



Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

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**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL REGULATORY ENERGY COMMISSION**

**Coordination of the Scheduling Processes of Interstate
Natural Gas Pipelines and Public Utilities**

Docket No. RM14-2-000

**COMMENTS OF THE
INDUSTRIAL ENERGY CONSUMERS OF AMERICA**

I. EXECUTIVE SUMMARY

The Industrial Energy Consumers of America (IECA) appreciates the opportunity to respond to the Federal Energy Regulatory Commission's (FERC) request for comments regarding the Notice of Proposed Rulemaking (NOPR) for the "Coordination between the Natural Gas and Electricity Markets." We are grateful for the attention the FERC has given this subject and the comprehensive examination of issues that may impact the reliability of delivering these services.

IECA represents energy-intensive trade-exposed (EITE) companies, which are significant consumers of natural gas and electricity, and thus are major stakeholders in this debate. EITE industries consume 73 percent of the entire manufacturing sector's use of electricity (26% of U.S.) and 75 percent of the natural gas (29% of U.S.).

IECA believes that the proposed rule is only the first step toward developing a viable solution as the NOPR offers only marginal improvements and does not directly address core challenges needed for electric reliability. We believe that improved coordination of the gas and electric day could improve the existing system that was shown to be inadequate when stressed by the severe weather conditions experienced this past winter. Also, IECA tentatively supports the multi-party transportation contracts.

For industrials, the lack of reliability translates into a real economic problem that will only be exacerbated by recent Environmental Protection Agency (EPA) rules and proposed rules. IECA urges the FERC to play a larger role in EPA rules by bringing rational market realities to EPA leadership, such that the EPA rules do not impact reliability and that the EPA rules become cost-effective.

II. COMMUNICATIONS

All correspondence and communications to IECA in this docket should be addressed to:

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III. IDENTITY OF THE INDUSTRIAL ENERGY CONSUMERS OF AMERICA

IECA is a nonpartisan association of leading manufacturing companies with \$1.0 trillion in annual sales, over 2,900 facilities nationwide, and with more than 1.4 million employees. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA represents energy-intensive trade-exposed (EITE) industry companies. IECA membership represents a diverse set of industries including: chemical, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, brewing, independent oil refining, and cement.

IV. COMMENTS:

a. Multi-party transportation contracts: IECA tentatively supports, but seeks assurances from FERC that such contracts will not negatively impact the secondary capacity release market and

existing customers. Safeguards and transparency are needed to ensure such contracts do not result in market power and currently unforeseen downsides.

IECA tentatively supports multi-party transportation contracts that would potentially allow interstate natural gas pipelines to function more efficiently, share costs and risks of holding firm pipeline capacity among other shippers, and increase the ease of balancing demand peaks and troughs. If these contracts are economical and reduce risk, then the potential exists for generators to sign-up for firm pipeline capacity, which could potentially result in the investment in new natural gas pipeline capacity.

Of concern is that the FERC stated that circumventing the need for engaging in capacity release transactions is one of the benefits of multi-party contracts. Capacity release is a critical option for the market and industrials that has resulted in a successful secondary market. IECA urges the FERC to ensure that multi-party contracts do not reduce the healthy functioning and competitiveness of the secondary market. The FERC should carefully monitor the use of these contracts and possibly limit their use if the FERC determines non-multiparty participants are being negatively impacted by multi-party contracts.

It is important that the multi-party contracts do not discriminate against other shippers, negatively impact existing shippers (capacity release or costs), that they comply with all existing pipeline tariff provisions, and are transparent in form and effect. FERC must ensure that the transparency requirements are sufficient quality to monitor for market power. Many electric generators can pass on the costs of entering into the multi-party contracts, a luxury that industrials do not have. As such, these electric generators will be able to outbid industrials for the pipeline capacity by agreeing to a much longer contract term. IECA urges the FERC to ensure that under the multi-party contracts, that "individual" shippers must be disclosed publically.

IECA tentatively supports multi-party contracts if all contracted parties comply with “shipper-must-have-title,” with all pipeline rate and tariff provisions, including creditworthiness criteria, curtailment priorities and imbalance penalties, that pipelines will not provide preferential treatment, and that parties agree that they will not engage in actions that are discriminatory.

b. Maintain cost causation principles.

If there are increased natural gas interstate pipeline costs to support greater natural gas and electric coordination, it is essential that the current precedent for use of straight fixed variable methodology continue to be used by FERC for allocating those incremental costs. In addition, when implementing this policy it is FERC precedent when integrating pipeline infrastructure costs that overall rates to customers not exceed 10 percent of the then current rates and to require the parties requesting the increased capacity to pay “aid in construction” to the interstate pipeline for the incremental costs not allocated to users via the 10 percent rule. The industrial consumers who rely on that pipeline capacity should not be expected to pay for the additional costs. Cost causation principles should prevail and that entities who “cause” the cost should pay for the cost above a threshold level.

c. IECA supports FERC reassurances that fundamental existing no-bump rules remain intact.

IECA reaffirms its long-standing concern about the creeping potential subordination of all other natural gas uses to the needs of a single type of customer – the electric generator. Such an approach would be discriminatory and result in costs that would damage the competitiveness of manufacturing. Maintaining the no-bump rules provides certainty to manufacturing companies that have scheduled their gas for a given day and assures they will not be interrupted to accommodate variable loads.

Interruption of either or both gas and electric supply to industrial companies can be enormously expensive. For many companies, outages can cost tens or hundreds of millions of dollars per day. Damages include the product that is being produced at the time of outage, the equipment used for production, the cost of production delays or permanent shutdown of facilities. It is also a safety issue for our employees. That being said, we are a significant stakeholder on this issue and IECA does not support the extra bump cycle.

d. The market needs real solutions.

The real solution is to develop mechanisms for expediting the construction of increased natural gas pipeline and electric transmission capacity, incentives for demand response on both gas and electric, RTOs/ISOs and vertically integrated utilities with a diversified fuel portfolio that includes generation from coal, natural gas combined cycle plants, combined heat and power (CHP) from both industrial and commercial loads, nuclear and renewable energy.

FERC should take action to:

1. Require electric generators to include the fixed cost of acquiring firm transportation on natural gas interstate pipelines in their submission of variable cost into the day-ahead energy market;
2. Expedite gas pipeline permitting and construction;
3. Ensure that needed coal-fired units for reliability do not retire prematurely due to EPA regulations;
4. Remove regulatory barriers to greater use of existing and new CHP capacity; and
5. Provide incentives for demand response and efficiency in both electric and gas markets.

e. Perceived benefits of such changes do not outweigh the costs of implementing the changes.

The NOPR's proposed changes that would shift the gas day start time and increase the intraday cycles to reschedule gas from two to four, will increase pipeline company costs that will

be passed on to us, the consumer. The condensed nomination and scheduling timelines result in less time to resolve nomination and scheduling issues and/or provide for extensions of nomination deadlines for all gas shippers. For industrial companies with facilities across all time zones, changing the gas day could also increase our manpower and operational costs.

f. Advance greater use of industrial CHP and WHR as a real supporting reliability policy solution.

FERC should embrace the role of industrial cogeneration of power and steam and use of waste-heat-to-power as a powerful supportive policy solution to increasing reliability of the grid through increased distributive power generation. There is a substantial existing capacity of underutilized CHP capacity that with the right policy could provide a source of distributive power supply. Likewise, there are a substantial quantity of manufacturers across the country that have excess steam or waste heat that could be converted to economical distributed power generation through the construction of new power generating units. There are substantial additional benefits to considering this policy option. Greater use of CHP and WHR increases the competitiveness of the manufacturing sector thereby increasing high paying jobs, exports, economic growth, and the reduction of air emissions and CO2. A win-win.

g. FERC should include use of energy efficiency as a reliability policy tool.

IECA encourages the FERC to broaden its analysis beyond hard electric generation supply sources and also consider all forms of energy efficiency, including demand side management and end-use efficiency, which can serve as low-cost methods to both effectively replace base load generation as well as enhance grid reliability. In this respect, we support FERC Order 745 that supports use of demand response. We also support FERC's effort to better quantify the benefits of demand response and efficiency in wholesale markets as set forth in Docket No. RM05-5-020.

In this regard, we encourage the FERC to streamline the process for industry financed and installed energy efficiency to participate in the PJM capacity auctions and in the capacity constructs implemented by other RTOs and ISOs. The measurement and verification (M&V) protocols that have been developed for energy efficiency participation in this market are too cumbersome and expensive for the industrial sector to undertake. The extensive requirements for M&V appear to be designed for utility participation through use of consultants who specialize in M&V. Industrial users are unlikely to retain consultants to provide the M&V plans that are required for energy efficiency to participate in capacity markets. There would be much greater participation in these auctions by the industrial sector if the M&V requirements were streamlined for industrial participants.

Importantly, if energy efficiency is pursued as an option, it is vital that industrial companies retain the flexibility to opt-out at the state level if companies determine the benefits are not cost-effective to the companies.

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Respectfully Submitted,

Paul N. Cicio
President
Industrial Energy Consumers of America