERC-regulated RTOs and ISOs.

**NAESB Recommendation #11—*FERC, state publicly utility commissions and applicable state authorities in states with competitive energy markets should consider whether market mechanisms are adequate to ensure that jurisdictional generators have the necessary arrangements for secure firm transportation and supply service and/or storage to avoid and/or mitigate natural gas supply shortfalls during extreme cold weather events, and if not, determine whether non-market solutions are warranted, including funding mechanisms borne by or shared by customers.***

***PJM Comments on Recommendation #11—***PJM is undertaking this very review in its CIFP Resource Adequacy process. Nevertheless, the recommendation, as written, seems to suggest that if the markets are not achieving this goal today, then the alternative is non-market solutions with costs borne by load. In the alternative, PJM suggests that the Recommendation embrace a three-step process whereby:

1. RTOs are to review with their stakeholders whether the existing market rules are achieving these goals.
2. If not, RTOs working with their stakeholders should analyze what market-based reforms may be helpful to further this goal
3. Only if it is determined that market solutions are not available, would non-market solutions be considered.

**NAESB Recommendation #12—*Applicable state authorities should consider legislation or regulations that can be enacted or other actions that can be taken to create a secondary market for unutilized natural gas pipeline capacity or support bilateral agreements between end users. In instances where state authorities lack enabling authority to take such actions, the FERC should adopt regulations to achieve identical outcomes.***

***PJM Comments on Recommendation #12—***PJM believes that this recommendation can best be achieved through the greater transparency reforms to the secondary market as proposed above. As to the interstate markets, the Recommendation should be more clear as to who has the responsibility to move forward on this issue. States are clearly important to this discussion however, for the interstate markets, more consistent approaches are needed as the secondary markets do not limit their operations to the boundaries of a single state

**NAESB Recommendation # 14*—Applicable state authorities should consider the development of weatherization guidelines appropriate for their region to support the protection and continued operation of well-heads and processing and gathering system facilities during extreme weather events and require transparency concerning weatherization efforts of jurisdictional entities.***

***PJM Comments on Recommendation #14***—Based on the experience of Winter Storm Elliott, PJM supports this Recommendation. PJM believes this can best be accomplished by providing winterization requirements in standard gas purchase agreements as a start given the lack of a single standard setting body such as NERC to require winterization of natural gas facilities. PJM has addressed this issue further above.

***NAESB Recommendation #18—On May 3, 2023 a request for standards development was submitted to NAESB to consider modifications to the NAESB Base Contract for Sale and Purchase of Natural Gas to, among other things, encourage weatherization actions. As this specific topic was identified and discussed by the NAESB Gas-Electric Harmonization (GEH) Forum as a potential recommendation, we endorse this evaluation by the NAESB Wholesale Gas Quadrant.***

*PJM Comments on Recommendation #18****—***This recommendation states that the Forum ‘endorses this evaluation by the NAESB Wholesale Gas Quadrant’ but does not provide any observations or recommendations on the relative importance of this issue and its relevance to addressing the concerns raised in the NERC/FERC Winter Storm Uri analysis which gave rise to this NAESB process. PJM, SPP and other parties have urged reconsideration of the force majeure provisions of the standard NAESB contract so as to provide greater clarity as to the obligations of producers to, among other things, mitigate the impact of force majeure events. PJM believes that the Recommendation should, at the very least, make an observation as to the relevance of this request to address issues with availability of gas commodity that occurred during both Winter Storms Uri and Elliott and whether this is an item that deserves both priority within the NAESB process as well as additional attention by state and federal regulators.

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 **PJM looks forward to working with the Forum participants on these important matters.**

 **Please feel free to contact Brian Fitzpatrick of PJM at 215-962-4508 (Brian.Fitzpatrick@PJM.COM) or Craig Glazer of PJM at 202-423-4743 (Craig.Glazer@PJM.COM) with any questions or comments.**