

Pipeline Reliability: Customers Determine the Level of Risk They Wish to Bear

Pipeline operators have served their customers, including electric generators, for decades. We have the operational expertise and experience to serve both baseload and peaking generators with highly reliable service. Natural gas pipelines have a long history of transportation service reliability.

The interstate pipeline system is an extensive network that includes a dynamic system of interconnections. Many customers can receive service from several pipeline companies. Even if a planned or unplanned outage occurs on a pipeline segment, pipelines often can continue to serve customers by shifting the flow of natural gas.

Contracts are the cornerstone of the interstate natural gas pipeline industry. Individual pipeline customers are responsible for determining what type or quantity of contracted transportation services they need to achieve their desired level of reliability. Unlike the electric power system, pipelines typically do not build reserve capacity for future customers' needs, and they typically do not build on speculation.

A pipeline designs its system to guarantee delivery to firm transportation customers at their primary firm delivery points. Firm customers ensure that they will be able to receive natural gas whenever they need it by paying a monthly reservation charge. Interruptible customers do not pay a reservation charge. Instead, they pay only when they use natural gas transportation service. In return, interruptible customers accept the risk that pipeline capacity may be unavailable when they wish to use natural gas.

We recognize that when generators in organized electric markets choose not to subscribe firm pipeline transportation, they are making a rational economic decision given the circumstances and the rules in their market.

Yet, at some point, the cumulative effect of these individual decisions may adversely affect the reliability of electric power generation within a region. In such cases, wholesale electric pricing rules will need to be examined in order to provide the economic incentives necessary to ensure that the desired level of electric reliability can be achieved. Still, these questions do not reflect upon the reliability of natural gas pipeline transportation. The natural gas industry is reliable and will remain reliable.

Contracting decisions made by the electric industry impact electric reliability

Key Points:

- Natural gas and natural gas pipelines are extremely reliable.
- The amount of natural gas infrastructure needed in each region will vary. In some regions, there may be enough existing pipeline capacity to serve additional generation load. Yet as gas-fired generation grows, available capacity will shrink even on those pipelines that have capacity today.
- Interstate natural gas pipelines typically do not build on speculation. FERC requires that pipelines demonstrate market need, most commonly shown through the execution of a sufficient level of long-term firm contracts, before approving either expansions of existing infrastructure or development of new infrastructure. Further, under current FERC policy there may be little economic incentive for pipelines to build unsubscribed capacity.
- Major infrastructure can be developed, certificated and constructed in a timely fashion, provided pipelines receive adequate market signals.