

117 FERC ¶ 61,094
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Sudeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

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

ORDER INSTITUTING INQUIRIES INTO GAS-ELECTRIC
COORDINATION ISSUES

(Issued October 25, 2006)

1. The Commission is concerned 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 gas-fired must-run generators may be unable to obtain gas during periods when gas transportation is constrained or gas prices are volatile. To address these issues, the Commission will institute inquiries pursuant to section 206 of the Federal Power Act (FPA)¹ in the above referenced dockets to provide the parties in ISOs and RTOs with forums in which to examine 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 for reliability and that they are compensated appropriately when volatility in gas prices creates difficulty in recovering gas costs. Each of the RTOs and ISOs above must make a filing by January 16, 2007, either proposing necessary changes to their scheduling and compensation systems or explaining why such changes are unnecessary.

¹ 16 U.S.C. § 824(e) (2000).

Background

2. A cold snap in January 2004 resulted in coincident gas and electric peaks that made the acquisition of gas and transportation by power plant operators more difficult and threatened the ISO New England's (ISO-NE) ability to deliver power.² While these issues first became prominent during the New England cold snap, they may not be unique to the ISO-NE or to cold snaps. They may appear in ISO/RTO markets during hot weather or whenever the gas supply to gas fueled generation is disrupted. There are a number of factors that appear to contribute to the problem:

Peaking generators (and must-run reliability generators) may financially be able to afford only interruptible transportation on pipelines. As a result, in times of coincident peaks, when these generators are needed for electric reliability, they may have difficulty obtaining pipeline capacity, or they may be able to obtain capacity only at high prices.

Mismatches between ISO/RTO market clearing times and uniform pipeline scheduling times may be such that gas-fired generators cannot meet the pipeline nomination timelines. The timing differences also may result in generators purchasing gas at times of the day when there are few traders and prices are typically higher.

Volatile natural gas prices and relatively low ISO/RTO price caps may result in gas having a higher value in markets other than electric generation. One consequence is that generators that have already purchased gas supplies may sell their gas to receive the higher value.

3. Reacting to the developments in the winter of 2004, ISO-NE developed interim procedures to help ensure system reliability during extreme cold weather conditions.³ Subsequently, ISO-NE refined these interim procedures for the winter of 2005-2006,⁴ and

² For a complete summary of the New England Cold Snap, see: *The Final Report on Electricity Supply Conditions in New England During the January 14-16, 2004 "Cold Snap"*, ISO New England Inc. Market Monitoring Department, October 12, 2004, available at: http://www.iso-ne.com/pubs/spcl_rpts/2004/levitan_jan_2004_cold_snap_report.pdf

³ See *ISO New England, Inc.*, 113 FERC ¶ 61,175 (2005).

⁴ See *ISO New England, Inc.*, 113 FERC ¶ 61,220 (2005).

on September 1, 2006, filed a still more refined set of procedures in Docket No. ER06-1464-000.⁵

4. ISO-NE's filing seeks to address the issues enumerated above. In particular, it provides that the scheduling times would be modified when an emergency Cold Weather Event is declared.⁶ The required time for all offers and bids to be submitted would be shifted forward from noon on the day prior to the operating day to 9:00 a.m. By 10:00 a.m. the ISO would notify the gas-fired units that are determined to be necessary to meet the next day's forecasted load of the minimum set of hours and MW levels. Generators thus would be able to buy gas and nominate pipeline capacity by the standardized pipeline 12:30 p.m. ET nomination deadline.

5. ISO-NE also has proposed an extraordinary fuel expense procedure that would assure gas-fired generators that they will be able to recover high gas fuel and pipeline transportation and delivery costs, including pipeline penalties. This provision would apply when the generators' actual fuel costs exceed the total energy related revenues they receive.⁷

6. Also, as a result of the cold snap in New England, the North American Energy Standards Board (NAESB) established a Gas-Electric Coordination Task Force to examine issues related to the relationship of gas and electric scheduling and related standards. On June 27, 2005 NAESB submitted a status report to the Commission that included standards for natural gas transmission service providers' communications with power generators and RTOs, ISOs and other independent transmission operators. The Commission is proposing to adopt these standards in a rulemaking issued contemporaneously with this order.⁸ Adoption of these standards should improve the flow of information between the relevant parties, but they do not, by themselves, resolve the possible serious problems of coordination between the two industries that may arise during an emergency.

⁵ These procedures are being approved in an order being issued concurrently with this one in *ISO New England*, 117 FERC ¶ 61,070(2006).

⁶ ISO-NE defines a "Cold Weather Event" as a day when cold weather is forecast and the 7-day Capacity Margin Forecast indicates a capacity margin less than or equal to 0 MW for an Operating Day.

⁷ ISO New England Inc., FERC Electric Tariff No. 3, Third Rev Sheet No. 8134.

⁸ See *Standards for Business Practices for Interstate Natural Gas Pipelines and Public Utilities*, 117 FERC ¶ 61,095 (2006).

7. On June 27, 2005 and February 24, 2006, NAESB submitted reports to the Commission that highlighted similar concerns about the lack of coordination between ISO/RTO scheduling practices and gas scheduling, and requested Commission guidance on resolving these issues. One of the issues raised by NAESB was whether to modify the requirements for organized electric markets so that the markets clear in sufficient time for gas-fired generators to nominate within the gas nomination timelines. It stated that:

Current timely gas nomination cycles occur long before the time when most organized electric markets clear their timelines and commit for the day ahead market. This disconnect leaves some generators two main options of either a) purchase and nominate gas transportation on a timely basis and risk not having their bid subsequently clear the power market or, b) wait to see if their bid clears the power market and risk relying upon the intraday gas transportation nominations without the level of assurances offered in the timely cycle for firm gas transportation services.⁹

NAESB pointed out also that gas-fired generators in organized markets often may not have adequate commercial arrangements to be able to fulfill their obligations, such as firm pipeline transportation.

Discussion

8. The Commission is concerned that the issues raised by the 2004 cold snap and by NAESB could have serious consequences in all the organized RTO/ISO markets if gas-fired peaking generators are unable to run or run profitably during emergency conditions, such as periods of coincident peak use in the electric and gas industries. RTOs and ISOs frequently consider gas-fired generation to be necessary to maintain reliability. Yet, especially during periods when the demand for both electricity and natural gas is very high, the needed gas-fired generators may have difficulty buying gas and obtaining transportation because the RTOs' and ISOs' scheduling periods do not fit with the gas scheduling periods. Moreover, if the gas-fired generator bids into the RTO/ISO market based on the then-current gas price, that price may change significantly by the time the RTO or ISO calls upon the generator to run, especially where severe weather makes gas prices highly volatile. For these reasons, we believe that these features of existing ISO/RTO tariffs may not be just and reasonable if they effectively discourage gas-fired generation from participating in RTO and ISO markets when it is most needed.

⁹ February 24, 2006 Report, at 5 (Docket No. RM05-28-000).

9. We, therefore, are instituting inquiries under section 206 of the FPA¹⁰ into the justness and reasonableness of the tariffs of the ISOs and RTOs. We generally propose to either have an RTO or ISO propose necessary changes to its scheduling and compensation systems or demonstrate that those scheduling and compensation issues do not pose a problem on its system. While the procedures adopted by ISO-NE may provide a good starting point, we recognize that each ISO and RTO faces different weather and other conditions, which may require individualized consideration and resolutions tailored to their specific conditions. Each RTO and ISO must file by January 16, 2007 to propose revisions to its existing tariff or to explain why such changes are not needed based on the conditions for its system.

10. In considering its response, each ISO/RTO should examine its needs during both hot and cold weather emergencies, and other types of emergencies, such as those caused by Hurricane Katrina and its effect on gas availability and transportation. While ISO-NE has made substantial progress in adopting procedures to handle disruptions in the gas supply, their procedures address only cold weather events. In its filing, ISO-NE is required to address whether such procedures need to be extended or modified to apply to other conditions as well.

11. Pursuant to section 206(b) of the FPA, the Commission must establish a refund effective date that is no earlier than the publication of notice of the Commission's intent to institute a proceeding, and no later than five (5) months after the publication date. The Commission will establish a refund effective date of the publication date of notice of this investigation. However, given the context of this proceeding, the Commission does not see a need for refunds. The Commission is also required by section 206 to indicate when it expects to issue a final order. The Commission expects to issue a final order in this section 206 investigation within 180 days of the date this order issues.

The Commission orders:

(A) Pursuant to the authority contained in and subject to the jurisdiction conferred upon the Federal Energy Regulatory Commission by section 402(a) of the Department of Energy Organization Act and by the Federal Power Act, particularly section 206 thereof, and pursuant to the Commission's Rules of Practice and Procedure and the regulations under the Federal Power Act (18 C.F.R., Chapter I), public hearings shall be held in the dockets referenced in the caption concerning scheduling and compensation mechanisms as discussed in the body of the order.

(B) The RTOs and ISOs listed in the caption must make the filing as discussed in the body of the order by January 16, 2007.

¹⁰ 16 U.S.C. 824e (2000).

(C) Any interested person desiring to be heard in the proceedings in each of the captioned dockets should file a notice of intervention or motion listing each docket in which they wish to intervene with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214) within 21 days of the date of this order.

(D) The Secretary is directed to publish a notice of this section 206 proceeding in the Federal Register.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.