

141 FERC ¶ 61,125
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
and Cheryl A. LaFleur.

Coordination Between Natural Gas and Electricity
Markets

Docket No. AD12-12-000

ORDER DIRECTING FURTHER CONFERENCES AND REPORTS

(Issued November 15, 2012)

1. Over the past several years there has been growing concern regarding natural gas-electric interdependencies and in particular whether the natural gas and electric industries are prepared to work together seamlessly in an environment of increasing reliance on the use of natural gas as a fuel for electric generation. Each industry on its own is complex, and each has its own unique rules, terms, and practices. Going forward they face the potential for common challenges and opportunities. The February 2011 Southwest cold weather event brought to the forefront the close relationship between the natural gas and electric industries and highlighted certain challenges.¹ It is with this backdrop and the desire to ensure that these industries have the necessary practices and tools in place that

¹ See FERC/NERC, *Report on Outages and Curtailments During the Southwest Cold Weather Event of February 1-5, 2011* (Aug. 2011), available at <http://www.ferc.gov/legal/staff-reports/08-16-11-report.pdf>. “The February 2011 cold weather event highlights the interdependency of electricity and natural gas, an interdependency that has grown in recent years.” While not the principal cause of the outages, “rolling blackouts (or customer curtailments) in ERCOT were a significant cause, from 29 to 27 percent respectively, of production shortfalls in the Permian and Fort Worth Basins.” See also Commissioner Philip D. Moeller, *Request for Comments of Commissioner Moeller on Coordination between the Natural Gas and Electricity Markets* (Feb. 3, 2012), available at <http://www.ferc.gov/about/com-mem/moeller/moellergaselectricletter.pdf>; Commissioner Cheryl A. LaFleur, *Statement regarding Standards for Business Practices for Interstate Natural Gas Pipelines* (Feb. 16, 2012), available at <http://www.ferc.gov/media/statements-speeches/laflleur/2012/02-16-12-laflleur-G-1.asp>.

the Commission opened a proceeding to consider issues related to natural gas-electric interdependencies.

2. Towards this goal, the Commission convened five regional conferences throughout the month of August 2012 for the purpose of obtaining information regarding coordination between natural gas and electric markets. The conferences were structured around three sets of issues: scheduling and market structures/rules; communications, coordination, and information-sharing; and reliability concerns. A cross-section of industry representatives participated and/or attended the regional conferences, with total attendance exceeding 1,200 registrants.

3. Conference participants described significant industry efforts underway to address gas-electric coordination issues, most of which focus on region-specific issues through table-top exercises, planning studies, and reforms to specific electric market rules. The participants also identified general concerns that came up in all regions: the respective ability of each industry to share information in furtherance of enhancing gas-electric coordination consistent with the Commission's regulations on Standards of Conduct and statutory restrictions on undue discrimination and preference; and, scheduling discontinuities between the gas and electric industries, including the impact of the Commission's "no bump" and pipeline capacity release rules. Industry representatives at multiple conferences suggested that generic guidance or action on these issues could facilitate greater harmonization of the gas and electric industries.²

4. The Commission appreciates the responses to the questions posed in this docket, the thoughtful participation in the August 2012 conferences, and the subsequent input of many from the gas and electric industries. Based on the totality of this information and the reality that changes to market structures and development of infrastructure do not happen over night, the Commission believes the most prudent course of action at this time is to more fully explore the two primary issues identified above through additional, targeted technical conferences. In addition, the Commission directs each regional transmission organization (RTO) and independent system operator (ISO) to appear before the Commission on May 16, 2013, and October 17, 2013, to share their experiences from the winter and spring, and summer and fall, respectively.

² Other issues that spurred significant discussion and concern at the technical conferences include whether electric market incentives are adequate to ensure gas-fired generator performance or otherwise signal the need for pipeline infrastructure to meet growing needs. These issues are often tied to the structure and performance of the electric system in a particular region and may be less appropriate for generic consideration. The Commission's staff has produced a report, which is being made public contemporaneously with the issuance of this order, discussing these issues and highlighting the activities taking place in individual regions.

Information Sharing

5. As noted above, one topic common across all of the conferences is related to the desire of industry representatives to ensure adequate communications between natural gas and electric operators, particularly during emergency situations. The Commission appreciates that the ability to communicate and share information is essential for the efficient operation of both the electric and natural gas industries. It is not the Commission's intent for its rules and policies to create unnecessary barriers to effective communications between the gas and electric industries. However, the need for effective communications must be balanced against any harm that may result from an inappropriate disclosure of sensitive information. Despite the significance of these issues, there was very little specific discussion of potential clarifications or potential changes to the Commission's regulations in either written comments or at the technical conferences. We therefore direct staff to establish a technical conference to identify areas in which additional guidance or potential regulatory changes could be considered.

6. To inform preparation for this follow-on technical conference, the Commission provides guidance regarding the Commission's Standards of Conduct. The Standards of Conduct govern communications between interstate natural gas pipelines and their affiliates that engage in marketing functions, and public utilities that own or operate electric transmission facilities and their affiliates that engage in marketing functions.³ In other words, the Standards of Conduct apply to communications only within the same organization (i.e., between the affiliated entities of a single corporate family) and do not limit communications between unaffiliated natural gas pipelines and electric transmission system operators. Moreover, under section 358.1(c) of the Commission's regulations, the Standards of Conduct do not apply at all to Commission-approved RTOs/ISOs.⁴

7. In those situations where the Standards of Conduct govern the disclosure of non-public transmission information between the transmission function and marketing function, the Commission's regulations nonetheless permit communications during "emergency circumstances," such as hurricanes or earthquakes, when information is needed to comply with reliability standards or to maintain/restore system operations.⁵ Two sections of the Standards of Conduct specifically authorize communications that may be necessary to address emergency conditions: (1) section 358.7(g)(2) authorizes transmission providers to suspend posting requirements in an emergency; and (2) section 358.7(h)(2) permits communication among employees needed to comply with reliability

³ 18 C.F.R. § 358.1(a) and (b) (2012).

⁴ 18 C.F.R. § 358.1(c) (2012).

⁵ 18 C.F.R. § 358.7(g)(2), (h)(2) (2012).

standards, restore system operations and provide for generation dispatch.⁶ These sections provide relief from the Standards of Conduct rules, including the Independent Functioning Rule, the No-Conduit Rule, and the Transparency Rule.⁷

8. Separate concerns have been raised in both the natural gas and electric industries regarding prohibitions in the Natural Gas Act and Federal Power Act against an interstate natural gas pipeline or public utility providing an undue preference for any customer or customer class in the provision of interstate services.⁸ Questions have been raised regarding how such prohibitions might be applied in the context of gas-electric coordination. As noted in the staff report, a significant amount of information is already shared across industries pursuant to existing market practices, including those implemented pursuant to Order No. 698.⁹ In addition, some utilities have implemented or are in the process of developing communication protocols to share operational and outage

⁶ 18 C.F.R. § 358.7(g)(2), 358.7(h)(2) (2012). *See Standards of Conduct for Transmission Providers*, Order No. 717, FERC Stats. & Regs. ¶ 31,280 (2008), *order on reh'g*, Order No. 717-A, FERC Stats. & Regs. ¶ 31,297, *order on reh'g*, Order No. 717-B, 129 FERC ¶ 61,123 (2009), *order on reh'g*, Order No. 717-C, 131 FERC ¶ 61,045 (2010), *order on reh'g*, Order No. 717-D, 135 FERC ¶ 61,017 (2011) (collectively, Order No. 717).

⁷ 18 C.F.R. §§ 358.5, 358.6, 358.7 (2012).

⁸ Both the Federal Power Act (FPA) and the Natural Gas Act (NGA) prohibit undue discrimination or preference. *See* 16 U.S.C. § 824d(b) (2006); 15 U.S.C. § 717c(b) (2006). Section 205(b) of the FPA thus provides that no public utility:

shall, with respect to any transmission or sale subject to the jurisdiction of the Commission, (1) make or grant any undue preference or advantage to any person or subject any person to any undue prejudice or disadvantage, or (2) maintain any unreasonable difference in rates, charges, service, facilities, or in any other respect, either as between localities or as between classes of service.

Nearly identical language is contained in section 4(b) of the NGA, 15 U.S.C. § 717c(b) (2006).

⁹ *Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities*, Order No. 698, FERC Stats. & Regs. ¶ 31,251, *order on clarification and reh'g*, Order No. 698-A, 121 FERC ¶ 61,264 (2007) (collectively, Order No. 698).

information between industries.¹⁰ By clearly defining the information to be shared and placing appropriate restrictions on its use, regions can address coordination needs consistent with the statutory prohibitions against undue discrimination or preference.¹¹ The Commission encourages other regions to consider the extent to which such communication protocols would be helpful in facilitating gas-electric coordination.

9. In directing staff to convene a technical conference in the near-term to discuss communication issues, we acknowledge that the discussion above and in the staff report will not likely address every question or circumstance. Recognizing that there may be further questions before staff can convene the technical conference, and given the approach of the winter heating season, the Commission emphasizes that there are multiple avenues for a natural gas pipeline, electric transmission system operator, or other entities participating in the natural gas and electric markets to seek guidance from the Commission and our staff.¹² The most formal, and most binding, form of guidance is provided through Commission orders, issued in response to pleadings subject to public review and comment.¹³ This may be a time consuming process and may not be appropriate for addressing immediate questions. More immediate questions can be

¹⁰ Cal. Indep. Sys. Operator Corp., *Business Practice Manual for Outage Management*, at section 4.2.1.2 (Apr. 30, 2012), available at <https://bpm.caiso.com/bpm/bpm/doc/00000000001211>; John Norden, *Information Policy Changes to Facilitate Electric and Gas Coordination*, ISO New England (Oct. 11, 2012), available at http://www.iso-ne.com/committees/comm_wkgrps/mrkts_comm/mrkts/mtrls/2012/oct10112012/a13_iso_presentation_10_11_12.ppt.

¹¹ See e.g., *Cal. Indep. Sys. Operator Corp.*, Docket No. ER12-278-000 (Dec. 8, 2011) (delegated letter order).

¹² *Obtaining Guidance on Regulatory Requirements*, 123 FERC ¶ 61,157 (2008) (*Obtaining Guidance Order*); accord 18 C.F.R. § 388.104(a) (2012).

¹³ See *Cal. Indep. Sys. Operator Corp.*, Docket No. ER12-278-000 (Dec. 8, 2011) (delegated letter order). Responding to issues arising from maintenance-derived natural gas supply issues, the California Independent System Operator Corp. (CAISO) amended its tariff to enhance communications on gas-related maintenance activities within California. The CAISO tariff now specifically authorizes the CAISO to share outage information with natural gas pipelines, with or without notice to the affected market participant.

addressed through the Commission's Compliance Help Desk.¹⁴ The help desk online request form is easily accessible from the homepage of our website and will be updated to include a specific inquiry field for inquiries regarding gas-electric communications.

Scheduling

10. As more fully discussed in the staff report, many conference participants raised concerns related to natural gas and electric scheduling and pipeline capacity release.¹⁵ Some of these concerns relate to whether establishing a standard energy day for both industries is warranted, whether and how utilities can most effectively match their scheduling times with the nationwide natural gas scheduling timeline, whether additional nomination opportunities for natural gas can be provided and, if so, under what conditions.

11. As noted by conference participants and others, whether the scheduling practices of the natural gas or electric industries need to be changed and, if so, what changes are warranted, has been a matter of debate among the industries for a number of years. As also noted in the staff report, however, current regulations and policies already provide a certain degree of flexibility in the near-term for utilities to address coordinated scheduling issues on a regional basis and for pipelines to provide enhanced scheduling opportunities. These efforts are improving coordination across the natural gas and electric industries within individual regions. They do not, however, address broader questions of whether industry-wide changes to scheduling practices and service offerings are necessary or appropriate to achieve long-term gas-electric harmonization, address seams issues across regional markets, or promote a more efficient utilization of existing pipeline capacity. Questions were raised at the conferences as to whether scheduling practices and capacity release rules may need to be modified to accommodate more flexible use of pipeline capacity and improve the efficient utilization of pipeline capacity. These questions are of sufficient importance that we believe they warrant a separate technical conference that will focus on the details relating to scheduling, and whether and how natural gas and electric industry schedules could be harmonized in order to achieve the most efficient scheduling systems for both industries.

¹⁴ The Compliance Help Desk is available for persons seeking technical assistance involving compliance with the statutes, rules, regulations, and tariffs administered by the Commission. See <http://www.ferc.gov/contact-us/compliance-help-desk/compliance-help-desk.asp>.

¹⁵ For discussion of electric and gas scheduling practices, see Staff Report at 29-34; see also North American Energy Standards Board (NAESB), *Gas-Electric Harmonization Committee Report*, at pgs. 6-7 (discussing electric and gas scheduling issues in the context of NAESB standards development).

Reporting

12. As noted in the staff report, several RTOs and ISOs are in the process of developing or implementing refinements to existing practices and in some instances interstate natural gas pipelines have, as necessary, modified services and nomination cycles to meet customer needs. Furthermore, we note that regional stakeholder processes have been initiated in some regions with engagement of electric and natural gas market participants and state regulators to look at both industries' future needs. Notwithstanding, there was considerable discussion during several of the technical conferences as to whether electric generators participating in the organized wholesale electric markets administered by RTOs and ISOs have sufficient market incentives to deliver firm energy, whether from natural gas pipelines or other means. There was also discussion of other features of the day-to-day operation of organized wholesale electric markets, such as the reliability unit commitment process which did not necessarily align well with natural gas markets. Logistical issues also were raised, given that market reforms and infrastructure development take time and ideally should inform one another. Given their unique perspective as regional, independent entities, the Commission directs the RTOs and ISOs to provide additional information to the Commission on natural gas and electric coordination issues. Specifically, we direct each RTO and ISO to appear before the Commission on May 16, 2013, and October 17, 2013, to share its experiences from the winter and spring, and summer and fall, respectively. Each RTO and ISO should describe the progress it has made in refining existing practices to provide better coordination between the natural gas and electric industries and ensure adequate fuel supplies. This discussion also should address any natural gas transportation concerns that arise during the winter heating season and should identify any generator outages during the winter and spring that are fuel related.

13. Further, the staff report highlights that natural gas and electric industry participants in many regions already are actively engaged in stakeholder processes that are exploring the impacts of increased gas-fired generation upon gas-electric coordination within their regions. In some cases, state regulators and other state and local officials are participating in these efforts as well. The report further notes that Commission staff intends to actively monitor and engage the industries regarding progress being made within each region on natural gas and electric coordination. The Commission believes that such industry efforts are important to support the critical nature of the natural gas and electric industries. Therefore, the Commission directs staff to report to the Commission on the industries' natural gas and electric coordination activities at least once each quarter for 2013 and 2014. After this time, the Commission will reevaluate whether further reporting is necessary.

The Commission orders:

(A) Commission staff is hereby directed to convene two technical conferences, as discussed in the body of this order.

(B) Each RTO and ISO is hereby directed to appear before the Commission on May 16, 2013, and on October 17, 2013, as discussed in the body of this order.

(C) Commission staff is hereby directed to provide a report to the Commission at least once each quarter for 2013 and 2014, as discussed in the body of this order.

By the Commission. Commissioner Clark is not participating.

(S E A L)

Kimberly D. Bose,
Secretary.