

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Coordination between)
Natural Gas and Electricity) Docket No. AD12-12-000
Markets)

COMMENTS OF THE NEW ENGLAND POWER GENERATORS ASSOCIATION, INC.

The New England Power Generators Association, Inc. (NEPGA)¹ appreciates the opportunity to submit the following comments in response to the Federal Energy Regulatory Commission's (Commission) February 15, 2012 notice soliciting feedback on the coordination between natural gas and electricity markets. NEPGA applauds the Commission's initiative on this matter and urges consideration of the recommendations outlined below.²

1) Providing Regional Flexibility is Appropriate.

Each RTO has a distinct mix of generation resources as well as differing electric market designs and natural gas infrastructure. In New England, for example, the region's generation fleet has changed dramatically with entry of over 10,000 MWs of gas combined cycle units in just the past decade. According to ISO-NE, 46% of New England's electricity supply in 2010 was produced by natural gas-fired generation.³ In recognition of this, ISO New England (ISO-NE) has identified the reliance on gas-fired generation as part of its Strategic Initiatives and plans to propose solutions later this year to address those system initiatives.⁴

¹ NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 27,000 megawatts (MW) of generating capacity in the region. NEPGA's mission is to promote sound energy policies which will further economic development, jobs, and balanced environmental policy. We believe that sustainable competitive markets are the best means to provide long-term reliable and affordable supplies of electricity for consumers.

² The views expressed herein do not necessarily reflect those of NEPGA's individual companies.

³ See: http://www.iso-ne.com/nwsiss/pr/2011/final_2011_on_background_presentation.pdf at slide 23.

⁴ See Strategic Planning Discussion Materials: http://iso-ne.com/committees/comm_wkgrps/strategic_planning_discussion/materials/index.html

Because prescribing a “one-size-fits-all” approach would likely not address the nuances of all markets across the country, NEPGA supports an approach of regional flexibility with relation to natural gas and electricity coordination. NEPGA urges the Commission to grant ISO-NE, with assistance from stakeholders in the New England Power Pool (NEPOOL), the ability to pursue New England-specific answers to these important issues. While there certainly may be overlapping gas-electric coordination issues between the various markets, NEPGA believes that common national themes may most effectively be brought out through a bottom-up approach.

2) Market Solutions Will Achieve the Most Efficient Outcomes.

NEPGA does not support mandates that natural gas-fired generators enter into firm supply contracts with gas pipelines or other similar resource-specific costs (e.g., on site fuel storage). Improved market signals can best provide the desired levels of performance by permitting market participants to evaluate the most efficient solutions to meet the needs, regardless of fuel or technology. It is quite likely that existing market designs (both gas and electric) may benefit from improvements to ensure optimal coordination and incentives occur. Existing electric wholesale Day-Ahead (DA) and Real-Time (RT) energy markets are essentially non-firm sales that are financially settled and, for many reasons, energy clearing prices often do not reflect the true marginal cost of producing energy.⁵ While there is some volatility in energy prices that might encourage suppliers to limit exposure (e.g., generators purchase gas in the DA and/or RT natural gas market depending on whether a unit clears in the ISO-NE energy market), system operator actions to commit many units on cold weather days can often dampen the very energy

⁵ While most electric capacity resources are required to offer their available energy into the day ahead and real time energy markets, the day ahead energy market does not itself assure that sufficient energy is scheduled to meet even day ahead cleared demand (which may itself understate actual next day demand). Specifically, day ahead demand may be met by virtual supply bids, INC bids. While the ISO ultimately reviews next day needs and commits additional real resources in its Reserve Adequacy Analysis, such actions often depress real time energy prices. Since the incentive to deliver on day ahead schedules depends upon the real time energy price volatility, dampened real time pricing understates the true demand for energy schedules.

price signals needed to support advance gas purchases. NEPGA urges the Commission to encourage market price formation improvements that adequately signal the desired performance.

NEPGA also asks the Commission to not limit potential solutions to the introduction of market signals specific to natural gas fired facilities or the natural gas market. Any reliability concerns should be addressed within the context of market mechanisms and signals that are done on a fuel and technology neutral basis that focuses on performance incentives. Potential opportunities or requirements should not be restricted to a specific class of resource or prescriptive regarding the nature of the solution to meet the desired performance. Restricting a market-based opportunity to specific resources would be discriminatory and precludes potential least cost solutions. Firmness of electricity supply can be provided through any number of market determined solutions and administrative reliance on any one solution (e.g., dual fuel capability) would miss the efficiencies that market-based answers could provide.

In addition, NEPGA urges the Commission to expedite the approval of pipeline expansion projects that will reduce the bottlenecks that limit delivery of natural gas into New England so that consumers in the region can benefit from the newly developed supplies to the same extent as do those in the rest of the country. NEPGA also recommends that the Commission urge those who sell and transport natural gas to develop services and products that better fit with the hourly variable requirements of the electric generation business, which may be more extreme than the requirements of many of their other customers.

3) Initiatives are Underway in New England to Proactively Address Natural Gas Reliance and Other Concerns.

As previously mentioned, ISO-NE has identified the reliance on natural gas units and gas/ electric coordination as a high priority among its Strategic Initiatives which consider retirement

of oil units, resource flexibility and other issues. As part of this process, ISO-NE has proactively engaged stakeholders, including generators, in discussions on how best to address the reliance concern and has solicited feedback on potential refinements to how the gas and electricity markets are coordinated. This process also continues to inform conversations that are occurring on the Forward Capacity Market (FCM), energy market and ancillary services market improvements. NEPGA believes that this is the most appropriate course of action and should continue since the issues must be examined holistically across the New England markets.

NEPGA appreciates ISO-NE's efforts to date in communicating with the natural gas pipelines in the region and supports continued efforts to ensure that communication between ISO-NE and the pipelines is as robust as possible. These efforts are especially important due to the growing need to better coordinate outages, particularly those that involve more than one pipeline and/or the electric system. Improving coordination of such outages would limit the amount of days that generators are offline because of lack of fuel availabilities, thus providing significant benefits to regional reliability and market liquidity. While ISO-NE has been actively attempting to coordinate its planned transmission and generator outage schedules, NEPGA believes there is still room for improvement and encourages ISO-NE to continue to work toward achieving a more streamlined and transparent process.

4) Short-Term Refinements to the ISO-NE Markets.

ISO-NE is continually evaluating its markets and making necessary design changes intended to ensure that the most efficient outcomes are achieved. One item that has been identified in the 2012 ISO-NE Wholesale Markets Plan as a necessary efficiency improvement is the planned implementation of RT hourly energy reoffers which will allow suppliers to modify the commitment cost components and the incremental energy offer component of supply offers on

an hourly basis during the operating day.⁶ Implementing this market design change will allow for bids to more closely reflect the price paid for intraday fuel and ultimately reduce generator exposure and increase market efficiencies. NEPGA believes that implementation of RT hourly reoffers is a high priority that will more efficiently and effectively coordinate the natural gas and energy markets in the region.

NEPGA also recommends consideration of improving alignment of the New England electric day and gas day and allowances for intraday gas and electric scheduling changes to better assure that the flexibility gas-fired generation technologies present to the system may be accessed when needed. An example of this includes coordinating the DA unit commitment period to mirror the defined gas day (10 am to 10 am). Making a change of this type would help alleviate some issues with the procurement and nomination of gas for units that may be committed after the DA energy market clears. In addition, potential solutions to provide more certainty to generators purchasing gas for the weekend should be considered. Liquidity of weekend gas purchases is generally low as there has historically been less interest among traditional gas buyers for trades during the weekend. As a result, many generators must purchase gas for the weekend without definitive knowledge that they will be dispatched.

5) Conclusion.

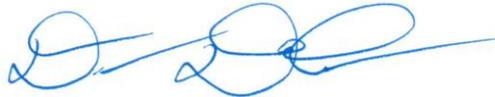
As the nation's electricity system takes advantage of the tremendous growth in natural gas fuel supplies and the relative stability in fuel prices that have recently emerged, it is critical to ensure that the natural gas and electricity industries improve coordination and that electricity market changes made take into account the changing face of the generation portfolio. This is especially true in New England. NEPGA and its members appreciate FERC's proactive efforts to more closely examine how this coordination occurs within the numerous regional electricity

⁶ See: http://www.iso-ne.com/pubs/whlsle_mkt_pln/2012wmpp.pdf at page 24

markets and we look forward to continued dialogue on this important matter. NEPGA respectfully requests that the Commission consider the comments provided here in any subsequent determinations pursuant to this timely matter.

Respectfully submitted,

**NEW ENGLAND POWER GENERATORS
ASSOCIATION, INC.**

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke extending to the right.

Dan Dolan
President
New England Power Generators Association, Inc.

Dated: March 30, 2012