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Testimony of Todd Snitchler, Chairman of Public Utilities Commission of Ohio
Coordination between Natural Gas & Electricity Markets

Good morning. My name is Todd Snitchler and I am the chairman of the Public Utilities Commission of Ohio. I am also the co-vice chair of the National Association of Regulatory Utility Commissioners (NARUC) Gas Committee. First, thank you for permitting me to offer comments to you today on what I view is a critical issue in the utility world, the issue of harmonization between gas and electric utilities. Commissioners Moeller and LaFleur at the Federal Energy Regulatory Commission took the lead on this important issue by initiating the discussion through the opening of a docket, asking some key questions of stakeholders, and then pursuing the issue and seeking resolution of this issue. The large number of interested parties includes gas and electric utilities, state and Regional Transmission Operators (RTOs)/independent System Operators (ISOs) in organized markets, transmission and distribution utilities in areas without a regional grid operator, gas and electric suppliers, state commissions, federal agencies and others – all of whom have similar goals – system stability and reliability. The challenge comes in trying to reconcile differing opinions on how to ensure the proper role and best alignment of the gas and electric markets for the benefit of consumers of all types. The comments I share with you this morning are mine and do not reflect those of NARUC, the NARUC Gas Committee, or the PUCO.

I have worked over the past year to bring attention to this issue, including moderating two panel discussions at NARUC's annual and winter meetings to highlight the need for action.

The principal issues to deal with are the challenges of: (1) the "dash to gas" and (2) market alignment. These NARUC panel discussions have included experts from gas and electric utilities, RTO/ISOs, state commissions and other market participants each of whom has shared their experiences and suggestions on ways to solve the harmonization challenges. Among the various issues presented at those panel discussions, three areas of focus have stood out as fundamental areas in need of attention.

First and foremost, the clearest suggestion is a need for improved communication at all levels. Second, there is the concern of sufficient natural gas supply and the ability to secure sufficient gas for power generation when it is needed. Finally, the gas and electric markets currently operate on different time schedules and coordination of the two markets is needed.

COMMUNICATION

As one panelist explained, a very near critical situation in the Northwest arising from the gas and electric situation, the need for effective communication was abundantly clear. On the opposite coast, there have been occasions in New England concerning the ability to ensure grid reliability based on gas availability and communication between pipeline operators and electric generators. In New England, the issues involved gas deliverability to users at the end of the pipeline. In both instances, the key to successfully averting a full

blown power outage was effective communication. It is imperative to know who needs to communicate, with whom and when.

One communications challenge is the barriers that may exist between utility entities – either in house or across multiple utilities. Specifically, limits may exist as to what information utilities can share without violating market rules or corporate separation requirements. Establishing a greater degree of clarity and authority to share critical information in a timely fashion would help to reduce reliability concerns due to the two different markets.

Also, in an organized market, the grid operator can assist in ensuring the flow of energy, but remains limited in what can be done based on the information being provided by utilities. It seems a review of the scope and timing of information provided to and needed by RTO/ISOs may be in order. Even with clear, timely information there may still be issues that cause difficulties in market coordination and operation. As the FERC has posited, there are key questions that I fully believe should be further studied and answers determined, including: should natural gas pipeline and electric utility system operators be allowed to exchange information that is not publicly posted? If information is shared, is there a need for enhanced protections against the improper use of the material communicated and what protections would be appropriate? Is the answer the same if a natural gas pipeline or its affiliate sells or buys wholesale electric power?

FIRM CONTRACTS

An issue brought to the attention of state regulators is that of firm gas contracts and how a lack of firm contracts hinders better coordination. Principally the pointed question is this: if an electric utility signs a long-term contract which at the time of execution is reasonable, but during the contract period market conditions change, will the utility be denied full cost recovery due to "Monday morning quarterbacking" decisions or will the prudency test be applied at the time a contract is entered into? And when state commissions or FERC do not require utilities to execute a long-term contract, it only perpetuates the gas supply dilemma and does nothing to resolve it. In a time of changing generation source fuels, there may be need for a different approach to how regulatory bodies and utilities and power generators operate.

The ready supply of abundant, low cost natural gas makes the transition to natural gas fired electric generation more likely, though the need to balance generation fuel sources – coal, gas, nuclear, and renewables – remains a part of the overall decision making matrix. However, even knowing that, not all regions of the country can be treated the same. In New England, where the customers are at the proverbial and literal end of the gas pipeline, issues involving gas deliverability, pipeline capacity, and pipeline construction and cost allocation are key issues. In other parts of the country, gas is readily available but firm supply contracts are not in place limiting utilities from more fully embracing natural gas as

a generation fuel. Economically, it is difficult for electric generators to commit to firm contracts when expectations of running times may be quite low (i.e. the gas units may be required to run only during peak times). Further, the transition of fuels from coal or oil to natural gas and the rapid pace in which the transition is occurring further necessitates our prompt attention to this matter. In 2012, for the first time the generation mix changed from coal being the largest base load source of supply to natural gas fired generation. The impacts of EPA regulations like MACT, MATS, CAIR, CASPR on coal fired generation in addition to lower natural gas prices and higher coal prices has resulted in the closing of 5 GW of coal fired generation with approximately 40 GW in additional coal fired generation expected to shut down by 2015 (with some estimates of 60 GW at risk for retirement between 2013 and 2017). Additionally, other environmental regulations, including 316(b) and CO2 limits, will further impact coal generation retirements, and depending on final rule development and implementation, stands to also potentially impact natural gas generation.

As Commissioner Moeller has said on several occasions, the urgency of this issue has been only marginally diminished by a warmer winter and cooler summer in 2012, but delay does not mean resolution.

MARKET COORDINATION

The last issue universally agreed upon is the need for better market coordination between gas and electric markets. All participants in the panel discussions – RTOs, gas and electric

utilities, state regulators, and suppliers – agreed that the fundamental differences between the industries caused significant issues in the case of an emergency. For example, publication of electric schedules is often published late in the gas market timeframe.

Additionally, the gas and electric markets have developed differently and the businesses operate under entirely different structures. The electric grid is designed to serve peak demand for all customers in the region; the gas pipeline systems are individually designed to serve the demands of customers with firm contracts. These are not two closely aligned market models. At one level this returns us to the firm contract question. Without firm supply and delivery contracts, there is no requirement to deliver the gas commodity by the pipeline company. The other issue is that commitment timing, both for generation dispatch and pipeline capacity, is not synchronous and therefore could result in supply shortages at a time when gas is most needed. The incompatible schedules could result in substantial impacts to availability of energy supply and system reliability most likely at a time of increased demand and need by electric utility customers.

Finally, it should be noted that many of these issues are more federal in nature and the solutions may need to be resolved at the federal level. State commissions must be aware of the issues, engage in the search for solutions, and to work with the utilities under their jurisdiction to keep the problem solving process moving forward. What is more, state commissions – where necessary – should be willing to engage their legislature to ensure

that the state regulatory framework is conducive to problem solving, and also look at the regulatory climate to make sure it is also conducive to problem solving.

Thank you for the opportunity to share my thoughts on this critical issue, and I am happy to answer any questions you or members of the committee may have today.