

Energy Regulatory Alert

March 1, 2013

FERC Convenes Technical Conference on Coordination Between Natural Gas and Electricity Markets

On February 13, 2013, the Federal Energy Regulatory Commission (FERC) convened a Technical Conference on Coordination Between Natural Gas and Electricity Markets to hear industry input regarding the current challenges facing the natural gas and electric industries in the area of information-sharing and communications.

The Technical Conference arose from a February 3, 2012, Request for Comments issued by Commissioner Moeller. Commissioner Moeller's Request for Comments, and FERC's subsequent Notice Assigning Docket No. and Requesting Comments,¹ sought input on the broad issue of the interdependence of the natural gas and electric industries, specifically in the context of electricity generation's increasing reliance on natural gas to serve load. Several parties, including natural gas pipelines, electric generators, independent system operators (ISO) and regional transmission operators (RTO), filed comments. In addition, FERC convened five regional conferences in August 2012, which focused on three sets of issues: scheduling and market structure/rules; communications, coordination and information-sharing; and reliability concerns.²

On November 15, 2012, FERC issued an order directing further conferences and reports.³ This directive emanated from FERC's conclusion, at the end of the five regional conferences, that it must further investigate three issues: information-sharing, scheduling and reporting. The February 13 Technical Conference, the first of three conferences, focused on information-sharing. Commissioner Moeller emphasized his interest in hearing from participants to identify FERC's role in improving communications between the two industries, and he stressed the urgent need to develop a strategy before the next cold-weather event.

The Technical Conference was structured into three Roundtable Discussions, comprising 18 natural gas and electric industry participant representatives, who discussed the following topics: (i) Information-Sharing in Day-to-Day Operations; (ii) Emergency Communications; and (iii) Communication and Coordination for Planned Outages, Scheduled Maintenance and Long-Term Planning. Several overarching themes emerged throughout the Technical Conference:

¹ Coordination Between Natural Gas and Electricity Markets, Notice Assigning Docket No. and Requesting Comments, Docket No. AD12-12-000 (issued Feb. 15, 2012).

² Coordination Between Natural Gas and Electricity Markets, Order Directing Further Conferences and Reports, 141 FERC ¶ 61,125 at P 2 (2012).

³ *Id.* In addition, FERC Staff released a report on the five regional conferences. Staff Report on Gas-Electric Technical Conferences, Docket No. AD12-12-000 (Nov. 15, 2012).

Communication Challenges

- Several participants expressed uncertainty regarding what types of information could be shared by electric industry participants without violating the Standards of Conduct.
- Pipeline representatives stated that they were unsure what types of information are communicable (i.e., whether pipelines can communicate only information that is already publicly available). In addition, pipelines, generators and ISOs/RTOs discussed viewpoints on who has the responsibility to communicate different types of information to systems operators. Participants also expressed concern regarding the dissemination of information in consideration of confidentiality requirements under nondisclosure agreements.
- Another significant challenge raised was the structural and scheduling differences between the electric and gas industries. In particular, the electric grid serves peak demand of all customers on a system, whereas gas pipelines are designed to individually serve firm contract customers. Others observed that the current asynchronous schedules of the electric and gas industries can lead to events in which generators need gas to continue operations, but gas is unavailable immediately. Some participants suggested that, in order to improve real-time communication, three-party communications (between generator, gas pipeline and ISO/RTO) would be beneficial, instead of the current two-way communications between pipeline-generator, generator-ISO and pipeline-ISO.
- Participants noted that, aside from the challenge of determining what and how information can be communicated, there is an enormous amount of information and a question of how to most efficiently and effectively use that information.
- Some participants suggested that FERC create a safe-harbor provision regarding information-sharing and communications to give parties some measure of comfort that there is flexibility and discretion allowed in the types of information that can be communicated to other parties. Another suggestion was a FERC-issued rule providing that operating information that is not publicly posted can be shared. However, participants noted that more specific guidance would be required to make such a rule effective.

Regional Differences: There was generally a broad consensus among the participants that there is no need for a national solution on information sharing and communications. Several participants described the regional differences (e.g., amount of pipeline capacity available, gas storage capabilities, existing intrastate regulations, weather) that would make such a universal mandate unnecessary and inappropriate. However, some participants called for general guidance to ensure consistency among the different regions.

Secondary Markets: Some participants noted that the secondary market for gas supply needs to be more liquid (i.e., as the day progresses, it becomes more difficult to find marketers with whom to transact). Increased liquidity would allow for more flexibility in meeting the needs of new users of gas, specifically electric generators.

Market Mechanisms: Participants discussed the need for a market mechanism in the event that gas that has been committed to one generator must be reallocated to another generator to ensure reliability of the system. Participants noted that there should be a compensation mechanism to reduce the market risk for those generators from whom gas is taken.

Infrastructure: A general issue agreed upon by all participants was the need for increased pipeline infrastructure. Commissioners Moeller and LaFleur expressed their eager anticipation of a pipeline certificate application. In addition, participants noted that there is a need to consider what level of infrastructure is needed in the long term, instead of focusing solely on short-term needs.

Definition of Emergency: Participants from both the gas and electric industries agreed that there are clear definitions of “emergency” applicable to each industry. These participants posited that there is no need to introduce a new definition on what constitutes an emergency for gas-electric coordination and that current mandatory reliability standards and tariff provisions provide ample guidance on emergencies for control room operators.

Contact Information

If you have any questions regarding this alert, please contact:

Suedeem G. Kelly

skelly@akingump.com

202.887.4526

Washington, D.C.

Julia E. Sullivan

jsullivan@akingump.com

202.887.4537

Washington, D.C.

George D. Cannon Jr.

ccannon@akingump.com

202.887.4527

Washington, D.C.

Suthima Malayaman

smalayaman@akingump.com

202.887.4541

Washington, D.C.