

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

**Coordination between the Natural
Gas and Electricity Markets**

Docket No. AD12-12-00

**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 request for comments regarding coordination between the natural gas and electricity markets. We support the Commission's efforts to undertake a comprehensive examination of issues that may impact the reliability of delivering these services. However, it is essential that the Commission not narrow its examination to areas that focus only on business rules to secure natural gas supplies to assure electric reliability, but also examine direct and indirect reliability issues. As you do so, we urge you to carefully weigh the costs of policy changes to industrial consumers before considering implementation.

The natural gas and electricity industries provide a service that goes beyond the issues of health and safety. These are services that can determine the competitiveness of the industrial sector with direct and indirect impact to jobs. How efficiently the natural gas and electricity industries operate and at what cost have broad impacts to economic growth and capital investment.

IECA has three central concerns. The potential for double digit electricity price increases due to upwards of 70 GW of coal and oil fired power plant shutdowns over a short three year period; the potential for natural gas and electric reliability problems that become a safety and cost issue for a manufacturing facility; and the policy changes that the FERC may consider to respond to the challenges in a timely manner. Each of these potential policy concerns are highlighted below.

II. COMMUNICATIONS

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

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III. IDENTITY OF INDUSTRIAL ENERGY CONSUMERS OF AMERICA

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with \$700 billion in annual sales and with more than 650,000 employees nationwide. It is an organization created to promote the interests of manufacturing companies through research, 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 membership represents a diverse set of industries including: chemicals, plastics, cement, paper, food processing, brick, fertilizer, steel, glass, industrial gases, pharmaceutical, aluminum and brewing.

IV. COMMENTS: POTENTIAL CONCERNS OF INDUSTRIAL USERS OF NATURAL GAS AND ELECTRICITY

How the FERC responds to these challenges may result in consideration of policy changes. In that light, IECA offers several examples of potential policy changes that could negatively impact the industrial sector.

FERC policy that gives certain rights and priority to electric generators for access to natural gas pipeline capacity may provide a potential solution to the electric generation reliability problem but creates a reliability and cost problem for manufacturers regarding their access to such capacity. IECA is concerned about the subordination of all other 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. The additive point here is that these are policy decisions that must be addressed by the Commission and not by stakeholder bodies.

1. Maintain no bumping rules

Maintain “no-bumping” rules that provide certainty to a manufacturer that has scheduled their gas for a given day, will not be interrupted to accommodate variable loads, and is critical to manufacturers.

2. Maintain rules that do not discriminate

We are concerned about setting rules or tariff revisions that would give priority to natural gas pipeline loads that serve power generators that have high potential intraday variability. This could force more restrictive multi-intraday or even hourly balancing requirements with stricter imbalance tolerances on “all” pipeline users which would be especially problematic for industrial manufacturing facilities. This rebalancing could result in increased costs and possibly reduced operational flexibility for industrial consumers. In other words, our reliability can become compromised due to power generator requirements which are fundamentally different from industrial requirements demands.

3. FERC should utilize 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 the 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% 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% rule. The industrial consumers who rely on that pipeline capacity should not be expected to pay for the additional costs. Fundamentally, our view is that cost causation principles should prevail and that entities who “cause” the cost should pay for the cost above a threshold level.

4. Potential limits to firm natural gas pipeline capacity

As utilities add more natural gas fired generation to replace coal and to serve as backup to the intermittent renewable generation, they are contracting for firm natural gas transportation capacity from the interstate pipelines. In many cases they are only using this pipeline capacity on an intermittent basis when the gas fired electric generation units are operated. However, they contract and pay for the firm capacity to ensure that they can get gas to their units when needed. They can afford to do this because they pass on the cost of the firm transportation capacity to their electricity customers. Oftentimes the utilities will not release the capacity when it is not being used so that others could use it as secondary firm. These operational practices limit the amount of primary or secondary firm pipeline capacity available to industrial manufacturing companies. Coordination and communication is needed between the electricity and natural gas markets to ensure that the pipeline capacity is utilized properly and that firm capacity will continue to be available for manufacturing.

5. Changing natural gas pipeline flows are an issue

The expanded use of natural gas for electricity generation has and will continue to change flow patterns on the natural gas pipeline system. Areas that historically were supplied by Gulf Coast pipelines are now being supplied by new natural gas production from the Marcellus Shale reservoir basins resulting in low rates of capacity utilization and problematic higher rates for industrial companies who may have contracted for firm capacity on those Gulf Coast pipelines. IECA supports FERC addressing the issue in this docket.

V. COMMENTS: OPPORTUNITY FOR INDUSTRIAL CHP / WHR AND ENERGY EFFICIENCY AS POLICY SOLUTIONS

1. Include industrial CHP and WHR as a supporting policy solution

FERC should evaluate the role of industrial cogeneration of power and steam and use of waste-heat-to-power as a supportive policy solution to increasing reliability of the grid through increased distributive power generation. There is a substantial existing capacity of under utilized CHP capacity that with the right policy could provide a source of distributive power supply. Likewise, there is 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 units. There is substantial side 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 and economic growth. A win-win.

2. FERC should include use of energy efficiency as a 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 applaud 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. IECA plans to submit under separate cover comments in response to the April 19, 2012 FERC Notice of Proposed Rulemaking.

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. Industrial users are unlikely to retain consultants to provide the measurement and verification 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.

VI. OTHER COMMENTS

1. The natural gas and electricity coordination issue is important and timely: coordination is also a human health, safety and cost issue

We appreciate and support the initiative by Commissioner Moeller to address these important matters. Commissioner Moeller correctly poses the question "What will be the impact of the expected retirements of coal and oil-fired generation on the need for gas and electricity coordination?"

Driven mostly by EPA regulation, the retirement of upwards of 70,000 MWs of mostly coal fired power generation over a very short three year period raises serious electricity cost and reliability concerns for manufacturing. We believe the EPA rules that are designed to address environmental issues are in fact dictating national energy and economic policy with little consideration to reliability, cost, and negative impact to the economy.

EPA rules that require compliance in three years is a central issue. It is a significant feat to juggle the shutdown of upwards of 70 GWs of existing capacity, replace that capacity, and shut down the surviving coal fired generation plants and retrofit them with compliance technology – all without having significant cost and reliability problems.

The magnitude of these changes is unprecedented and leaves no room for error. There is reason to be concerned about reliability if there is any severe weather in the summer or winter. We urge the FERC to work with the EPA to ensure that our nation's electricity supply remains reliable.

The October 2011 study by NERA Economic Consulting (NERA) that evaluated the combined economic impact of four electric industry EPA regulations indicates that industrial users could face double digit electricity price increases through 2020. Impacts are more severe in regions that are more heavily dependent upon coal fired power plants. Double digit electricity price increases could result in loss of competitiveness, jobs and exports as well as damage to the U.S. economic recovery.

Reliability of electricity supply is also important as the manufacturing sector typically operates in a 24 hours per day, 7 days per week mode. If the power goes out in manufacturing facilities without warning, it becomes a safety issue for facility employees because many facilities have high pressure vessels and or operate furnaces at thousands of degrees Fahrenheit. Product that is in the equipment can be damaged or ruined. Equipment can be either partially or permanently damaged resulting in lost production capacity. It is also a cost issue. For large facilities, costs can quickly run into the tens of millions of dollars.

2. FERC's leadership role is paramount and FERC must retain primary oversight responsibility and not delegate or defer to stakeholder organizations

The FERC alone has authority over electric reliability and jurisdiction over interstate natural gas pipelines and wholesale electric power markets. IECA encourages the FERC to address these issues comprehensively in a bottom-up approach that identifies real concerns before making policy changes. Changes to standards should be made only after policy has been set.

Concerning the roles and responsibilities of organizations such as NERC or NAESB, the FERC should not delegate or defer to such stakeholder organizations for setting policy. The competing needs of different types of pipeline users should not be left to the discretion of stakeholder bodies.

IECA urges the FERC to engage all stakeholders and hold technical conferences before there is any consideration of rulemaking or standard setting. We agree it is urgent that the FERC begin to address this issue as quickly as possible with an eye on the upcoming 2012 – 2013 winter heating season. However, we believe that addressing this issue will be a long term project.

3. FERC policy changes should strive to be national in scope and avoid regional policy changes if possible to avoid competitiveness distortions for manufacturers

As a reminder, manufacturing companies compete with both domestic and foreign producers. If FERC made regional policy changes that raises the cost of electricity or natural gas or both in that region, those manufacturing facilities will be at a competitive disadvantage. This must be avoided.

4. Short term recommendation

The one thing that can be done immediately to help reduce potential problems is to improve communication between power generators and gas pipelines. These communications should at a minimum address how to coordinate the gas day with the electric day for nominations purposes. The tariff changes needed to facilitate these modifications should be expedited through the FERC approval process. Developing rules for such communications and expedited approval of filings made to accommodate these needs should be a top short term priority.

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Respectfully Submitted,

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