

FILE

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

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PUCO

California Independent System Operator	)	Docket No. EL07-1-000
Corp. ISO New England, Inc.	)	Docket No. EL07-2-000
PJM Interconnection, LLC	)	Docket No. EL07-3-000
Midwest Independent Transmission	)	Docket No. EL07-4-000
System Operator, Inc.	)	
New York Independent System	)	Docket No. EL07-5-000
Operator, Inc. Southwest Power Pool, Inc.	)	Docket No. EL07-6-000

93-6000-CA-FAD

**INITIAL COMMENTS ON INQUIRIES INTO GAS-ELECTRIC  
COORDINATION ISSUES**

On October 25, 2006, the Commission issued an Order Instituting Inquiries regarding concerns that the scheduling practices of independent system operators (ISOs) and regional transmission organizations (RTOs) are not effectively coordinated with the scheduling of natural gas purchase and transportation transactions, so that natural gas-fired must-run generators may be unable to obtain gas during periods when gas transportation is constrained or gas prices are volatile. The Public Utilities Commission of Ohio (Ohio or PUCO) appreciates the opportunity to share these preliminary concerns about the Commission's Inquiry in order to provide RTOs and other parties to this proceeding with a sense of outcomes or solutions that should be avoided because of unintended or adverse consequences for third party customers who are able to abide by, and cope with, pipeline scheduling practices and gas price volatility.

The PUCO is concerned that the outcome of this proceeding could have an impact beyond the scheduling practices of ISOs and the recoverability of gas costs by the electric generators. The Inquiries are fashioned as electricity dockets; however the issues could easily,

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and may necessarily spill over and impinge upon local gas distribution companies, gas transmission pipelines, and various natural gas customers. The outcome of this Docket could also impact gas pipeline curtailments, reliability of gas deliveries, and natural gas prices. Changes made as a result of this Docket in one ISO region could impact operations in other states and regions. Thus, the PUCO is early filing these initial concerns because we are uncertain of FERC's intent procedurally and we are uncertain of the scope of these inquiries. We are also anxious that the RTOs take these possible implications into account in their filing. Ohio is also mindful that coincident electric and gas winter peaks are not the only scenario upon which these inquiries could come to bear.

Any changes affecting the scheduling of gas to serve generators dispatched by an RTO, or changes affecting the compensation of such generators, could adversely affect Ohioans. The PUCO is concerned that such changes could cause gas curtailments to firm Ohio customers, including human needs customers who rely on natural gas for life. The PUCO is also concerned that somehow assuring that electric generators could recover the price they pay for natural gas during volatile periods when natural gas being supplied by marketers may not be available to generators receiving dispatch orders could result in Ohio customers paying more than they should or otherwise would.

The PUCO supports the approach that each individual ISO or RTO has the opportunity to make the "necessary changes to their scheduling and compensation systems". Business and business environments in different regions of the country have their own regional problems that would likely require unique regional solutions.

In considering "whether scheduling and compensation mechanisms need to be revised to ensure that gas-fired generators can obtain gas when the gas-fired generation is necessary,"

prioritization of natural gas delivery logically becomes an issue. Though a variety of factors impacting a proper policy on prioritization will need to be thoroughly discussed in future forums, there should be a clear, consistent, precise definition for “emergency situations” and a clear, easily calculated definition of how “costs” are to be determined during those situations. If special procedures regarding scheduling and pricing are to be applied during emergencies, it should be well known in advance what constitutes an emergency, so that 3<sup>rd</sup> party customers can manage accordingly.

Improvements in the coordination of scheduling natural gas deliveries should be explored, including communications between power generators, the ISO or RTO, and the natural gas transmission companies, to improve pipeline deliverability, reduce pipeline penalties, and increase the reliability of the electric generators. However, it appears at face that electric generators might like to receive a type of firm service from the natural gas transmission companies even though they are only contracting for interruptible service arrangements. Pipelines could find themselves in a dilemma. They may contend that power generators who want increased firm service should pay for it but at the same time fear that they may have to provide additional services to generators in emergency situations while compromising service to their firm customers, such as local distribution companies. If power generators receive priority services, they should be required to pay for them.

In an effort to assist the generators, the pipelines should try to avoid altering services in a way that would harm firm customers, including local distribution companies. If services paid for and expected by the LDCs are curtailed, the LDCs should be compensated. The Commission needs to be cognizant of this in moving forward.

Should gas-fired generators be “compensated appropriately when volatility in gas prices creates difficulty in recovering gas costs?” Should the risk of gas cost recovery be borne by the electric generator? The Commission continues to take actions to assure that wholesale electric generation is competitive. Therefore, the matter of scheduling and certainly compensation issues should be approached sparingly and cautiously. If there are local problems, they should be addressed with the care that they do not have national consequences. The PUCO appreciates the opportunity to submit these preliminary concerns in this Docket and respectfully requests the ability to comment on any proposals the RTOs or FERC might make in response to this inquiry.

Respectfully submitted,

/s/Thomas G. Lindgren

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#### **CERTIFICATE OF SERVICE**

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

/s/ Thomas G. Lindgren

**Thomas G. Lindgren**

Assistant Attorney General

Dated at Columbus, Ohio this December 20, 2006.