



November 15, 2012

Commissioner Cheryl A. LaFleur

STATEMENT

FEDERAL ENERGY REGULATORY COMMISSION

Docket No. AD12-12-000

Item No. M-1

Statement of Commissioner Cheryl A. LaFleur on Coordination between Natural Gas and Electricity Markets

"As natural gas increasingly becomes the fuel of choice for new electric generation, the interdependence between the gas and electric markets takes on increasing importance. Both the electric and gas markets are critical to customers, but their methods of attracting investment, market structure, and operations are different, and in some cases may work at cross purposes. Addressing these issues is important to ensuring the reliability of both electric and gas service to customers.

"In February 2012, when we opened this docket, I posed several questions to focus comments on this topic. I appreciate all the comments we received, as well as the strong participation by both gas and electric industry participants in the regional technical conferences held over the summer.

"Questions related to gas/electric interdependency highlight one of the central issues we face as federal regulators—whether to encourage regional solutions, or act to promote national solutions. We learned in the comments and in the technical conferences that certain gas/electric issues varied sharply by region, while others were more national. Thus, both regional and national actions are called for.

Regional Issues

"Among the key differences between regions discussed at the technical conferences related to whether regions relied on organized electricity markets or regulated pricing of vertically integrated electric companies. In general, organized markets face the issue of whether market pricing and tariffs are structured to support secure fuel supply for electric generation. In addition, differences in geography and proximity to shale gas plays affect the level of pipeline supply to different regions.

"Because of its geography, gas infrastructure, and generation mix, New England is facing the most immediate and acute issues of ensuring adequate fuel supply to support generation. For that reason, ISO-NE has indicated that it is working to develop enhancements to its power markets to help address these issues, as well as short-term proposals to help ensure that the region maximizes its pipeline capacity this winter. PJM, NYISO and MISO also indicated that they have begun work to consider these issues at a regional level.

"I believe we should allow development of regional proposals to adapt regional electric markets to address gas/electric issues. However, we will be closely monitoring the issues and regional progress on addressing them. As directed in today's order, I look forward to hearing from each of the RTO regions in the spring and the fall to hear the lessons learned from challenges faced over the peak operating periods.

National Issues

"There were other issues common to regions across the country rather than regional in nature. Based on feedback heard at every technical conference this summer, there are presently two issues that have emerged as issues requiring national focus. First, we heard concerns over whether standards of conduct or other FERC rules may impair effective



communications between gas and electric market participants. Second, we heard concerns over whether differences between the gas and electric trading day, and certain Commission regulations and tariffs, are impeding the most efficient use of the pipelines to ensure reliability.

“Where problems are national or are closely related to FERC regulations, I believe the Commission should act proactively to lead the development of solutions. This is also very consistent with the recommendations for NAESB in their recent report. As today’s Order reflects, we will begin by holding technical conferences focused on (1) improving communication between natural gas and electric operators and (2) natural gas and electric scheduling and pipeline capacity release issues. These focused conferences will inform our next steps.

“In the meantime, it is timely that we heard winter assessment today. We will be closely assessing the situation this winter and stand ready help on any real-time issues. I would like to emphasize the guidance provided in paragraphs 6 through 9 of the order regarding information sharing. Going into this winter heating season, I encourage market participants to refresh their understandings of the Standards of Conduct and the exceptions for emergency circumstances. When in doubt, please take advantage of the very knowledgeable staff willing to offer guidance through the Commission’s Compliance Help Desk.

“Thank you to the Commission staff and to my colleagues for all your work to date, and for continuing to prioritize this issue.”