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August 18, 2014

**Via U.S. Mail and Email Transmittal**

Ms. Rae McQuade

Mr. Jonathan Booe

North American Energy Standards Board

801 Travis, Suite 1675

Houston, Texas 77002

[naesb@naesb.org](mailto:naesb@naesb.org)

Re: Industry Comment Period for 2014 WGQ Annual Plan Item 11c

Dear Ms. McQuade and Mr. Booe,

On July 18, 2014 the North American Energy Standards Board ("NAESB") issued a Wholesale Gas Quadrant Request for Formal Comments on 2014 WGQ Annual Plan Item 11.c Recommendation. Pursuant to this Request, Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, UNS Gas, Inc. and Tucson Electric Power Company, Public Service Company of New Mexico, El Paso Electric Company and the Arizona Corporation Commission (the "Joint Parties") all of which are members of the Desert Southwest Pipeline Stakeholders ("DSPS"), submit the following comments.

On March 20, 2014, the Federal Energy Regulatory Commission ("FERC") issued a Notice of Proposed Rulemaking ("NOPR") entitled *Coordination of the Scheduling Process of Interstate Natural Gas Pipelines and Public Utilities*.[[1]](#footnote-1) This NOPR proposed to revise certain FERC regulations to better coordinate the scheduling of natural gas and electricity markets in light of increased reliance on natural gas for electric generation and to provide additional flexibility to all shippers on interstate natural gas pipelines. Rather than immediately soliciting industry comments to the FERC proposed NOPR, the Commission provided the natural gas and electric industries with six months to reach an industry consensus position on standards consistent with the Commission’s guidance.

In response to this NOPR, NAESB convened numerous public meetings to facilitate industry discussions on gas and electric coordination issues in an effort to evaluate the NOPR and, if achievable, produce an industry consensus position that would serve as an alternative to the Commission’s proposal related to the establishment of new national natural gas nomination and scheduling timelines. At the outset of these public meetings, NAESB established certain ground rules, including a process for determining if an "industry consensus position" could be reached. It was agreed, and all parties were put on notice, that super majority, balanced voting by industry segments would be employed to determine if an "industry consensus position" had been met. Under this process, each segment, despite the number of entities participating, would be given an equal voice in the process. In addition, in order to reach the super majority condition and establish an industry consensus position, a proposal would have to obtain favorable votes from 67% of both the Wholesale Gas Quadrant and the Wholesale Electric Quadrant, as well as 40% of the votes from each segment.

During the months of April, May and June, public forum meetings were conducted allowing industry representatives to participate in person or via conference call. This forum was productive in that it provided a comprehensive opportunity for interested parties to educate other segments and regions on the operational and physical challenges facing the natural gas and electric industries. However, as discussions progressed one point that was made clear by virtually all segments of the gas and electric industries was the concern that the individual components of a comprehensive industry consensus position (such as the time for the start of the Gas Day, the hours of flow for each cycle and the appropriate scheduling of the different timelines during the remaining hours of the day) were so inherently tied together that it would be impossible to vote on individual component in isolation. In response to this concern, it was explained that binding votes would only apply to complete packages that addressed all of the components of a proposal. Based on this representation, discussions on individual components of proposals (including their interplay with crucial elements of a package) where readily discussed and made the subject of only non-binding votes with the confidence that any industry consensus position would ultimately require binding votes in the form of a "complete package."

Unfortunately, despite eight weeks of public forum discussions, the industries failed to meet the agreed upon requisite of the super majority voting percentage needed to reach an "industry consensus position."

On June 4, 2014, the NAESB Board of Directors reviewed the voting results from the public forum. Instead of responding to the Commission that a comprehensive industry consensus position could not be reached, the Board unilaterally decided to lower the threshold for establishing a "consensus position" from the "super majority" vote on a package deal threshold announced at the public forum to one that only required "broad industry support" of individual elements of different proposals and directed the Executive Committee to:

[W]rite standards to reflect the timely and evening next day nomination cycles, and the 3 intraday nomination cycles as described in the last motions of the NAESB GEH Forum, remaining silent on the start of the Gas Day with the assumption the Commission will establish the gas day start best suited to achieve the objectives defined in the NOPR.

As a result of the Board action, the Wholesale Gas Quadrant Business Practice Subcommittee ("BPS") conducted meetings and has completed the assigned responsibilities. The Joint Parties are not taking issue with the activities performed by the BPS. Rather, by the instant comments the Joint Parties submit that while the action taken by the Board may be within the discretion it reserves for itself, such actions are neither consistent with ground rules established for the public forum nor consistent with the Commission's direction to NAESB to reach a "consensus" of the gas and electric industries on standards.

The problem with the Board's approach (and with the instructions given by the Board to BPS) is that the participants in the public forum were never placed on notice that their votes could be used in a manner inconsistent with the purposes originally outlined in this process. Moreover, had the Board utilized the "super majority threshold on complete packages" as the basis for identifying an industry consensus position, all proposals would have failed to reach an industry consensus and as a result all proposals would therefore be reviewed in parity by the Commission. Instead, by unilaterally lowering the threshold to a "broad industry support" for individual components of a comprehensive package *post facto,* the Board's recommendation to the FERC: 1)does not accurately reflect the overwhelming consensus that the elements of a proposal are inherently related and cannot be identified in isolation; and 2) precludes industry participants from effectively making arguments why relying on individual components is inappropriate. For example, the start of the Gas Day is essential for properly spacing the timing of the various intraday nomination cycles with the appropriate number of hours of service that are remaining in the day in order to ensure that such timing is of assistance in effectively meeting peak demand needs.

In light of what the Joint Parties believe was inappropriate action, the Joint Parties submit that the attached Alternate Position (minority position) should also be included in the record to be forwarded to the Commission as part of its extensive review of all positions that failed to garner the requisite "super majority" votes to be considered an industry "consensus position."

Respectfully submitted on behalf of the Joint Parties,

/s/Thomas Carlson

Thomas Carlson

Director, Fuels & Term Trading

Enclosure

Cc: Bob Gray, Arizona Corporation Commission

Stanley Gross, El Paso Electric Company

Steven Maestas, Public Service Company of New Mexico

Ernie Crawford, Public Service Company of New Mexico

Paul Jones, Salt River Project Agricultural Improvement and Power District

Kent Price, Salt River Project Agricultural Improvement and Power District

Michael A. Bowling, Tucson Electric Power Company and UNS Gas, Inc.

Kelly A. Daly

**Alternate Position of Members of the DSPS**

Both as individual entities and as supporters of various coalitions, the members of the Desert Southwest Pipeline Stakeholders were actively engaged in the NAESB public forum process. For purposes of these comments the Desert Southwest Pipeline Stakeholders ("DSPS") includes Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, UNS Gas, Inc. and Tucson Electric Power Company, Public Service Company of New Mexico, El Paso Electric Company and the Arizona Corporation Commission.

The DSPS (and the Southwest Customer Group) made substantive presentations explaining the reliability issues that firm customers in the Desert Southwest are experiencing under the current NAESB gas nomination timeline. These issues largely stem from the fact that shippers in the Desert Southwest are subject to a combination of unique circumstances that collectively distinguish the region from the rest of the country. Specifically, the DSPS provided record evidence demonstrating that all of the following unique circumstances directly impact gas and electric operations in the Desert Southwest and distinguish the Desert Southwest from other regions of the country.

1. Due to the differences in time zones, the NAESB standard gas nomination timelines do not line up with the peak periods of demand in the Desert Southwest (which occurs between the hours of 5:00 and 7:00 PM local time, which is 7:00 and 9:00 PM Central Time);
2. Due to differences in geography and climate, the NAESB standard gas nomination timelines do not line up with the peak period of demands in the Desert Southwest which occurs in the evening between 5:00 PM and 7:00 PM Pacific Time/7:00 PM and 9:00 PM Central Time);
3. Due to the topography of the Desert Southwest there is no market area storage in the region and the inherent limitations on water/protections of aquifers, makes the construction of underground storage unlikely;
4. The Desert Southwest has experienced the largest growth in intermittent renewables (solar and wind) throughout the country and as demonstrated by data provided by APS, these resources can fluctuate between 0 and 22% of the hourly power demands of their service territory;
5. Pipelines serving the Desert Southwest are not capable at this time of providing firm, No-Notice service that would allow firm transportation holders access to the Maximum Daily Quantity of their firm contracts;
6. The increasing level of intermittent solar and wind resources (and the retirement of coal fleets) in the Desert Southwest coupled with growing demand for energy in the peak evening period is causing a steeper ramp rate for quick start, gas-fired generation in the Desert Southwest; and
7. It is not uncommon for the ambient temperature in the Desert Southwest to be in excess of 100 degrees at 8:00 PM.

As the DSPS explained, no other region of the country experiences all of these unique circumstances and limitations. The DSPS further explained that its major issue centered around the need of firm shippers in the Desert Southwest to have a NAESB nomination cycle that would provide firm access (i.e., with bumping rights) to their transportation capacity during their peak demand periods at 7:00 PM to 9:00 PM Central in order to address operational contingencies (including unexpected changes in solar and wind generation).

Despite the evidence presented and the industries' acknowledgement of these operational concerns, the NAESB consensus building process did not vote to incorporate any of the solution proposed by the DSPS (or the SCG). To the contrary, it was recommended that the DSPS attempt to resolve its issues through the creation of a "regional" solution. In furtherance of this recommendation for a regional solution, the DSPS has crafted a solution that consists of four components that require Commission assistance: two of which need be implemented on a national basis and two require only regional implementation. The DSPS therefore requests that the following provisions be included in the NAESB record for submission to the Commission's and subsequently adopted by the Commission for inclusion in its Final Rule in Docket No. RM14-2.

**DSPS Solution to Issues in the Desert Southwest**

**Provisions requiring National application:**

1. Establish the NAESB Evening Nomination Cycle at 7:00 PM Central;
2. Modify the FERC policy on Secondary/Alternate nominations to provide that such nomination are firm beginning in the NAESB Evening Cycle;

**Provisions requiring only Regional application:**

1. Establish a 1-Year Pilot Program for pipelines serving the Desert Southwest (i.e., El Paso Natural Gas, Transwestern and TransCanada-North Baja Pipelines) that:
   1. Allows FT shippers to submit a separately designated retro/make-up nomination during the Evening Nomination Cycle; and
   2. Provide that imbalance charges/penalties only apply to imbalances that are not corrected by gas that flows at the start of the Gas Day.
2. Prohibit shippers from submitting a combination of a retro/make-up nomination and a daily nomination that exceeds the shipper's Maximum Daily Quantity of its firm contract.

**Objectives of this Proposal**

* To afford firm transportation contract holders in the Desert Southwest an opportunity to access their capacity to address operating contingencies and unexpected changes in generation during their peak evening demands between 7:00 PM – 9:00 PM Central Time.
* To ensure that natural gas relied upon to serve operating contingencies and unexpected changes in the peak evening periods is injected into the pipeline at the earliest possible time (i.e., the start of the Gas Day -- which under the proposed NOPR would be 13-hours faster than the current process allows).
* To provide more timely and accurate information to interstate pipelines for operational certainty.
* To be consistent with the Commission's policy of encouraging development and reliance on renewable energy alternatives.

**Explanation in support of this Proposal:**

During the NAESB public forum the DSPS was arguing in favor of a 7:00 PM Central Time "bumping" NAESB intraday nomination cycle to enable a firm transportation contract holder a guaranteed opportunity to utilize the capacity the shipper has under a firm contract. Arguments in opposition to the 7:00 PM Central "bumping" intraday cycle explained that having a "bumping" NAESB intraday nomination cycle at 7:00 PM was difficult because it: 1) was after normal business hours; 2) would still require a subsequent "no bump" cycle under FERC's existing policy; 3) raised complications associated with interrupting flowing gas; and 4) had arguably little value due to the elapsed *pro rata* flow of such gas. In addition, the DSPS was alerted of the interplay with secondary firm nominations (and the likelihood that shippers would increasingly acquire firm capacity on unused segments of a pipeline and schedule to Secondary or Alternate points) which would serve to further jeopardize the value of a 7:00 PM bumping cycle.

Recognizing the opposition to having a 7:00PM Central Time intraday "bumping" cycle, but still trying to incorporate the DSPS's need for a cycle to incorporate operating contingencies that happen in the period between 7:00 PM to 9:00 PM Central Time, the DSPS solution provides a reasonable compromise that addresses all concerns. By moving the NAESB Evening Nomination Cycle to 7:00PM Central Time, the DSPS solution provides a timely opportunity to address operating contingencies AND dispenses with the concerns surrounding flowing gas, the need for a subsequent no bump cycle, and elapsed prorated gas. Moreover, by slightly modifying the FERC policy to provide that Secondary/Alternate nominations become firm in the Evening Cycle,[[2]](#footnote-2) firm nominations to and from primary points are given a higher priority thereby increasing their value and encouraging long term contracting, which in turn is promoting infrastructure development.

Finally, the imposition of this proposed solution on a 1-year pilot program for the Desert Southwest (i.e., El Paso Natural Gas, Transwestern and TransCanada-North Baja Pipelines), will provide the FERC and the pipelines a transparent opportunity to ensure that these new terms are being utilized for the intended reliability purposes without fear of imposing unintended consequences in advance of a permanent application of this proposal.

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1. 146 FERC ¶ 61,201 (2014). [↑](#footnote-ref-1)
2. It should be noted that there is already one pipeline in the Desert Southwest (El Paso) that confirms secondary firm beginning in the Evening Cycle. [↑](#footnote-ref-2)