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FERC Proposes Reforms to Improve Gas-Electric Coordination

Through a trilogy of orders, FERC seeks to reform the coordination and scheduling of natural gas pipeline capacity with electricity markets.

Electric generators' increased reliance on natural gas in recent years prompted the Federal Energy Regulatory Commission (the Commission) to issue a set of three orders on March 20, 2014 addressing the interdependency of the gas and electric markets.[1] The result of two years of industry outreach and multiple technical conferences, the orders represent a preliminary milestone in the Commission's continued effort to improve the coordination and scheduling of natural gas pipeline capacity with electricity markets.

The Commission first initiated the discussion on gas-electric coordination in 2012, following a request for comments issued by Commissioner Philip Moeller, who cautioned that the interdependence of the electricity and gas markets warrants careful attention. Commissioner Moeller's statement followed the 2011 extreme weather events in the southwest, when rolling blackouts caused by generator outages exposed coordination issues between the natural gas and electricity industries. In response, the Commission solicited comments from industry participants in Docket No. AD12-12-000 and convened regional technical conferences that focused on issues such as gas-electric scheduling, market structures, information sharing, reliability concerns, and the potential oversight roles of both the North American Electric Reliability Corporation and the North American Energy Standards Board (NAESB).

The resulting March 20, 2014 orders comprise a set of proposed solutions to the challenges identified by the Commission, industry stakeholders, and other commenters. First, the Commission issued a Notice of Proposed Rulemaking (NOPR) suggesting revisions to the operating and scheduling processes of interstate natural gas pipelines and electric utilities. Those revisions include moving the start of the natural gas operating day from 9:00 a.m. to 4:00 a.m. (CCT) to ensure that gas-fired generators maintain ample supply during morning ramp-up periods, moving the Timely Nomination Cycle for pipeline scheduling to later in the day, and increasing the number of intraday nomination cycles to allow gas shippers more flexibility to adjust their scheduling in response to demand changes. Industry stakeholders will have a period of 180 days to reach consensus through NAESB on the proposed standards or to notify the Commission of an inability to reach consensus on any of the Commission's proposals. Comments on the proposals, as well as on the consensus standards, are due within 240 days after publication in the *Federal Register*.

In two separate but related orders, the Commission initiated proceedings under the Federal Power Act (FPA) and the Natural Gas Act (NGA). Under Section 206 of the FPA, the Commission initiated an investigation into Independent System Operator (ISO) and Regional Transmission Organization (RTO) scheduling practices, particularly day-ahead scheduling practices, to ensure that those practices align with any revisions that may be adopted by the Commission in a Final Rule stemming from the NOPR. The ISOs and RTOs will be required to submit filings within 90 days after publication in the *Federal Register* of the Final Rule revising the length of the natural gas operating day.

Last, the Commission issued a show-cause order under section 5 of the NGA requiring interstate natural gas

1. Coordination of the Scheduling Process of Interstate Natural Gas Pipelines and Public Utilities, 146 FERC ¶ 61,201 (2014); California Indep. System Operator Corp., et al., Order Initiating Investigation into ISO/RTO Scheduling Practices and Establishing Paper Hearing Procedures, 146 FERC ¶ 61,202 (2014); Posting of Offers to Purchase Capacity, 146 FERC ¶ 61,203 (2014).

pipelines to revise their tariffs to provide for the posting of offers to release capacity or to purchase released capacity in compliance with 18 C.F.R. § 284.8(d) or otherwise demonstrate that they are in compliance with that regulation. The Commission noted that its order followed a review of a sampling of pipeline informational posting websites and tariffs that were noncompliant with 18 C.F.R. § 284.8(d). All interstate pipelines will be required to submit filings within 60 days of the order's issuance.

Although issued separately, the Commission's three orders represent its stated objective of developing more efficient scheduling practices for the natural gas transportation and electricity markets. By initiating two separate proceedings in addition to the NOPR, the Commission aims to ensure that industry scheduling and operating practices will be aligned with the objectives of the Final Rule on gas-electric coordination. In issuing the orders, the Commission also emphasized its willingness to remain flexible and consider alternatives to the proposals set forth in the NOPR.

In the near future, Morgan Lewis will host a webinar addressing the Commission's orders as well the substantive issues and challenges surrounding the implementation of the Commission's proposed rule. Stay tuned for further information on the webinar.

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