

Top 10 Key Messages

Gas-Electricity Integration



1. Natural gas currently fuels about a quarter of our country's electricity generation, and its use will grow due to the anticipated retirement of coal-fired power plants. We already are seeing significant fuel switching because gas is cost competitive with coal.
2. Immense supplies of accessible, domestic natural gas can meet this growing need. Abundant supply affords customers lower costs and reduced volatility.
3. The U.S. pipeline grid is the key to getting abundant supplies to market. Pipelines deliver natural gas safely and reliably in a flexible and responsive way. The pipeline industry invested about \$8 billion over the past decade to add roughly 15,000 miles of interstate pipeline. The natural gas sector is confident it can meet future demand for gas-fired generation.
4. The natural gas and electric industries and their regulators share a common goal ensuring Americans' lights, heat and air conditioners stay on. Contracting decisions made by the electric industry drive electric reliability. The electric industry must answer two central questions: How much pipeline capacity is needed to ensure electric reliability? Who will hold and pay for that capacity?
5. Pipelines offer a variety of firm and interruptible transportation services and work with their customers to develop new services that meet their needs. The Federal Energy Regulatory Commission approves pipeline tariffs and authorizes the construction of interstate pipeline infrastructure.
6. **Firm transportation service** guarantees delivery without interruption (except in extraordinary circumstances) at the customer's primary firm delivery point. Pipelines may suspend, reduce or not schedule **interruptible transportation services** in accordance with the pipeline's tariff and FERC policy.
7. Electric generators—even those without firm transportation service—historically have benefitted from highly reliable gas delivery service largely because a pipeline's firm capacity holders only use their full pipeline capacity on certain peak or high-load days. On non-peak days, generators can buy capacity not needed by firm customers on the secondary market through capacity release or from the pipeline as interruptible transportation.

During peak or high-load conditions on some pipelines, interruptible transportation likely will not be available as pipelines meet the needs of their firm customers. As a result, new pipeline infrastructure will be necessary to accommodate demand growth.

8. Unlike the electric system, pipelines do not have a reserve margin. FERC requires a demonstration of market need—usually in the form of firm contractual commitments from customers—before it approves a proposed pipeline. The pipeline infrastructure we have today is the result of the historical decisions by local distribution companies and producers regarding the level of firm service they desired.

Tomorrow's infrastructure will be determined by decisions made today not only by producers and LDCs but by the growing market represented by gas-fired electric generators. If pipeline capacity is not, or will not be, sufficient for growing generation demand, the electric industry needs to decide and contract today so that pipeline infrastructure will be available when generators need it in the coming years.

9. Generators and electric utilities, in coordination with regional planning authorities (regional transmission organizations and planning authorities in non-organized markets), should consult with pipelines early in their planning processes if they anticipate the need for additional pipeline capacity or transportation service.
10. INGAA believes FERC, in coordination with the North American Electric Reliability Corporation, should establish a mechanism for determining the amount of firm pipeline capacity (or some other form of firm back-up fuel) needed in each region to ensure electric grid reliability. Wholesale electric market design—which rewards generators for having the lowest marginal cost—acts as a disincentive for generators to sign up for firm transportation.

FERC should reform wholesale power market rules to assign responsibility for holding such pipeline capacity and provide a means to recover the costs incurred for this purpose. Merely addressing communications and scheduling protocols will not ensure electric grid reliability.

