

120 FERC ¶ 61,206  
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 Corporation	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 TERMINATING SECTION 206 PROCEEDINGS

(Issued August 31, 2007)

1. The Commission, in an order dated October 25, 2006,<sup>1</sup> instituted inquiries pursuant to section 206 of the Federal Power Act (FPA)<sup>2</sup> in the above referenced dockets to provide the six independent system operators and regional transmission organizations (collectively, ISOs/RTOs)<sup>3</sup> with forums in which to examine if additional procedures are needed to determine whether their 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. Each of the ISOs/RTOs filed responses with the Commission contending that changes to scheduling practices or compensation mechanisms are unwarranted at this time.

2. In this order, the Commission has determined not to establish additional procedures. Accordingly, this order terminates the six section 206 proceedings in the above referenced dockets.

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<sup>1</sup> *California Independent System Operator Corp.*, 117 FERC ¶ 61,094 (2006) (October 25 Order).

<sup>2</sup> 16 U.S.C. § 824(e) (2000).

<sup>3</sup> The ISOs/RTOs are the California Independent System Operator Corporation (CAISO); ISO New England, Inc. (ISO-NE); PJM Interconnection, LLC (PJM); Midwest Independent Transmission System Operator, Inc. (Midwest ISO); New York Independent System Operator, Inc. (NYISO); and Southwest Power Pool, Inc. (SPP).

## **I. Background**

3. In the October 25 Order, the Commission stated that a cold snap in January 2004 resulted in coincident gas and electric peaks that made the acquisition of natural gas (and associated transportation services) by power plant operators more difficult and threatened ISO-NE's ability to deliver power. The Commission found that, while these issues first became prominent during the New England cold snap, they may not be unique to ISO-NE or to cold snaps. The Commission stated that it was concerned that the issues raised by the New England cold snap could have serious consequences in all the organized ISOs/RTOs 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. The Commission found existing ISOs/RTOs tariffs may not be just and reasonable if they effectively discourage gas-fired generation from participating in ISOs/RTOs markets when it is most needed. Accordingly, the Commission instituted inquiries under section 206 of the FPA into the justness and reasonableness of the tariffs of the ISOs/RTOs.

4. The Commission required each of the ISOs/RTOs to propose necessary changes to its scheduling and compensations systems or explain that those scheduling and compensation issues do not pose a problem on its system. The Commission required each of the ISOs/RTOs to file a compliance filing by January 16, 2007. ISO-NE, PJM, Midwest ISO, NYISO and SPP filed responses with the Commission by January 16, 2007. CAISO requested and received an extension until April 16, 2007, and filed its response with the Commission on that date.

## **II. Notice of Pleadings**

5. Notice of the compliance filings submitted by ISO-NE, PJM, Midwest ISO, NYISO and SPP were published in the *Federal Register*, 72 Fed. Reg. 3818-20, 3822-25 (2007), with interventions or protests due on or before February 6, 2007.

6. Notice of CAISO's compliance filing was published in the *Federal Register*, 72 Fed. Reg. 28,480 (2007), with interventions or protests due on or before May 31, 2007.

7. Comments were filed by Alliant Energy Corporate Services, Inc., on behalf of its public utility operating company subsidiaries, Wisconsin Power and Light Company, Interstate Power and Light Company and South Beloit Water, Gas and Electric Company (Alliant Companies); Astoria Generating Company, LP (Astoria); Consolidated Edison Energy, Inc. (ConEd); Dynegy Power Marketing, Inc. (Dynegy); FPL Energy

Generators;<sup>4</sup> Indiana Utility Regulatory Commission and Indiana Office of the Utility Consumer Counselor (jointly, Indiana Regulatory Bodies); KeySpan Corporation (KeySpan); New England Local Distribution Companies (New England LDCs);<sup>5</sup> New Jersey Board of Public Utilities, New York Power Authority (NYPA); NRG Companies (NRG);<sup>6</sup> NSTAR Electric & Gas Corporation (NSTAR); and WPS Resources Corporation and its subsidiaries: Wisconsin Public Service Corporation, Upper Peninsula Power Company, WPS Energy Services Inc. and WPS Power Developments, LLC (collectively, WPS Companies).

8. Answers were filed by ISO-NE, New England Power Pool (NEPOOL) and New England LDCs.

### **III. Discussion**

#### **A. Procedural Matters**

9. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure,<sup>7</sup> the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure<sup>8</sup> prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the answers filed herein because they have provided information that assisted us in our decision-making process.

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<sup>4</sup> FPL Energy Generators includes FPL Energy Marcus Hook, L.P., FPL Energy MH50, L.P., Northeast Energy Associates, North Jersey Energy Associates, L.P., Doswell Limited Partnership, Northeast Energy Associates, Rhode Island State Energy Statutory Trust 2000, Bayswater Peaking Facility, LLC, Jamaica Bay Peaking Facility, LLC and Blythe Energy, LLC.

<sup>5</sup> New England LDCs are state-regulated retail natural gas distributors and its members are: Bay State Gas Company; City of Norwich, Department of Public Utilities; Connecticut Natural Gas Corporation; National Grid; Northern Utilities, Inc.; New England Gas Company; NSTAR Gas Company; The Southern Connecticut Gas Company; and Yankee Gas Services Company.

<sup>6</sup> The NRG Companies represented in this pleading are NRG Power Marketing, Inc.; Connecticut Jet Power, LLC; Devon Power, LLC; Middleton Power; Montville Power, LLC; Norwalk Power, LLC; and, Somerset Power, LLC.

<sup>7</sup> 18 C.F.R. § 385.214 (2007).

<sup>8</sup> 18 C.F.R. § 385.213(a)(2) (2007).

**B. CAISO – Docket No. EL07-1-000****1. Compliance Filing**

10. CAISO contends that, in regard to the gas-electric coordination issues raised by the Commission in the October 25 Order, no changes to its scheduling practices and compensation mechanisms are warranted at this time. CAISO contends that its scheduling practices and compensation mechanisms contain certain measures that encourage gas-fired generation to remain available during periods when natural gas prices escalate.

11. Specifically, CAISO states that in the electric day-ahead market, each scheduling coordinator may submit revised schedules until Noon, on the day before the trading day. For the hour-ahead market, a scheduling coordinator may submit revised schedules up to 30 minutes before the settlement period begins. According to CAISO, this scheduling timeline correlates well with the gas nomination timeline, which offers four nomination cycles - two the day prior to gas flow and two on the day of gas flow. In addition, CAISO states that its \$400/megawatt hour (MWh) soft bid cap allows market participants to bid into the real-time energy market above the cap. However, above-cap bids that are dispatched by CAISO are not eligible to set the market clearing price and are subject to cost justification and refund. Thus, CAISO contends that the soft bid cap affords gas-fired generation the opportunity to justify additional cost recovery of operating costs in excess of the cap in situations of rapidly rising natural gas prices.

**2. Comments**

12. No responses specific to CAISO's compliance filing were received.<sup>9</sup>

**3. Commission Determination**

13. Based on the filings by the CAISO and the parties, we do not find that additional section 206 procedures are warranted to further examine whether CAISO's scheduling and compensation mechanisms need to be revised to ensure that gas-fired generators can

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<sup>9</sup> FPL Energy Generators submitted general comments in all six dockets with regard to a proposed North American Energy Standards Board (NAESB) business standard concerning whether ISOs/RTOs should be required to develop measures to compensate a merchant generator for holding long-term firm pipeline capacity. However, FPL Energy Generators' concern was addressed by the Commission in a recent final rule incorporating by reference several business practice standards promulgated by NAESB. *See Standards for Business Practices for Interstate Natural Gas Pipelines; Standards for Business Practices for Public Utilities*, Order No. 698, 72 Fed. Reg. 38,757 (July 16, 2007), FERC Stats. & Regs. ¶ 31,251.

obtain gas when necessary for reliability. As a result, we have determined to take no further action with regard to CAISO's section 206 proceeding.

14. The scope of the section 206 proceedings was to determine "if gas-fired generators are unable to run or run profitably during emergency conditions, such as periods of coincident peak use in the electric and gas industries."<sup>10</sup> In its compliance filing, CAISO has satisfactorily explained that its scheduling practices and use of a soft bid cap, which allows for recovery of operating costs in excess of the cap, including actual gas costs, encourages gas-fired generation to remain available when needed to meet electric demand. Also, no party rebuts this contention or identifies a specific problem that requires further Commission inquiry into CAISO's scheduling practices or compensation mechanisms. Accordingly, the proceeding in Docket No. EL07-1-000 is hereby terminated.

**C. ISO-NE – Docket No. EL07-2-000**

**1. Compliance Filing**

15. ISO-NE states that it examined New England's needs during weather and other emergency conditions in conjunction with stakeholders as recently as August 2006 and concluded that no additional changes – other than those filed and accepted in Docket Nos. ER06-1116-000<sup>11</sup> and ER06-1464-000<sup>12</sup> – to the scheduling and compensation systems contained in its tariff are necessary at this time. ISO-NE states that the mechanisms approved by the Commission ensure the availability and appropriate compensation of natural gas-fired generating units during emergency conditions. Specifically, ISO-NE identified the addition of Appendix H to Market Rule 1 (Cold

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<sup>10</sup> October 25 Order, 117 FERC ¶ 61,094 at P 8.

<sup>11</sup> These revisions related to adjustment of supply offer parameters, posturing of generating resources by the ISO in order to maintain reliability, and the allocation of costs relating to posturing and emergency energy transactions. The revisions permit generating resources to provide more timely and accurate information to the ISO, and provide greater flexibility to suppliers to adjust the bidding parameters of their generating resources on a daily basis, which reduces the fuel price and cost volatility risk that generators would otherwise incorporate in their bids. The revisions were approved by delegated order issued July 27, 2006.

<sup>12</sup> These were revisions to Appendix H of Market Rule 1 concerning ISO-NE's operating procedures during cold weather conditions (discussed *infra*) and were approved by Commission order, *ISO New England, Inc.*, 117 FERC ¶ 61,082 (2006).

Weather Event Procedures),<sup>13</sup> Operating Procedure No. 21 (Action During An Energy Emergency)<sup>14</sup> and market rules that significantly improved the availability of facilities during emergency conditions in New England (including providing generators with additional flexibility to adjust start-up and no-load offer parameters on a daily basis, eliminating real-time deviation charges for emergency energy transactions from other control areas, etc.). Additionally, ISO-NE states that its recently developed Locational Forward Reserve Market (LFRM) and Forward Capacity Market (FCM) improve generating resources' availability during extreme weather and other emergency conditions, and provide significant incentives for performance when needed as well as performance penalties when units fail to perform.

16. In addition, ISO-NE states that these enhancements to the market structure in New England modify electric market clearing times relative to gas nomination timelines, so that gas-fired generators are able to purchase gas and nominate pipeline capacity by the standardized gas nomination periods during specifically-defined cold weather events thereby increasing the availability of gas-fired generation during emergency conditions. ISO-NE also notes that several generators have added capability to burn oil along with their original gas-fired capability that will be helpful when gas is unavailable or very expensive, and should reduce the need to rely on gas in times of emergency. Given these developments, ISO-NE maintains that no additional tariff revisions need be immediately developed or implemented. Given the shared goal of ensuring reliability, if circumstances arise that warrant future revisions, ISO-NE states that it is prepared to work with stakeholders to identify appropriate solutions and propose remedial revisions.

## 2. Comments

17. ConEd contends that while ISO-NE has implemented several significant efforts to improve the availability of fuel during periods of cold weather, it has not implemented any projects or rule changes that would better reflect the marginal cost of fuel within the calculated price of electricity. ConEd asserts that improving price signals so that they reflect the marginal cost of units dispatched for reliability on peak winter days would

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<sup>13</sup> Appendix H sets forth the rules applicable during specifically-defined extreme cold weather conditions, and ensures that gas-fired units participate in the energy market during cold weather events. In addition, Appendix H requires that market participants report the anticipated availability of their generating resources including their ability to procure fuel and nominate transportation, along with any other physical limitations that could reduce output from their generating resources.

<sup>14</sup> Operating Procedure No. 21 establishes year-round procedures to address emergency energy situations that may occur as a result of continuous national or regional shortages in fuel availability or deliverability to the region's electric generation sector.

ultimately improve reliability more than reliance on out-of-market incentives because it will provide proper incentives for both supply and demand response measures.<sup>15</sup>

18. NRG argues that the problem in ISO-NE is that gas markets in New England clear before markets participants know that any electric bid will be accepted in the ISO-NE market. It contends that this requires gas-fired generators to either purchase or nominate transportation on a timely basis but risk not having their bid later clear in the power market or wait and see if their electric bid clears and then risk relying on intra-day gas transportation to deliver the gas needed to support the offer accepted. NRG states that this concern is particularly applicable to gas-fired peaking units that are called infrequently or out of merit, and have little or no ability to predict their gas burn and make appropriate arrangements. NRG requests that the Commission direct ISO-NE to implement its cold weather procedures on a year-round basis, with further revisions to provide notifications to the entire market of bids accepted at a time earlier than that provided under the current rules (i.e., 11:00 a.m. instead of noon), especially in an area such as ISO-NE that is heavily dependent on natural gas.

19. NSTAR raises two specific concerns with ISO-NE's cold weather procedures. First, NSTAR argues that ISO-NE cannot reliably operate the electric system if generators are not required to re-declare their ability to generate power if their gas supply is curtailed. It contends that reliable dispatch requires complete and timely information during critical periods. Second, NSTAR argues that the ISO-NE tariff language allowing full recovery of Extraordinary Fuel Expenses (EFE) is open to misuse and should not be adopted on a permanent basis. NSTAR contends that the EFE recovery mechanism allows gas-fired generators an avenue for recovering direct fuel expense, including "pipeline penalties." NSTAR argues that allowing recovery of EFE creates an incentive to avoid the cost of buying firm gas supply or to sell off firm gas if next-day gas prices spike.

20. New England LDCs add that no steps should be taken that could have a detrimental effect on the reliability of firm transportation services provided by interstate pipelines.

21. In its Answer, ISO-NE responds that the pricing issue raised by ConEd is outside the scope of this proceeding, which was established to examine issues of gas-electric market coordination. However, ISO-NE states that it and its stakeholders have already taken significant steps in the design and implementation of market rules to ensure that volatile fuel prices can be included in updated offers to the energy markets and reflected in locational marginal prices (LMPs). Finally, ISO-NE states that it is unaware of any solution in any operating electricity market to address the pricing issue raised by ConEd

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<sup>15</sup> ConEd Comments at 3.

without otherwise creating significant problems with incentives to follow dispatch instructions, or for generators to offer their resources to the market in as flexible a manner as possible. ISO-NE is continuing to analyze the problem in hopes of finding an appropriate solution, and believes that ConEd's concern should be addressed through a full airing of all of the issues as part of the normal stakeholder process.

22. ISO-NE argues that NRG's assertion that peaking units have no ability to predict their gas burn and make appropriate gas arrangement is without merit. ISO-NE has greatly improved communications protocols with market participants so they can anticipate when their units will be most needed. As far as allegations that there is a lack of coordination between scheduling practices of natural gas and electric markets, ISO-NE states that it has implemented measures that through proper incentives and possibility of special compensation, have significantly improved the availability of generation in the region during emergency conditions. In response to the request to operate Appendix H procedures year round, ISO-NE states that it is the consensus of ISO-NE and its stakeholders to apply Appendix H only during winter months when gas-fired resources are most needed to maintain reliability. ISO-NE states that to the extent NRG wishes to revisit the topic, it should make its proposals in the FCM stakeholder process for consideration by ISO-NE and NEPOOL.

23. With respect to NSTAR's concern that the market rules do not require generators to re-declare their resources to reflect gas limitations, ISO-NE responds that in a February 2, 2007 meeting of the NEPOOL Markets Committee, a motion was supported to strike language in the FCM market rules requiring generators to re-declare to the ISO-NE any changes in their ability to provide generation, including changes in fuel availability. ISO-NE points out, however, that the proposed FCM rules still contain a requirement that generator offers accurately reflect the true physical characteristics of the resource, including fuel limitations. Regarding NSTAR's concern about the potential for misuse of the EFE provision of its tariff, ISO-NE states that Appendix H rules provide substantial controls on the potential recovery of EFE, including limiting recovery to costs that could not have been reflected in the incremental energy offer. Also ISO-NE points out that the FCM Settlement provides that as the ISO files to implement the Settlement, it may seek to clarify penalty recovery provisions to assure that they do not provide improper incentives, and that NSTAR should advance its views concerning pipeline penalties in the FCM stakeholder process.

24. Similarly, in its answer, NEPOOL states that the issues raised by ConEd, NRG and NSTAR that seek changes to the filed rate should be addressed through the NEPOOL stakeholder process rather than through this proceeding.

### 3. Commission Determination

25. Based on the filings by the ISO-NE and the parties, we do not find that additional section 206 procedures are warranted to further examine whether ISO-NE's scheduling and compensation mechanisms need to be revised to ensure that gas-fired generators can obtain gas when necessary for reliability. As a result, we have determined to take no further action with regard to ISO-NE's section 206 proceeding.

26. In the October 25, 2006 Order, the Commission recognized that ISO-NE has already instituted cold weather procedures to address discrepancies between gas and electric schedules and compensation due to volatile gas prices. In particular, in Appendix H, it provides that the scheduling times would be modified when an emergency cold weather event is declared. The required time for all offers and bids to be submitted would be shifted forward from noon of the day prior to the operating day to 9:00 a.m. of the operating day. By 10:00 a.m. of the day prior to the operating day, ISO-NE 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. Eastern Time nomination deadline.<sup>16</sup> ISO-NE also has adopted an EFE 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.

27. The Commission asked ISO-NE whether these procedures needed to be extended beyond cold weather events.<sup>17</sup> ISO-NE responded that Operating Procedure No. 21 established criteria that are applicable year-round to anticipate and address emergency energy situations, and explained how market rules adopted since the 2004 Cold Snap significantly improved the availability of facilities during emergencies in New England by, among other things, providing generating resources with additional flexibility to adjust their start-up and no-load bids on a daily basis, and eliminating real-time deviation charges for emergency transactions from other control areas. Additionally, ISO-NE points to its recently developed LFRM and FCM market structures revisions, which

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<sup>16</sup> The nationwide standard deadline to submit nominations for pipeline transportation for the following day is 11:30 a.m. Central Clock Time, but is converted here to 12:30 p.m. Eastern Time to be comparable with ISO-NE's deadlines for scheduling electric transmission services. 18 C.F.R. §284.12(a)(ii) (2007), nomination related standards 1.3.1 and 1.3.2.

<sup>17</sup> October 25 Order, 117 FERC ¶ 61,094 at P 10.

together improve generating resources' availability during extreme weather and other emergency conditions.

28. Further, ISO-NE notes that FCM also provides for future changes that will advance the timelines for receiving bids for the day-ahead energy market and for the publication of financially binding dispatch schedules for the next day. ISO-NE also points to the increase of 2,275 MW of dual-fuel generation in New England since 2004 as evidence that its actions have significantly improved the availability of generation in the region during emergency conditions. ISO-NE notes that mechanisms it has adopted to increase the likelihood that sufficient resources will be available during extreme cold weather and in emergency conditions reflect a substantial consensus among its stakeholders that Appendix H procedures should be applied only during the winter months when gas-fired resources are most needed to maintain system reliability.

29. NRG requests that the Commission direct ISO-NE to implement its cold weather procedures on a year-round basis. However, the scope of the section 206 proceedings was to determine "if gas-fired generators are unable to run or run profitably during emergency conditions, such as periods of coincident peak use in the electric and gas industries."<sup>18</sup> The October 25 Order further stated that each of the ISOs/RTOs should examine its needs during weather-related emergencies and other types of emergencies, and not during non-emergencies. The current record in this proceeding provides us with an insufficient basis to institute a new inquiry into scheduling procedures suggested by commenters, such as requiring changes to the day-to-day ISOs/RTOs scheduling procedures. Changes to the scheduling procedures of the ISOs/RTOs affect more than just gas-fired generators; they affect all participants in the markets. Scheduling rules should be designed to achieve the best possible balance of efficiencies for all involved. These are issues that we think can best be addressed initially through the ISO-NE stakeholder process.

30. Regarding NRG's assertion that peaking units have no ability to predict their gas burn and make appropriate gas arrangements, ISO-NE has improved its communications protocols with market participants so that they can better anticipate when their units will be most needed. Also, peaking generators can mitigate their concerns by purchasing fuel contracts that provide or support "no notice" type services. Some may be able to add dual-fuel capability.

31. With respect to New England LDCs' comment regarding reliability of firm transportation services provided by interstate pipelines, nothing in ISO-NE's emergency procedures requires an interstate pipeline to deviate from its open access transportation tariff. If an interstate pipeline wishes to change its tariff to address concerns of ISO-NE

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<sup>18</sup> *Id.* at P 8.

or electric generator shippers of natural gas, it must first seek Commission authorization pursuant to the Natural Gas Act. New England LDCs will have ample opportunity to intervene and participate in that process, and the Commission will address specific concerns of detrimental effects in that context.

32. NSTAR makes specific suggestions regarding ISO-NE's cold weather procedures, including requiring generators to re-declare if their ability to generate power is curtailed. However, this issue is now being considered by the NEPOOL Markets Committee in the stakeholder process. Because ISO-NE has already taken significant steps to resolve issues raised by the 2004 cold snap, and because its stakeholder process is already contemplating the issues raised by NSTAR, we will not require ISO-NE to apply its cold weather procedures year-round in this proceeding.

33. NSTAR has also expressed concerns about the potential for misuse of the EFE recovery mechanism and argues that better solutions should be adopted and the EFE should be eliminated. ISO-NE's EFE was approved along with the other Appendix H procedures on October 20, 2006 and was the culmination of two years of stakeholder efforts in which NSTAR could have participated and raised this issue. NSTAR has not shown that depriving generators of recovery of penalty payments would permit generators to operate during emergency conditions. Moreover, in order to recover extraordinary costs under ISO-NE's EFE procedures, a generator must provide advance copies of contracts, notify ISO-NE by the close of the applicable day-ahead energy market that an EFE claim is expected, submit supply offers, provide supporting documentation, and make a section 205 FPA rate filing with the Commission. Given the extensive safeguards built into the EFE, the Commission finds no reason to institute further proceedings to evaluate the EFE payment procedures or potential effects on the pipeline gas service at this time. NSTAR, or any other party, can raise the relevant issues in the required section 205 filing, if a generator seeks reimbursement for penalty payments.

34. ConEd contends that while ISO-NE has implemented several significant efforts to improve the availability of fuel during periods of cold weather, it has not implemented any projects or rule changes that would better reflect the marginal cost of fuel in the market clearing price of electricity. However, the Commission notes that ISO-NE has already taken significant steps in the design and implementation of market rules to ensure that volatile fuel prices can be included in updated offers to the energy markets and reflected in LMPs. ISO-NE is also continuing efforts to find an incentive approach solution to the pricing issue raised by ConEd. The Commission agrees with ISO-NE that this should be addressed through a full airing of all of the related issues as part of ISO-NE's normal stakeholder process. Accordingly, the proceeding in Docket No. EL07-2-000 is hereby terminated.

**D. PJM– Docket No. EL07-3-000****1. Compliance Filing**

35. PJM asserts that regional differences such as weather, natural gas infrastructure, generation mix and capacity, and market rules determine, to a significant degree, the importance of gas-fired generation for reliability to a region, both generally and during peak hours. PJM contends that its system conditions do not warrant modifications to its market schedules or generation compensation rules. It asserts that its reliance on gas-fired generation is relatively insignificant, especially during winter peak periods. PJM further contends that the results of two studies (in 2003 and 2005) of the ability of the natural gas infrastructure in its region to meet the requirements of gas-fired generation demonstrate that under existing market scheduling rules and practices, the natural gas infrastructure can supply the peak day needs of gas-fired generation in the PJM region through 2007-2008.<sup>19</sup> PJM contends that even the loss of all of its 468 megawatts (MW) of natural gas-fired generation without dual fuel capability would not affect reliability. PJM states that it is a summer peaking system and that in recent years the winter reserve margin has approached 40 percent. PJM then asserts that because the principal threat to fuel supply for natural gas-fired generation occurs during the winter in cold weather climates due to competing demand for heating, the 468 MW of the forecasted “at-risk” generation would constitute less than one-half of one percent of the forecasted winter peak, and approximately one percent of the winter peak reserve margin.<sup>20</sup> Further, PJM asserts that any loss of the forecasted “at-risk” gas-fired generation would not present a significant reliability issue in terms of the winter period marginal generation supply. According to PJM, during the past three winter periods, had the gas units not been available, in all likelihood more expensive generation of a different fuel type would have been dispatched by PJM to meet demand.

36. PJM asserts that its market rules currently provide adequate compensation for gas purchased to operate when needed to maintain reliability, both prior to, and within, the operating day. PJM explains that it performs ongoing evaluations of operating capacity requirements on a rolling seven-day prospective basis to ensure that its staff will detect and mitigate potential short-term generation reliability concerns. PJM states that its market rules allow it to notify generators that particular units will be required to operate for reliability well before the close of the PJM day-ahead market if necessary. PJM can then provide such generators a firm schedule of operation up to a week in advance of the

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<sup>19</sup> PJM Filing at 3-4 (citing Multi-Region Assessment of the Adequacy of the Northeast Natural Gas Infrastructure to Serve the Electric Power Generating Sector, Levitan & Associates, Inc., 2003 and Steady-State and Transient Flow Analysis of PJM’s Natural Gas Infrastructure 2005-2008, Levitan & Associates, 2005).

<sup>20</sup> PJM Filing at 6.

day of operation, allowing gas-fired units ample notice to secure adequate fuel supplies. PJM's compensation rules then guarantee that generators recover at least their offer price and thereby provide them with revenue certainty, allowing them to procure fuel with the confidence that they will be properly compensated. In addition, PJM market rules provide flexibility for units in the real-time market. PJM states that if a generator is required to extend operations in real-time for reliability, thereby subjecting them to volatile fuel supply prices, PJM's rules enable such generators to change their offer schedules to reflect any increased fuel costs incurred to meet such requests. Last, PJM notes that the consensus of its stakeholders is that it is not necessary to change the PJM market schedules to coordinate them with the gas market schedules. Furthermore, stakeholders expressed concern that any modification of scheduling rules to accommodate natural gas markets could disrupt and make unworkable current electric market designs.

## 2. Comments

37. The New Jersey Board of Public Utilities asserts that PJM's response to the October 25 Order is inadequate regarding its description of scheduling and compensation issues as they apply to PJM. It contends that at a minimum, PJM must show that it has undertaken a serious analysis of the potential at risk gas-fired generation, including a full description of its definition of "at risk" for all relevant seasons. It also states that PJM should make clear whether or not its rules allow gas-fired generators to flow through penalties incurred from pipelines or gas distributors. It concludes that, if this is the case, the Commission should find this to be impermissible as it encourages anti-competitive behavior by placing the risk on consumers rather than the owner of the facility.

38. The Indiana Regulatory Bodies<sup>21</sup> argue that there is no need for Commission action in the PJM region. They note that gas procurement during critical times is a problem outside organized markets as well as in organized markets, and that changes imposed on RTOs might be discriminatory.

39. Dynegy argues that the Commission should require PJM to revise its bidding and scheduling procedures to align better with those of natural gas pipelines at all times, not just during emergencies or severe cold weather. Dynegy further argues that to the extent that these deadlines are not synchronized, financial risks for gas-fired generators should be addressed by the market rules. Dynegy contends that to the extent that PJM provides pre-dispatch instructions to units to run, cost recovery for units that are subject to such instructions should follow regardless of whether an emergency has been declared and regardless of whether PJM ultimately commits the units.

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<sup>21</sup> The Indiana Regulatory Bodies filed identical comments in Docket No. EL07-4-000.

### 3. Commission Determination

40. Based on the filings by the PJM and the parties, we do not find that additional section 206 procedures are warranted to further examine whether PJM's scheduling and compensation mechanisms need to be revised to ensure that gas-fired generators can obtain gas when necessary for reliability. As a result, we have determined to take no further action with regards to PJM's section 206 proceeding.

41. PJM has done studies that show that its reliance on gas-fired generation is relatively insignificant, especially because it is not a winter peaking system when the gas transportation market is most likely to be congested and gas supplies more difficult to obtain. We find that PJM has undertaken a serious analysis of the potential "at risk" gas-fired generation, including two studies and an examination of its gas peaking needs relative to gas availability. The two studies (in 2003 and 2005) demonstrated that under existing market scheduling rules and practices, the natural gas infrastructure can supply the peak day needs of gas-fired generation in the PJM region through 2007-2008.<sup>22</sup> The New Jersey Board of Public Utilities has not identified problems with these analyses, nor addressed the need for additional scheduling coordination or increased compensation protection for generators. It also argues that PJM should ensure that its rules do not permit gas-fired generators to flow through pipeline penalties. However, we find it unnecessary to establish additional procedures to examine this limited issue. It is not clear that generators should be unable to recover pipeline penalty costs during emergencies if such costs are necessary to ensure that they can maintain grid reliability. If experience shows that allowing pipeline penalty costs to be recovered leads to problems in the future, PJM and its stakeholders can consider the need for further changes to emergency cost-recovery procedures at that time.

42. PJM contends that, while there is the prospect that 468 MW of installed gas-fired generation theoretically could be unavailable to PJM during 2007-2008, this potential "at-risk" gas-fired generation is not a significant fraction of PJM's winter reserve margin and so would not affect its reliability. PJM states that it is a summer peaking system, and that in recent years the winter reserve margin has approached 40 percent. The Commission observes that these uncontested characterizations of PJM's relatively light reliance on gas-fired generation, and relatively robust winter reserve margin suggests that winter reliability would not be impaired by difficulties that might be encountered with scheduling gas-fired generation.

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<sup>22</sup> PJM Filing at 3-4 (citing Multi-Region Assessment of the Adequacy of the Northeast Natural Gas Infrastructure to Serve the Electric Power Generating Sector, Levitan & Associates, Inc., 2003 and Steady-State and Transient Flow Analysis of PJM's Natural Gas Infrastructure 2005-2008, Levitan & Associates, 2005).

43. Dynegy argues that the Commission should require PJM to revise its bidding and scheduling procedures to align better with those of natural gas pipelines at all times, not just during emergencies or severe cold weather; and to the extent not synchronized, to address gas-fired generators' financial risks in PJM's market rules. PJM asserts that scheduling rules facilitate the ability of gas-fired generation to purchase fuel supplies well in advance of their obligation to run for reliability, and that generators will receive adequate compensation. PJM goes on to state that there is a consensus among stakeholders not to make further changes to PJM's market schedules to further coordination with gas scheduling requirements, in part because such changes could disrupt and make unworkable other important aspects of current electric market designs. PJM states that under its market rules, gas-fired generators normally would be notified well ahead of the time that they will be needed for reliability purposes and should therefore be able to coordinate their procurement of gas supplies and transportation and be assured of recovery of their fuel costs. Further, if generators are required to extend their operation beyond the period for which they procured gas, and thus be subjected to volatile gas prices, PJM's rules provide a mechanism for adequate compensation. Therefore, the Commission finds that the scheduling and compensation mechanisms in PJM need not be revised at this time. Accordingly, the proceeding in Docket No. EL07-3-000 is hereby terminated.

**E. Midwest ISO – Docket No. EL07-4-000**

**1. Compliance Filing**

44. Midwest ISO states that it has examined its needs during cold weather or other emergencies and has concluded that additional gas-electric coordination procedures are not presently necessary. It contends that gas-fired generation plays a far less prominent role in Midwest ISO's fuel mix and generation dispatch compared to ISO-NE. It states that gas-fired generation represents roughly 30 percent of Midwest ISO's total installed generating capacity, compared to roughly 50 percent in New England, and that only 4.79 percent of the generation dispatched by Midwest ISO in 2005 was fueled by natural gas. Midwest ISO explains that in its market, total gas-fired installed generating capacity is 41,861 MW or 31.3 percent of total installed capacity, with 21.6 percent of the total gas-fired capacity being dual fuel. Midwest ISO's current total installed capacity provides more than a 45 percent reserve margin above the forecast winter peak of 91,959 MW.

45. Midwest ISO asserts that these numbers strongly indicate that utilization of natural gas as a generation fuel source does not pose a reliability risk in Midwest ISO. Midwest ISO also states that pipeline import capability and storage capacity in the Midwest are among the largest of any region in the United States, and that there is no evidence of shortages of such pipeline import capability or storage capacity in its region. Put another way, even without exclusively gas-fired generation, the Midwest ISO would have more than adequate reserve margins to meet forecast winter peak demands.

46. Midwest ISO reports that it has also conducted a more comprehensive analysis demonstrating that there is no need for additional gas-electric coordination at this time. During the fourth quarter of 2005, it surveyed asset owners about dual-fuel capability and gas supply arrangements, and conducted a series of production cost contingency simulations to assess winter readiness. It contends that its analysis showed that even under modeled worst case scenarios, adequate generation would be available to meet forecast peak winter demand. Midwest ISO states that based on the results of this analysis presented at stakeholder meetings and the completion of further analysis resulting from those meetings, Midwest ISO management and the stakeholders agreed that concerns regarding winter gas supply availability and winter readiness had been assuaged.

47. Midwest ISO also contends that its tariff and emergency operating procedures provide sufficient flexibility to handle fuel emergencies and ensure appropriate compensation to generators offering service under such conditions. Midwest ISO states that it has procedures in place designed to deal with fuel emergencies, allowing Midwest ISO to dispatch generators above their “economic maximum,” the maximum level that they may operate under normal conditions, to bring on line generators that are off line but have been designated as available for use during emergency conditions, and to make emergency energy purchases, to avoid load shedding. It states that there has been no indication that these tariff provisions, including associated compensation arrangements, are inadequate or insufficient. In addition, Midwest ISO established informal communication channels with a number of pipelines with operations that affect Midwest ISO to allow it to coordinate efficiently any gas supply issues with the pipelines in an emergency.

48. While Midwest ISO proposes no modifications to its tariff at this time, it states that it will continue to closely monitor the gas supply situation in its footprint and promptly propose appropriate revisions to its tariff should the situation change.

## **2. Comments**

49. Dynegy filed comments similar to its response to PJM’s filing in Docket No. EL07-3-000, i.e., that the Midwest ISO should be required to revise its bidding and scheduling procedures to align better with those of natural gas pipelines year-round, and that gas-fired generators’ financial risks where bidding and scheduling deadlines are not synchronized should be addressed by market rules. In this docket, Dynegy made the additional comment that natural gas-fired generation located in Midwest ISO that does not clear the day-ahead market faces an additional risk because in Midwest ISO the units may still be taken in Midwest ISO’s Reliability Assessment Commitment (RAC) process. Dynegy argues that once committed by this process there is no step in place providing unit owners an opportunity to re-price the unit based on the cost of obtaining intra-day

fuel supply and transportation. Alliant Companies filed comments in support of Dynegy's comments.

50. WPS Companies state that it does not disagree with the ISOs/RTOs' conclusions, but suggest that, in the future, the ISOs/RTOs should perform more rigorous analysis on the vulnerability to disruptions of fuel supplies. WPS Companies argue that Midwest ISO's analysis of pipeline capacity in its region is inadequate to demonstrate that gas is available to generators in all areas within the Midwest ISO footprint under extreme weather conditions or other disruptions. They assert that a complete survey of ISOs/RTOs system vulnerabilities would identify what gas-fired generators may be needed, what their fuel needs would be in the event of limited pipeline capacity, and whether supply is available to those units in local gas markets, paying particular attention to constrained areas or areas where gas supply may be subject to limitations.

### **3. Commission Determination**

51. Based on the filings by the Midwest ISO and the parties, we do not find that additional section 206 procedures are warranted to further examine whether Midwest ISO's scheduling and compensation mechanisms need to be revised to ensure that gas-fired generators can obtain gas when necessary for reliability. As a result, we have determined to take no further action with regard to Midwest ISO's section 206 proceeding.

52. Midwest ISO has considered aggregate pipeline import capability and storage capability in its region and the role that gas-fired generation plays in its fuel mix and generation dispatch. It has also conducted more comprehensive analyses of winter readiness, surveyed asset owners about dual-fuel capability and gas supply arrangements, and conducted a series of production cost simulations, assuming contingencies of increased severity. This analysis, which Midwest ISO vetted through its stakeholders, demonstrated that even under modeled worst case scenarios, adequate generation would be available to meet forecast peak winter demand.

53. Midwest ISO also has procedures in place providing it increased flexibility to arrange additional energy supplies during emergencies and provide adequate compensation to those offering to supply such energy. In addition, it has established informal communication channels with a number of pipelines with operations that affect Midwest ISO to allow it to coordinate any gas supply issues with the pipelines in the event an emergency arises.

54. While we agree with WPS Companies that the aggregate pipeline capacity data provided in Midwest ISO's response does not demonstrate that gas is available to all generators under extreme weather conditions or disruptions, Midwest ISO also performed dispatch simulation analyses with input from stakeholders. WPS Companies do not allege any specific shortcomings in the methodology or assumptions underlying that

study. Midwest ISO states that it continues to monitor closely the gas supply situation in its footprint and will promptly propose appropriate revisions to its tariff should the situation change. We encourage Midwest ISO to continue to include its stakeholders in its ongoing analysis, in order to ensure that potential vulnerabilities that arise due to changed circumstances in its market are promptly identified and studied.

55. Dynegy and Alliant Companies comment that the Midwest ISO's scheduling and bidding procedures should be better aligned with those of natural gas pipelines at all times, not just during emergencies or severe cold weather, and that to the extent these procedures are not aligned that gas-fired generators' expenses should be covered. However, at this time, the Commission is not convinced that a convincing case has been made that existing practices must be changed, especially given the lack of a clearly superior alternative.

56. Dynegy and Alliant Companies also argue that changes are needed to the bidding or compensation provisions for units committed after the close of the day-ahead market, through Midwest ISO's RAC process. We find such changes unnecessary to encourage gas-fired generators to remain available during emergencies or to ensure that they are fairly compensated for their costs. Generators designated as network resources in Midwest ISO are required to offer their output in the day-ahead market and RAC process, and may include in their offer schedule all costs that are economically justified, including costs associated with risk management. Accordingly, the proceeding in Docket No. EL07-4-000 is hereby terminated.

## **F. NYISO – Docket No. EL07-5-000**

### **1. Compliance Filing**

57. NYISO states that there is no need at this time for the Commission to require revisions to the NYISO's existing scheduling or compensation rules applicable to gas-fired generators. NYISO states that the Commission's concern that gas generators may be unable to obtain gas during periods when gas prices are constrained or volatile is not a problem under the NYISO's normal scheduling processes. NYISO explains that under its existing scheduling rules, all offers to sell energy and ancillary services into the day-ahead market must be submitted by 5:00 a.m. on the day before each dispatch day, and its day-ahead market and posting of its day-ahead schedules occurs no later than 11 a.m. on the day prior to dispatch. Because that is well before the 12:30 p.m. deadline for day-ahead gas purchases and pipeline capacity nominations, gas-fired generators selling into NYISO-administered markets can make gas scheduling decisions with full knowledge of their day-ahead electric power commitments every day of the year. NYISO emphasizes that this deadline was initially set with the needs of gas-fired generators in mind.

58. NYISO also states that it conducts a reliability assessment as part of its day-ahead market process and can commit alternate steam fired units if it anticipates a gas shortage,

before posting final day-ahead schedules. This, according to NYISO, helps to ensure that it will schedule enough generation to meet real time loads, and lessens its vulnerability to unexpected gas shortages. Further, NYISO asserts that local reliability rules that were recently incorporated into the New York Public Service Commission's regulations help protect reliability in the event of a gas contingency.<sup>23</sup>

59. With regard to its compensation procedures, NYISO states that it already has several tariff mechanisms that provide for cost recovery. NYISO states that generator reference levels, used when determining whether a generator's bids should be mitigated in both the day-ahead and real-time markets, are indexed/adjusted based on published gas market prices on a daily basis. Further, generators may inform NYISO of unusual volatility in gas prices that should be taken into account in determining the generator's reference level. This helps prevent the NYISO's market power mitigation measures from interfering with gas-fired generators' recovery of legitimate fuel expenses. In addition, NYISO contends that it makes supplemental "Bid Production Cost Guarantee" payments to NYISO-committed generators when the revenue they earn from the market is inadequate to recover their minimum generation, start-up and energy bid costs. NYISO states that it also has a mechanism to compensate generators that demonstrate that they have been subjected to gas penalty charges as a result of following NYISO reliability instructions. NYISO notes that, in response to concerns expressed by some gas-fired generators, it is reviewing its reference level adjustment procedures and load pocket thresholds to ensure that they are flexible enough to account for gas price changes, and is proposing a number of improvements that would address "minimum oil burn" compensation issues.<sup>24</sup>

60. NYISO states that it has also been developing an emergency gas-electric industry communications protocol for downstate New York (Downstate Protocol) to provide for improved inter-industry coordination during pipeline operational flow orders (OFOs) so that emergencies do not result in disruptions of gas or electric service. NYISO contends that the Downstate Protocol would integrate gas and electric industry emergency communications in the downstate region for the first time. NYISO states that tying the

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<sup>23</sup> NYISO references the rule widely known as the "minimum oil burn rule" that requires downstate gas-fired generators with dual gas and oil-burning capability to use oil when local electric loads reach certain levels. NYISO states that this helps protect reliability and prevent coincident peak demand problems in downstate New York by reducing downstate gas demand at times when electric demand is high.

<sup>24</sup> On May 11, 2007, the Commission accepted NYISO's tariff revisions that provide for recovery by dual-fueled generators of their variable operating costs of burning oil pursuant to the minimum oil burn rule. *See New York Independent System Operator*, 119 FERC ¶ 61,130 (2007).

activation of this protocol to the issuance of OFOs should ensure that it comes into effect during periods of high coincident gas and electric demand, as well as in response to natural disasters or other major disruptions. NYISO states that it expects the Downstate Protocol will be in effect before the end of this winter. NYISO adds that once the Downstate Protocol is in place, it will work to expand the Downstate Protocol to encompass all of New York State.

## 2. Comments

61. Astoria maintains that the NYISO has oversimplified its portrayal of the gas and electric scheduling requirements and fails to take into account standard industry practices and other gas purchasing requirements that gas-fired generators face in these markets. Astoria states that some generating units are supplied fuel under agreements with local distribution companies (LDCs) that require nominations before the NYISO's 11:00 a.m. posting of its day-ahead schedules. Astoria states that prices for natural gas after approximately 10:00 a.m. can exceed prices earlier in the nomination cycle, particularly during high-demand periods, and the resulting decreased liquidity can have dramatic effects of the price of gas. Therefore, Astoria requests that the Commission establish a defined time table for the NYISO to develop ways to better synchronize the gas and electric markets scheduling requirements.

62. Dynegy complains of a lack of synchronization between the gas market and the NYISO's scheduling procedures and asserts that power prices therefore do not always reflect the cost of fuel for gas-fired units. Dynegy states that peaking units and combined cycle units do not typically line up gas supply or transportation until they are notified that they have cleared the market, and thus these units typically have price risk. Dynegy requests that the Commission require the NYISO to revise its bidding and scheduling procedures to align better with natural gas pipelines at all times, not just during emergencies or in severe cold weather.

63. NYPA states that the Commission should direct ISOs/RTOs to include an analysis of local reliability rules in this proceeding. NYPA believes ISOs and RTOs should have rules providing for the recovery of increased operating costs that generators incur when local reliability rules mandate the use of an alternative fuel. NYPA further states the Commission should consider the possible negative effects on electricity system reliability of ISO or RTO compensation rules that may inadvertently deter the continued operation of existing dual-fuel generators.

64. KeySpan notes that NYISO's Compliance Report proposes to modify the manner in which the NYISO compensates dual-fuel generators that incur opportunity costs when they comply with requests to burn more expensive fuel to maintain reliability. KeySpan argues that generators with dual-fuel capability should not be expected to offer their energy based on the more expensive fuel. It further asserts that the NYISO should compensate generators for dual-fuel capability and requests that the Commission require

NYISO to file its proposed compensation mechanisms to be effective by May 1, 2007.

65. NYISO responds that none of the comments has raised any issue that would justify ordering it to make immediate revisions to its scheduling or compensation rules applicable to gas-fired generators. NYISO argues instead that the comments underscore the importance of allowing NYISO to complete the ongoing stakeholder processes to strengthen gas-electric industry coordination and refine its compensation mechanisms. NYISO contends that the commenters have not pointed to any defect in the timeline used by NYISO. Rather, they point to structural issues in the natural gas market that are not caused by NYISO's schedule. According to NYISO, the commenters fault it for not aligning itself with the de facto natural gas trading day in New York. NYISO asserts that the price risk problems described by Astoria and Dynegy will always exist if peaking units and combined cycle units do not purchase gas supply or pipeline capacity during non-peak periods until they are notified that they have cleared the market. NYISO states that it sympathizes with Astoria's scheduling predicament with its LDCs, but maintains that this is an issue that Astoria needs to raise with its LDCs. Further, NYISO states that it is possible that any change in its schedule would simply result in a change in the de facto close of the gas trading day during peak periods because the underlying problem -- lack of pipeline capacity -- would remain a constant. It contends that any change in its day-ahead market closing or posting times would also be costly, burdensome and technically complex. NYISO states that it would be far more practical to adjust its compensation rules so that they fully address any additional risks gas generators may face, and that it is open to considering such adjustments through its stakeholder process. Because any rule changes are likely to be complicated and involve many competing considerations, NYISO asks that the Commission not impose an arbitrary deadline on the stakeholder process.

### **3. Commission Determination**

66. Based on the filings by the NYISO and the parties, we do not find that additional section 206 procedures are warranted to further examine whether NYISO's scheduling and compensation mechanisms need to be revised to ensure that gas-fired generators can obtain gas when necessary for reliability. As a result, we have determined to take no further action with regard to NYISO's section 206 proceeding.

67. We note that gas-fired generators in New York can make gas scheduling decisions with full knowledge of their day-ahead electric power commitments because the close of NYISO's day-ahead market and the posting of its day-ahead schedules occur no later than 11 a.m. of the day prior to dispatch, well before the 12:30 p.m. deadline for day-ahead gas purchases and pipeline capacity nominations. NYISO also has procedures to adjust generator bid mitigation thresholds to reflect volatility in gas prices, has several tariff mechanisms that provide for volatile fuel cost recovery, and has ongoing efforts to ensure that its compensation mechanisms accommodate volatile gas prices and

emergency situations. Further, NYISO is developing emergency gas-electric industry communications protocols for improved inter-industry coordination during periods of high coincident gas and electric demand as well as in response to emergency conditions.

68. NYPA and KeySpan argue that NYISO should modify the way it compensates generators for dual-fuel capability. However, this issue was addressed in other proceedings, and need not be addressed here.<sup>25</sup>

69. Astoria and Dynegy maintain that NYISO should go even further in setting its scheduling procedures to coordinate with the de facto gas market that they allege occurs well before the NAESB 11:30 a.m. Central Time scheduling period. As discussed earlier, these requests go beyond the scope of this proceeding because they seek general changes in scheduling procedures at all times, not just during emergencies. Moreover, NYISO's scheduling already is coordinated with the NAESB timeline, and NYISO provides other procedures to adjust for volatile fuel cost recovery. The current timelines give those customers sufficient time to consummate gas transactions after being scheduled by the NYISO, and we see no need for further procedures to try to tweak those timelines to coordinate with a possibly uncertain de facto gas market. Accordingly, the proceeding in Docket No. EL07-5-000 is hereby terminated.

## **G. SPP – Docket No. EL07-6-000**

### **1. Compliance Filing**

70. SPP contends that there is no need to modify SPP's existing transmission scheduling/reservation protocols or deadlines. It further contends that the problems identified in the October 25 Order are not prevalent in SPP's service area. SPP states that its Energy Imbalance Services market was scheduled for implementation February 1, 2007, so at the time of its filing SPP was not operating an organized market. However, SPP mailed questionnaires to 25 members that own or operate gas-fired generation to determine whether, and to what extent, gas-electric coordination issues existed within SPP. SPP notes that it received ten responses to its member survey and only three of the respondents, Western Farmers Electric Cooperative (Western Farmers), Aquila, Inc.

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<sup>25</sup> See, *New York Independent System Operator, Inc.*, 119 FERC ¶ 61,130 (2007) (approving tariff changes which would allow the NYISO to compensate generators for the increased costs they incur when complying with a specific local reliability rule, such as a minimum oil burn requirement for dual fuel generators), *rehearing pending*. See also, *KeySpan-Ravenswood LLC v. New York Independent System Operator Inc.*, 119 FERC ¶ 61,089, *rehearing denied*, 119 FERC ¶ 61,319 (2007) (denying a complaint by KeySpan-Ravenswood LLC seeking compensation from NYISO for incremental costs incurred when burning oil pursuant to a local reliability rule during the summer of 2006).

(Aquila), and Oklahoma Municipal Power Authority (OMPA), own and operate must-run generation and none indicated any specific conflicts that would justify changes to SPP's scheduling practices.

71. SPP notes that only two other respondents identified any issue with SPP's scheduling procedures relevant to gas supply and capacity procurement. Coral Power, L.L.C., which SPP notes does not operate any "must-run" generation resources in its market, stated that the differences in gas day operations (9:00 a.m. to 9:00 a.m.) and power day operations (12:00 a.m. to 12:00 a.m.) can cause Coral to purchase gas supplies before securing electric transmission service. Kansas City Power & Light Company noted similar timing differences between the electricity and gas market deadlines, but maintains that no significant difficulties have been encountered.

## **2. Comments**

72. No responses to SPP's compliance filing were received.

## **3. Commission Determination**

73. Based on the filings by the SPP and the parties, we do not find that additional section 206 procedures are warranted to further examine whether SPP's scheduling and compensation mechanisms need to be revised to ensure that gas-fired generators can obtain gas when necessary for reliability. As a result, we have determined to take no further action with regard to SPP's section 206 proceeding.

74. In its compliance filing, SPP has demonstrated that additional section 206 procedures are currently unnecessary in its market. SPP conducted outreach to its members that own or operate gas-fired generation, requesting information concerning: (1) the level of generation output and/or load requirements dependent on gas-fired generation, and the member's gas commodity and transportation arrangements for such generators during winter and summer peak seasons; (2) the existence of must-run generators that are gas-fired, and the member's experience procuring gas supplies and pipeline capacity during must-run events; and (3) whether conflicts existed between SPP's scheduling and transmission reservation deadlines and the corresponding deadlines for natural gas supply and/or transportation procurement. Of the three respondents that own or operate must-run generators that are gas-fired, none reported difficulties procuring gas supplies and pipeline capacity during must-run events. In addition, none indicated conflicts between SPP's scheduling and transmission reservation deadlines and the corresponding deadlines for natural gas supply and/or transportation procurement. While we find that SPP has demonstrated that changes to its existing procedures are not necessary at this time, we encourage SPP to continue to work with stakeholders to monitor the gas supply situation in its footprint, in order to promptly identify any potential vulnerability that arises due to changed circumstances in its market. Accordingly, the proceeding in Docket No. EL07-6-000 is hereby terminated.

The Commission orders:

The Commission hereby terminates the six section 206 proceedings established in the above referenced dockets.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.