NORTH AMERICAN ENERGY STANDARDS BOARD
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March 20, 2006

NAESB AT A GLANCE: MONTHLY UPDATE

During this call, the speakers (members of the Gas-Electric Interdependency Committee) described the six issues outlined in the Final Report on the Efforts of the Gas-Electric Interdependency Committee NAESB filed with the FERC on February 24, 2006 in Docket No. RM05-28.

> **Introduction:** Mr. Smead, member of the Gas-Electric Interdependency Committee (GEIC), reported that NAESB filed the final report of the GEIC on February 24, 2006 with the FERC under Docket No. RM05-28 (http://www.naesb.org/doc_view2.asp?doc=ferc022406.pdf). The report is a follow-up to the June 27, 2006 status report filed under the same FERC Docket. In the initial report, the GEIC identified thirteen issues that contributed to the friction of the operation of the gas and electric industries. Subsequent to the filing of the initial report, the GEIC began reviewing the thirteen issues in greater detail. The review resulted in six issues that require further examination to "determine whether updates or new business practices could be written to further improve the interaction between the gas and electric industries."

> **Issue 1:** Consistent with the 2/27/04 Order in Docket No. RP04-151-000 and the Policy Statement in Docket No. PL02-6 issued on 1/19/06, consider the development of standards to support Capacity Release pricing on an index for those pipelines that have the FERC authority to enter into negotiated rates and discount capacity on an index basis.

Mr. Novak provided the overview of Issue1. The primary objective of Issue 1 is to create a means of pricing release capacity that increases the firm capacity available to gas fired electric generation market and to utilize firm transportation on the gas side. It has been a few years since the FERC issued a clarification of its policy that capacity release could take place using a published index if the pipeline discounted the capacity on an index basis when it sold the capacity directly. Currently, capacity is released most frequently on a volumetric or reservation basis and those rates from the capacity transactions can result in rates above the maximum rate so long as recourse is available as an option for the prospective shipper. Index pricing of capacity release could encourage pipelines to release capacity that it would not otherwise have released to the gas fired generation market. It is the expectation that the proposal in Issue 1 would mitigate market power and the tendency to hoard capacity because it would create an incentive to release capacity.

> **Issue 2***:* Review the possibility of adding an additional intraday nomination cycle with bumping rights to provide more flexibility to shippers, including power generators, with firm transportation rights such that they can nominate for natural gas supporting their market clearing times. Current problems exist within the day-ahead and realtime power markets for nominations (See the graphical depiction of the electric timelines to the gas nomination timelines as Attachment B). Tennessee Valley Authority and others have noted that this problem may have been exacerbated by some pipelines' decisions to move to hourly and daily balancing; but others have remarked that the GEIC has not reached this conclusion. Technological advances make additional nomination cycles and changing the last "no bump" cycle to later in the day potential feasible solutions. As with #4 below, consensus has not been reachable when determining the need and amount of change required by each of the two industries to develop workable solutions.

Ms. Crockett provided the overview of Issue 2. There are significant disconnects between the day ahead electric market, the real-time electric market, and standardized gas day. This results in generators with firm contacts without the ability to utilize the firm transportation. In many cases, the electric day is starting as the gas day ends.

> **Issue 3:** Consistent with the 11/22/05 Order in Docket Nos. RP06-69-000 and RP06-70-000, review the ability of pipelines to shift gas for primary firm transportation within a pipeline path without having to re-offer as secondary firm transportation service.

Mr. Kruse provided a review of Issue 3. Issue 3 addresses the need to increase scheduling flexibility of firm pipeline customers to feel comfortable in changing the scheduling of delivery points during the day. This will potentially make additional pipeline capacity and thereby additional supply available to power generation or other loads without firm transportation. The purpose of Issue 3 is to provide greater certainty to firm shippers and the market participants that need to shift from primary point to secondary point.

> **Issue 4:** Review and modify the requirements for organized electric markets so that the markets clear in sufficient time to nominate within the existing gas nomination timelines (Attachment B provides a

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graphical representation of the differences in the gas and electric market timelines). 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. Non-organized electric markets add another layer of timelines. As with #2 above, another debated point was the need and amount of change required by each of the two industries in coming to workable solutions.

Ms. Crockett also provided the review of Issue 4. In the current framework of the standardized gas day and the electric real-time and day ahead markets, generators must often choose between purchasing and nominating gas in the timely nomination periods and then risk having their bid not being cleared on the power market and bidding on the power market and then having the risk of being bumped after bidding into the intraday nomination period on the gas side. The regional nature of the electric markets and national structure of the gas market is highlighted in Issue 4. While the regional differences in the electric market are important, there is a need to synchronize the electric market. The gas industry encountered difficulties when it standardized the gas day, but many agree that the gas day has provided many benefits to the gas industry.

Issue 5: Require generators that offer into the day ahead market to have the appropriate commercial arrangements to fulfill the needed obligations.

Ms. York provided the review of Issue 5. Issue 5 relates to Issues 2 and 4. The term "Appropriate Commercial Arrangements" includes fuel, transportation for the fuel, or alternative for fuel in place, should the gas supply or transportation for supply not be available when needed. Without the requirements proposed in Issue 5, reliability could be affected. NERC is also currently developing a SAR for Resource Adequacy that would be parallel to any business practice standards developed to address Issue 5. Issue 5 would not restrain electric generators, but recognize that additional steps will provide more flexibility.

Issue 6: Develop the appropriate supporting definitions for new business practices for the Wholesale Electric Quadrant, including but not limited to definitions for: alternate fuel capability, usable alternate fuel capability, firm transportation service, firm sales service, firm supply, and "must run" generator.

Ms. York also provided the review of Issue 6. Consistency in the definition of terms is important when industry participants are putting together contractual arrangements. The electric industry has not been able to reach a consensus in the consistency of terms to date.

Conclusions: Mr. Desselle provided an overview of the Conclusions in the GEIC Report. It was noted that NAESB representatives have had several meetings with the Department of Energy regarding the Report. The Department of Energy is interested in developing a primer on the six issues and intends to distribute the primer to federal and state agencies. The NRRI is also developing an overview of the Report for possible action. The June 27, 2005 GEIC Report included gas-electric communication model business practices. NAESB awaits FERC action on those model business practices. Upon the approval of the Report by the NAESB Board of Directors, the requestors of Request Nos. R04016 (Develop a standard definition for Energy Day) and R04020 (Establish business standards relating to electric transaction scheduling and timelines) have withdrawn the requests.

NEXT CONFERENCE CALL: The next conference call is scheduled for **Wednesday, May 17, 2006**, at 2:00 pm Eastern. We hope you can join us. If there are particular topics you would like to see covered or would like to receive additional information, please contact the NAESB Office (713-356-0060, naesb@naesb.org).

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NAESB Monthly Update Conference Call, Participant List
March 20, 2006 -- 2:00 PM Eastern

	Name	Organization
1	Alan Bax	Missouri Public Service Commission
2	Phillip Bedingfield	Georgia Public Service Commission
3	Jeffrey Conopask	DC Public Service Commission
4	Christopher Freitas	US Department of Energy
5	John Harvey	Iowa Utilities Board
6	John Levin	Pennsylvania Public Utility Commission
7	Sandra Waldstein	Vermont Public Service Board
8	Lou Ann Westerfield	Idaho Public Utility Commission

	Name	Organization
9	Victor Bissonette	Hydro-Quebec TransEnergie
10	Kathryn Burch	Duke Energy Gas Transmission
11	Scott Butler	Consolidated Edison of New York
12	Dolores Chezar	KeySpan
13	Chuck Cook	Enbridge Offshore Pipeline
14	Ken Costello	National Regulatory Research Institute
15	Valerie Crockett	Tennessee Valley Authority
16	Ed Davis	Entergy
17	George Dawe	Duke Energy Corporation
18	Michael Desselle	AEP
19	Andrew Dotterweich	Consumers Energy Company
20	Mary Edwards	Dominion Virginia Power
21	Ollie Frazier	Duke Energy Corporation
22	Barry Green	Ontario Power Generation
23	Dona Gussow	Florida Power and Light
24	Bill Hebenstreit	El Paso Production Company
25	Linda Horn	Wisconsin Electric Power
26	Reed Horting	PECO Energy Company
27	Verne Ingersoll	Progress Energy
28	Laura Kennedy	NAESB
29	Iris King	Dominion Transmission
30	Ruth Kiselewich	Baltimore Gas and Electric
31	Richard Kruse	Duke Energy Gas Transmission
32	Melissa Lauderdale	Edison Electric Institute
33	Wayne Lewis	Progress Energy
34	Rae McQuade	NAESB
35	Mike Novak	National Fuel Gas Distribution
36	Marjorie Perlman	Energy East
37	Christopher Raup	Consolidated Edison of New York
38	Judy Ray	Alabama Power Company

	Name	Organization
39	William Roberts	Edison Mission Marketing and Trading
40	Marv Rosenberg	FERC
41	Micki Schmitz	Northern Natural Gas
42	Lisa Simpkins	Constellation Energy Commodities Group
43	Richard Smead	Navigant Consulting
44	Larry Smith	Tennessee Gas Pipeline
45	Grace Soderburg	NARUC
46	Mary Wolosek	Nicor Gas
47	Charles Yeung	Southwest Power Pool
48	Kathy York	Tennessee Valley Authority