Electric Power Supply Association (EPSA)
Response to Question from May 9, 2013 Hearing
US House of Representatives
Committee on Energy and Commerce
Subcommittee on Energy and Power

American Energy Security and Innovation: Grid Reliability Challenges in a Shifting Energy Resource Landscape

The Honorable Gene Green

1. **You talk about how the electric/gas challenge varies by region and thus a regional approach is preferable to a top down federal solution. You go on to say that FERC should be commended for its attention to these issues in a thoughtful manner. Can you please elaborate?**

Response by Mr. John E. Shelk, President and CEO, EPSA

FERC wisely recognizes that the challenges faced in addressing electric and natural gas coordination issues vary widely on a regional basis due to a number of important factors. These factors include differences between regional fuel-resource mixes, renewables development, access to and development of the natural gas pipeline transportation system, whether a power plant obtains natural gas directly from a pipeline or through the local gas utility, access to imported natural gas, geology and geography, proximity to shale gas development and/or natural gas storage, and access to power imports from adjacent markets. Thus, FERC convened a series of regional conferences in 2012 reflecting these regional differences. The differing presentations from a wide range of stakeholders across regions at these conferences proved the regional nature of the electric and natural gas coordination issues. Based on this information, to its credit FERC has not imposed the one-size-fits-all approach of mandating that all natural gas electricity suppliers enter into the type of long-term contracts with interstate gas pipelines that the pipelines have advocated.

A critical difference between regions relates to wholesale and retail market designs. The ability for competitive generators to include natural gas costs, including for transportation, varies from region to region. While the “organized markets” with regional transmission organizations (RTOs) provide the least cost, most economically efficient electricity supply to consumers, cost recovery for fuel supply and transportation is not guaranteed under this market structure. In fact, in some regions competitive suppliers are not able to include actual updated natural gas costs in their wholesale market bids. As to retail market design, New York and most of the states in New England and the PJM Interconnection allow customers to shop for the best deal by choosing among multiple competitive retail suppliers. In these regions it is not feasible for a wholesale power supplier to enter into long term firm transportation contracts with interstate gas pipelines given the short term nature of the competitive retail arrangements.

A significant level of effort is underway at the regional level to consider these issues through existing regional power market structures. This includes through table-top exercises, planning studies, general education, efforts to enhance communications, and consideration of reforms to specific regional electric market rules. Some areas of the country, such as New England, are facing these issues on a more acute basis and are further along in responding. In addition to several ongoing regional initiatives, the Independent System Operator for New England ("ISO-NE") has already filed and received approval from FERC as to proposals addressing communications and scheduling. ISO-NE is considering other market rule changes with stakeholders.

In terms of FERC's specific activities, the electric-natural gas coordination issues have been an area of focus by FERC Commissioners and staff for several years, including informal staff outreach. A general administrative proceeding was established in February 2012 on the interdependency of and coordination between the electric-natural gas industries (*Coordination Between Natural Gas and Electricity Markets*, Docket No. AD12-12-000). The Commission received seventy-nine sets of comments from industry stakeholders, including from EPSA and various EPSA member companies. This was followed by five regional conferences held in August 2012 to consider scheduling and market structures/rules; communications, coordination, and information sharing; and reliability concerns. A wide range of industry representatives participated and/or attended these conferences, with the total attendance exceeding 1,200 registrants.

On November 15, 2012, FERC issued an Order that directed: (1) staff to convene two technical conferences (one on Information Sharing and Communications and the other on Gas-Electric Scheduling and Capacity Release), (2) the RTOs to report on the progress of their regional efforts, and (3) staff to provide updates to the Commission at least once each quarter for 2013 and 2014. Concurrently, FERC issued a Staff Report on the five regional technical conferences held in August 2012.

On February 13, 2013, FERC held the Information Sharing and Communications conference and on April 25, 2013, held the Scheduling and Capacity Release conference. Additionally, on March 21, 2013, FERC staff provided the first quarterly update to the Commission on gas-electric coordination activities highlighting national and regional initiatives, relevant filings and the additional technical conferences.

On May 16, 2013, FERC convened a special meeting and heard an update from a representative of each of the seven RTOs. As a follow-up, on June 4, 2013, a letter was sent to all the RTOs by Commissioner Philip Moeller with additional questions and asking whether there were specific actions FERC should take to address concerns or facilitate improvements. The RTOs are to provide another update to FERC regarding their summer and fall experiences on October 17, 2013.

EPSA and its member companies take the electric-natural gas coordination issues seriously and will continue to be actively engaged in the dialogue at FERC and other venues.