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INSIDE: PUBLIC NATURAL GAS WEEK | NGV CONVERSIONS | MARKET ACCEPTANCE OF GAS TECHNOLOGIES

Q&A: Commissioner Moeller, FERC

Commissioner Philip D. Moeller from the Federal Energy Regulatory Commission (FERC) answers questions posed by APGA on the topic of gas-electric coordination.

PHOTO CREDIT: FERC

APGA: Can you provide an overview of some of the factors behind FERC's focus on gas-electric coordination?

Moeller: As a nation, I believe we have been trending for about 15 years toward using more natural gas to generate electricity. This trend has quickly accelerated in the last five years for five reasons:

1) It's easier to build a gas plant than other types (including hydropower, coal and nuclear) given that natural gas plants are usually less expensive to build;
2) Although electric transmission expansion is often a less expensive option for consumers (versus new generation), the difficulty in siting and cost allocation related to transmission means it's often not built;
3) The growth of intermittent renewable resources and distributed generation (wind, large scale solar, solar rooftops) requires more generation that can quickly respond to fluctuations in renewable output, and gas plants are usually the fastest large-scale resources to meet this need;
4) The suite of EPA air and water regulations that are especially onerous on coal plants have resulted in thousands of megawatts being retired, retrofitted or refueled with natural gas; and,
5) The abundant domestic supplies of natural gas that are now being extracted due to the new technological breakthroughs of horizontal drilling paired with hydraulic fracturing techniques.

This trend was manageable in the early years, but its acceleration is creating profound challenges. Electricity and natural gas are two fundamentally different industries that vary in their physical characteristics, mode of delivery, and economic regulatory models. And yet they are converging, and we need to manage this convergence to meet our responsibilities related to the reliable delivery of energy to consumers.

APGA: What benefits will greater coordination potentially provide?

Moeller: Greater coordination should result in better reliability of both fuels and more certainty for the investment decisions related to expansion of the delivery infrastructure of these different types of energy.

APGA: What do you see as some of the potential impacts on gas LDCs as a result of gas-electric coordination initiatives?

Moeller: My hope is that this effort will enhance the position of LDCs in the current marketplace. Whether or not one likes these developments, they are a reality. If we can enhance marketing options for LDCs, it's plausible that they could benefit from having additional opportunities to remarket unneeded firm supplies. LDCs may financially benefit from realizing value in line pack and additional capacity release.

APGA: Fundamentally, LDCs are satisfied with how the pipelines are operating today, but are concerned that changes to accommodate the electric industry's enhanced reliance on natural gas will adversely affect LDCs' operational flexibility and cost of doing business. What assurances can you give LDCs that their fears will not be realized?

Moeller: The LDC community should stay engaged and exercise their rights to be heard on this subject. But as I noted above, like it or not these industries are undergoing great changes very quickly. Only Congress could prohibit the electric industry from using gas to generate electricity. That happened once and I do not believe it will happen again. Competitive generators cannot be expected to sign up for firm capacity because that is in contradiction to their business model. Market rules are being considered to place greater value on firm fuel supply for electric generators. We also need to be creative in developing other mechanisms to assure that additional pipelines can be constructed where needed.

APGA: APGA believes that the main reasons for reliability issues in certain areas of the country are (1) the greatly enhanced use of natural gas for electric generation, and (2) the generators' reluctance in RTO/ISO regions to invest in either firm pipeline transportation, dual fuel capability, or on-site storage. What steps do you envision FERC taking to address the second point?

Moeller: My thoughts are similar to the answer in the previous question. The commission will be considering proposed market rules that place a higher value on the reliability of the fuel supply. But it is unrealistic to believe that all generators will be required to have firm transportation, as that again is a fundamental conflict in the business model of competitive wholesale electricity markets.

APGA: To the extent that generators are treating non-firm transportation service as firm (i.e., ignoring curtailment orders and paying operational penalties) what steps do you believe should be taken to prevent this?

Moeller: Penalties need to be sufficient to affect behavior. One idea gaining interest is in changing the timing of the gas day so that its closure at 10 a.m. Eastern time does not coincide with the morning ramp-up of the electric system.