

**UNITED STATES OF AMERICA
BEFORE THE
DEPARTMENT OF ENERGY
OFFICE OF ENERGY POLICY AND SYSTEMS ANALYSIS AND
QUADRENNIAL ENERGY REVIEW TASK FORCE**

Comments of the Natural Gas Supply Association

Pursuant to the Federal Register Notice issued by the Department of Energy (“DOE”) on August 25, 2014,¹ the Natural Gas Supply Association (“NGSA”) hereby submits the following comments. NGSA appreciates the opportunity to comment on the Administration’s Quadrennial Energy Review and to provide input on how federal energy policy can help address natural gas infrastructure challenges.

NGSA is a trade association that represents integrated and independent companies that produce and market domestic natural gas. Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets to ensure reliable and efficient transportation and delivery of natural gas and to increase the supply of natural gas to U.S. customers.

The United States is blessed with an abundant supply of clean-burning natural gas. Natural gas production has increased by approximately 43 percent in the past decade alone; growing from 49.52 Bcf/d in 2005 to 71.1 Bcf/d projected for 2015.² However, adequate gas infrastructure must be in place to transport and store the production from the wellhead to the point of use so that consumers can fully take

¹ Quadrennial Energy Review: Notice of Deadline for Public Comments, 79 Fed. Reg. 50638 (Aug. 25, 2014).

² Energy Information Administration Short-Term Energy Outlook, October 2014.

advantage of this abundant supply of natural gas. As the 2014 INGAA Foundation Report pointed out, billions of additional dollars of investment are needed in new pipeline infrastructure. INGAA estimates that 43 Bcf/d of incremental natural gas mainline capacity will be needed from 2014 to 2035.³

While the gas industry is making great strides in meeting natural gas customer demands, some regions of the country, such as New England, struggle with the ability to support new infrastructure expansion to meet their growing power market's needs for natural gas. If left unaddressed, these regional capacity constraints, especially during peak demand periods, can adversely impact a merchant generator's ability to meet its power market commitments, which can impact electric reliability in the entire region. Therefore, federal policymakers must find ways to encourage organized power market operators to expeditiously establish rules and pricing structures that allow generators to fully recover their costs and to contract for services in a manner that ensures electric reliability. Such actions will ensure that adequate infrastructure is in place to meet the increased natural gas demand and provide the level of service flexibility required to meet the varying load requirements of gas-fired generators.

Producers and marketers are supporting pipeline expansions by signing long-term contracts for capacity from supply areas to market hubs where the production can be sold in a liquid market and further downstream when the capacity investment is economically justified. For instance, almost all of the capacity from the largest new

³ See INGAA Found., Inc., *North American Midstream Infrastructure Through 2035: Capitalizing on Our Energy Abundance* at 12 (March 18, 2014), available at <http://www.ingaa.org/Foundation/Foundation-Reports/2035Report.aspx>.

pipeline projects in the Northeast approved in 2012 by the Federal Energy Regulatory Commission was subscribed by marketers and producers.⁴ However, in addition to investments by the upstream sector to deliver gas to points of liquidity, gas consumers must invest in the corresponding downstream gas infrastructure that is needed to ensure that natural gas can be reliably delivered from liquid market hubs to a customer's delivery point.

For years, many gas-fired generators were able to obtain natural gas by securing interruptible pipeline transportation or releases from firm shippers to fulfill their power obligations. However, as demand for natural gas, including that for the power sector, has grown, some gas pipeline companies are operating their systems at increasingly high utilization rates, resulting in constrained pipeline capacity in some regions. These constraints limit a pipeline's ability to provide interruptible transportation or a shipper's ability to release its firm capacity as they may have in the past. Thus, as pipeline utilization rates continue to rise, over time, it will become increasingly more difficult for independent power producers to ensure access to delivered gas supply without making advance contractual arrangements for firm transportation.

Many of the specific services that generators currently rely upon, such as deliveries on short notice or non-ratable takes, may also require the construction or expansion of more pipeline capacity or other physical assets to accommodate the ever-

⁴ Technical Conference Comments of BG Energy Merchants, LLC, Docket No. RP12-514-000 (filed May 10, 2013).

increasing need for pipeline flexibility.⁵ With sufficient additional infrastructure in place, gas generators can access additional flexible services such as no-notice services, non-ratable contracts, flow day diversion, enhanced nominations, park-and-loan services, and operational balancing arrangements. Local gas storage expansions or additions in many areas of the country can assist in meeting unexpected fluctuations in load requirements.⁶ Such expansions or new construction to meet increased demand or additional flexibility requirements are unlikely to be built absent financial support in the form of firm transportation contracts to underpin these investments.

While the level of firm contractual commitments required to meet its power dispatch obligations is ultimately a generator's business decision, it is the regional transmission organization's responsibility to implement rules and pricing structures that allow merchant generators to be compensated for their fully delivered costs, including the costs of gas supply and the related firm pipeline capacity that are required to meet their power market obligations. Some organized power markets are in the process of looking more closely at this issue, and NGSa encourages such efforts. NGSa believes that DOE and other federal agencies should encourage expedited actions to improve the rules and pricing practices in regional organized power markets so that generators can be adequately compensated for investment in gas supply reliability.

⁵ Since gas flows through a pipeline on a constant ("24/7") basis, pipeline customers that opt to take less than hourly flows will still need to pay the costs associated with the unutilized capacity unless other off-peak users can be found to utilize the otherwise stranded capacity.

⁶ There are incremental costs associated with added flexibility to align gas supply with varying load requirements: whether it is investment in contractual fuel supply or additional gas infrastructure, such as pipelines, and storage. These services are typically more expensive than basic interruptible or firm transportation since they require the provider to "stand-ready" by reserving both supply and physical assets to meet customer needs when called upon.

Therefore, NGSA asks that the Administration consider ways to encourage organized power market operators to expeditiously work with their stakeholders to implement rules and pricing structures that ensure that generators are adequately compensated for investment in firm gas contractual arrangements. Such improvements to power market rules will, in turn, lead to enhanced contracting practices to support the needs of gas-fired generators; ultimately providing the support required for pipelines to invest in additional infrastructure in capacity-constrained regions.

Respectfully Submitted,

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