**UNITED STATES OF AMERICA**

**BEFORE THE**

**FEDERAL ENERGY REGULATORY COMMISSION**

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| Coordination of the Scheduling Process of Interstate Natural Gas Pipelines and Public Utilities. | ::: | Docket No. RM14-2-000 |

**COMMENTS
SUBMITTED ON BEHALF OF**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

**November 25, 2014**

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**THE PUBLIC UTILITIES COMMISSION OF OHIO**

 The Public Utilities Commission of Ohio (PUCO) respectfully submits the follow­ing Comments in response to the Federal Energy Regulatory Commission’s (Commis­sion) Notice of Proposed Rulemaking (NOPR) issued March 20, 2014.

 The NOPR proposes to revise its regulations at 18 CFR Section 2814.12 to better coordinate the scheduling of natural gas and electricity markets. The proposal focuses on revisions of the operating day and scheduling practices used by interstate pipelines to schedule natural gas transportation service. The natural gas and electric industries were provided six months to reach consensus on the revised standards. The Commission estab­lished a comment deadline of November 28, 2014.

# INTRODUCTION

 The PUCO is charged with assuring that Ohioans have access to adequate, safe, and reliable public utility services at a fair price. Ohio is a retail choice state for electric generation service. Ohio is an energy-intensive state whose demand accounts for approxi­mately 21 percent of PJM’s load.[[1]](#footnote-1) As a state that facilitates competitive electricity mar­kets and is located at the center of shale gas production, we are able to provide a valuable and unique perspective.

# COMMENTS

 The PUCO has long been engaged in encouraging continued gas and electric coor­dination.[[2]](#footnote-2) The accessible reservoirs of readily available, cost effective, extractable natu­ral gas and natural gas liquids from shale will provide tangible benefits in several states, including Ohio. Natural gas production from Ohio’s Utica shale increased from 155 mil­lion cubic feet per day in 2012 to an estimated 1.3 billion cubic feet per day in September 2014.[[3]](#footnote-3) With the increasing availability of natural gas, this fuel source will undoubtedly play a significant role in the provision of electric generation.[[4]](#footnote-4) However, the benefits of natural gas availability also bring challenges, like the coordination of disparate gas and electric markets, and the daily timing differences between the two industries.

 The extreme weather events of this past winter highlight the need to further investigate synergies between the two markets. As the PUCO stated in its comments on the Commission’s April 2014 winter weather technical conference, a lack of consistency between the markets prompted PJM to direct generation units to buy expensive gas in anticipation of severe weather conditions.[[5]](#footnote-5) Ultimately, generation units procured more natural gas than was actually needed in real-time.[[6]](#footnote-6) In the NOPR, the Commission notes that participants in the winter weather technical conference stated that differences between the nationwide natural gas schedule and regional electric schedule can affect the ability to provide reliable service and may create inefficiencies in scheduling.

 The PUCO agrees with the Commission’s revisions to the natural gas scheduling system, including an earlier start time. There needs to be an appropriate alignment between the natural gas and electric days. Balancing the natural gas and electric days will allow both electric system peaks to take place on the same day, while Intra-Day nomination cycles will continue to satisfy the business operations of the natural gas pipe­lines. The PUCO further supports requiring pipelines to offer multi-party transportation contracts under a single service agreement, as well as the continued dialogue to explore the feasibility of sharing real-time information regarding natural gas pipeline capacity and prices. Finally, the PUCO encourages the Commission to continue to prioritize the coordination of natural gas and electric industries in order to resolve the remaining press­ing issues.

## Natural Gas Operating Day

 The PUCO supports the Commission’s proposal of moving the start of the natural gas operating day (Gas Day) to 4 am Central Clock Time (Central). Adjusting the start time will preserve the nationwide scheduling efficiencies for natural gas while reasonably accommodating the timing of the morning electric peak period in PJM.

### 1. Commission Proposal

 Presently, the Gas Day begins at 9 am Central, with the first nomination for the next day’s gas flows due at 11:30 am Central. Currently, the start of the Gas Day occurs in the middle of the morning electric load ramp in PJM, creating a situation where elec­tric load is increasing at the same time natural gas-fired generators may be running low with their daily nomination from the previous day. To address this misalignment, the Commission proposes to start the Gas Day earlier in order to better align with both the morning and evening peaks of the same electric day.

### 2. PUCO Comments

 The PUCO agrees with the Commission that the divergence between the start times of natural gas and electric operating days may hinder the reliable and efficient oper­ation of electric transmission systems and interstate natural gas pipelines. Natural gas pipelines have not provided detailed rationale as to the costs and frequency of mitigating potential safety issues related to conducting manual operations at an earlier start time.[[7]](#footnote-7) The new start time must be considered in concert with other proposed changes that the Commission is considering to the Gas Day nomination schedule. Aligning the operating days is an incremental step toward achieving a reasonable balance between costs and benefits to both industries.

## Timely Nomination Cycle

 The PUCO supports moving the Timely Nomination Cycle deadline from 11:30 am Central to 1 pm Central, as set forth in the NOPR, and agreed to by the stakeholders.

### 1. Commission Proposal

 The Gas Day begins at 9 am Central and customers, in accordance with the Timely Nomination Cycle, are to submit nominations for the next Gas Day by 11:30 am Central. However, PJM requires market participants to place day-ahead energy offers and bids prior to noon Eastern (11 am Central). Generation units must place their next-day offers into PJM’s energy market without the benefit of knowing the results of the natural gas Timely Nomination Cycle. Because natural gas is most liquid during 8 am to 9 am Central, shippers place nominations for next-day gas transportation by the Timely Nom­ination Cycle deadline. Consequently, there is a premium for natural gas supply and interstate natural gas pipeline transportation capacity service procured after the Timely Nomination Cycle.

 To mitigate these concerns, the NOPR proposes to move the deadline for submit­ting nominations in the Timely Nomination Cycle from 11:30 am Central to 1 pm Central (2 pm Eastern). The NOPR states that gas-fired generation units would have the option of arranging natural gas supply and transportation at the Timely Nomination Cycle with knowledge of the results from the day-ahead electric market.

### 2. PUCO Comments

 A gas-fired generation unit’s ability to know whether its bid in the day-ahead mar­ket has been selected prior to the Timely Nomination Cycle reduces instances in which gas-fired generation units must sell off excess natural gas supply, procure more expensive natural gas supply, de-rate or burn more expensive fuels. This improvement will result in decreased electricity costs and more efficient day-ahead dispatch and unit commitment. The PUCO supports the NOPR’s proposal to change the Timely Nomination Cycle.[[8]](#footnote-8)

## Intra-Day Nomination Schedules

 The Ohio Commission supports revisions to the current Intra-Day Nominations as set forth in the NOPR, and as modified by North American Energy Standards Board (NAESB).

### 1. Commission Proposal

 In addition to the natural gas and electric industries having different start times to their operating days, both industries operate on different schedules within each day. Cur­rently, natural gas pipelines must offer a minimum of four nomination opportunities to schedule natural gas transportation. Only two of the four nomination cycles are Intra-Day nomination opportunities that occur within the Gas Day.

 The NOPR proposes four Intra-Day nomination schedules to occur within the Gas Day, as opposed to the current two Intra-Day nomination schedules.

### 2. NAESB Proposal

 The Commission provided the natural gas and electric industries, through NAESB, with six months from the date of the NOPR to propose any revisions to the schedules set forth in the NOPR. In response to the NOPR, NAESB activated its Gas and Electric Har­monization Committee (GEH) and conducted a series of meetings with members of both the natural gas and electric industries. NAESB developed recommendations regarding the timing of the natural gas Intra-Day nomination schedules. The most significant rec­ommendation by NAESB was to add one Intra-Day nomination cycle to the currently required two Intra-Day cycles. The new Intra-Day Third Nomination Cycle would be at the end of the Gas Day beginning at 7 pm Central and concluding at 10 pm Central.[[9]](#footnote-9)

### 3. PUCO Comments

 The PUCO supports NAESB’s modification to allow for three, rather than four, Intra-Day cycles as originally proposed in the NOPR. The natural gas and electric indus­try consensus affirms that three Intra-Day cycles recognize the need to provide the natu­ral gas industry with adequate time during each cycle to complete the business process associated with confirming and scheduling each nomination. The compromise provides parties with sufficient time between the cycles to respond to any scheduling changes.[[10]](#footnote-10)

 The PUCO also supports the addition of NAESB’s Third Intra-Day nomination cycle because it allows natural gas-fired generation units to respond to real-time events by creating an additional opportunity to secure pipeline capacity for the remainder of the current Gas Day. This flexibility is important, particularly during extreme weather events where a generation unit needs to run in excess of its day-ahead schedule, or has been asked to run without prior notice.[[11]](#footnote-11)

## Multi-Party Transportation Agreement

### 1. Commission Proposal

 The Commission proposes to require pipelines that offer firm transportation to also offer multi-party transportation contracts. This revision would enable multiple ship­pers to share interstate natural gas pipeline capacity. The Commission states that while some pipelines already offer this option, it is discretionary.

 The Commission explains that multi-party transportation agreements provide a more effective means of sharing capacity between entities than the current method. The current method, known as capacity release, requires posting and bidding and separate contracts with replacement shippers. The Commission states that a multi-transportation arrangement allows multiple shippers the option of a single contract with a single agent or asset manager managing the capacity.

### 2. PUCO Comments

 The PUCO agrees with the Commission that the use of shared capacity can make the purchase of firm pipeline capacity more affordable for gas-fired generation units. Allowing shippers to enter into a single contract with the pipeline provides entities the flexibility to choose contracting partners that maintain complementary needs for pipeline capacity. Gas-fired generation units often cite the expense of obtaining firm fuel con­tracts as a reason for securing firm transportation. The NOPR creates efficiencies that result in more effective, affordable and reliable gas transportation; therefore, it should be adopted.

## Natural Gas Trading Platform

 An idea that has been recently explored by the Commission outside of the NOPR is to effectuate transparency and liquidity in the gas markets through the creation of a centralized-trading platform for procurement similar to what currently exists in commer­cial exchanges.[[12]](#footnote-12) Ideally, such a platform would be capable of supporting near real-time, intra-day natural gas trading, with the possibility for automated clearing of such trades. A natural gas trading platform could allow for the scheduling of hourly nominations and flexibility in products requested by gas-fired generation units.

 The PUCO recognizes the natural gas industry’s concern with a significant over­haul to the gas scheduling system. Therefore, the PUCO supports further investigation of a natural gas trading platform as a worthwhile addition to the “marketplace of ideas” to resolve gas and electric scheduling problems, while appropriately recognizing regional differences in natural gas and electric markets prior to adopting any global solutions.[[13]](#footnote-13)

## Other Issues

 The PUCO supports the scheduling revisions in the NOPR as modified by NAESB; however, there is still more work to be done to resolve natural gas and electric coordination issues. We encourage the natural gas and electric industries to continue to collaborate and explore the possibility of additional nomination schedules, perhaps as fre­quent as hourly. Further, continued dialogue should consider the need for more liquidity and pipeline capacity, additional tariffed pipeline services, and the development of pro­ducer-driven products that provide additional flexibility.

 As the electric industry becomes more reliant on gas-fired generation, the incen­tives and opportunities to resolve these issues have never been stronger or more important. The cooperative efforts between the natural gas and electric industries to reach consensus in this docket is commendable. The PUCO encourages further collabo­ration and continued dialogue between the industries to mutually identify and resolve these complex issues.

# CONCLUSION

The Ohio Commission appreciates the Commission’s efforts to harmonize the nat­ural gas and electric scheduling days. We urge the Commission to adopt the NOPR as modified by NAESB. The PUCO looks forward to continuing to work collaboratively with the Commission and other interested parties to develop policies that will further effectuate the coordination of the natural gas and electricity markets to the ultimate bene­fit of consumers in this state and the country.

Respectfully submitted,

*/s/ Jonathan J. Tauber*

**Jonathan J. Tauber**

Ohio Federal Energy Advocate

Public Utilities Commission of Ohio

180 East Broad Street

Columbus, OH 43215-3793

614.644.7797 (telephone)

614.644.8764 (fax)

jonathan.tauber@puc.state.oh.us

*/s/ Thomas W. McNamee*

**Thomas W. McNamee**

180 East Broad Street

Columbus, OH 43215-3793

614.466.4396 (telephone)

614.644.8768 (fax)

thomas.mcnamee@puc.state.oh.us

**On behalf of the Public Utilities Commission of Ohio**

# CERTIFICATE OF SERVICE

 I hereby certify that the foregoing has been served in accordance with 18 C.F.R. Section 385.2010 upon each person designated on the official service list compiled by the Secretary in this proceeding.

*/s/ Thomas W. McNamee*

**Thomas W. McNamee**

Dated at Columbus, Ohio this November 25, 2014.

1. *Percentage of PJM Load by State*, Monitoring Analytics (Aug. 20, 2014), http://www.monitoringanalytics.com/data/pjm\_load.shtml. [↑](#footnote-ref-1)
2. *Coordination between Natural Gas and Electricity Markets*, FERC Docket No. AD12-12-000 (Ohio Commission Comments) (Mar. 30, 2012). [↑](#footnote-ref-2)
3. *See:* Energy Information Administration monthly Drilling Productivity Report, Aug. 12, 2014 at: <http://www.eia.gov/todayinenergy/detail.cfm?id=17511> [↑](#footnote-ref-3)
4. NOPR at 7. [↑](#footnote-ref-4)
5. FERC Docket No. AD14-8-000 (Ohio Commission Comments at 8-9) (May 15, 2014). [↑](#footnote-ref-5)
6. *Id*. [↑](#footnote-ref-6)
7. NOPR at 37-38. [↑](#footnote-ref-7)
8. The proposed change to the Timely Cycle is supported by the gas and electric industries. See: FERC Docket No. RM14-2-000 (NAESB Comments at 4) (Sep. 29, 2014). [↑](#footnote-ref-8)
9. The proposed change to the Timely Cycle is supported by the gas and electric industries. See: FERC Docket No. RM14-2-000 (NAESB Comments at 4) (Sep. 29, 2014). [↑](#footnote-ref-9)
10. FERC Docket No. RM14-2-000 (INGAA and Spectra Comments to NAESB) (Sep. 29, 2014) [↑](#footnote-ref-10)
11. *Id*. (IRC Comments to NAESB) (Sep. 29, 2014). [↑](#footnote-ref-11)
12. FERC Docket No. AD14-19-000 (Comments of NGX at 2-4 (explaining current gas trading and clearing systems)) (Oct. 1, 2014). [↑](#footnote-ref-12)
13. *Id*. (Comments of the New York Public Service Commission at 4-5) (Oct. 1, 2014). [↑](#footnote-ref-13)