

# The Importance of Natural Gas for Electric Reliability and Affordability

- Natural gas is an important electric generation fuel and will continue to play an instrumental role in the electric system for the foreseeable future.
- The American Public Power Association (APPA) supports federal policies that help ensure a reliable and affordable supply of natural gas to support a reliable and resilient power grid and reasonable electric rates for customers.
- APPA supports higher standards for delivery, notification, and transparency from the natural gas industry, whether the industry adopts and implements those standards voluntarily or through increased government oversight.

## Background

The electric and natural gas industries are interdependent, and recent developments, including extreme winter storms, significant fluctuations in natural gas commodity prices, and greater reliance on intermittent electric generation technologies, such as wind and solar, have brought a heightened focus on the relationship between those industries.

Natural gas has grown significantly as an electric generation fuel source in recent years, and natural gas-fired generation is expected to continue to play an important role in the nation's resource mix for the foreseeable future. In 2022, natural gas accounted for nearly 40 percent of utility-scale electricity generation in the United States.<sup>1</sup> Many public power utilities rely on natural gas-fired electric generation, either owned or contracted through bilateral or organized wholesale electric markets. Natural gas power plants can “ramp up” quickly to meet increased demand, making them critical to the overall reliability of the electric grid, especially as the generation resource mix transitions to more intermittent renewable energy. The North American Electric Reliability Corporation (NERC) said in its 2021 Long-Term Reliability Assessment (LTRA) that “[n]atural gas is the reliability ‘fuel that keeps the lights on,’ and natural gas policy must reflect this reality.” A reliable and affordable supply of natural gas also depends on adequate transportation infrastructure, and NERC’s 2022 LTRA observes that “additional pipeline infrastructure is needed to reliably serve electric load.” Jurisdiction for siting and permitting interstate natural gas pipelines resides primarily with the Federal Energy Regulatory Commission (FERC) under the Natural Gas Act, and pipeline certificate applications are also subject to National Environmental Policy Act (NEPA) review. Aside from the importance of natural gas to electric reliability, the price of natural gas often directly impacts the wholesale price of electricity, both within and outside the organized wholesale markets.

The severe arctic weather event known as Winter Storm Uri in February 2021 vividly illustrated the reliability and economic interdependencies between the electric and natural gas sectors. During Winter Storm Uri, there was a massive decline in natural gas production, with natural gas fuel supply struggling to meet both residential heating load and electric generating unit demand for natural gas. Although natural gas is an essential fuel for home heating, electric generation, and other critical uses, the price of the natural gas commodity is fully deregulated. For example, during Winter Storm Uri natural gas prices spiked from roughly \$3 per million British thermal units (MBtu) at most locations to \$100 to \$400 per MBtu at many hubs, and over \$1,000 at some locations. These high fuel prices contributed to soaring wholesale electricity costs in some regions. Some of the same natural gas and electric interdependencies were observed during Winter Storm Elliott in December 2022, with several regions engaging in controlled outages to preserve system stability.

<sup>1</sup> EIA 2022 Data, <https://www.eia.gov/tools/faqs/faq.php?id=427&t=3>

## Regulatory and Congressional Actions

In November 2021, FERC and NERC staff issued a report on the Winter Storm Uri event that detailed the growing interdependency between the gas and electric sectors. More recently, in July 2023, the North American Energy Standards Board (NAESB) released a report on gas and electric harmonization. Several of NAESB's recommendations received strong support from both the electric and natural gas industries, such as the adoption of multi-day unit commitment processes, alignment of timelines between the power day and/or the day-ahead schedule timelines with the gas day, and support for natural gas and electricity demand response programs. However, the report also produced numerous recommendations that did not garner broad support. These divergent views, as well as recent events, show that more efforts are needed to bridge the gap between the two industries to increase the reliability of the natural gas infrastructure system necessary to support the bulk electric system. APPA supports higher standards for delivery, notification, and transparency from the natural gas industry, whether the industry adopts and implements those standards voluntarily or through increased government oversight, including but not limited to, the establishment of a natural gas reliability organization, similar to NERC's role in the electric industry, as proposed (but not endorsed by the gas industry) in the NAESB report.

The FERC-NERC Report was limited to the grid reliability impacts of Winter Storm Uri and did not address the storm's economic consequences, such as extreme natural gas spikes and the related increases in wholesale electric costs. Extreme increases in wholesale electric costs ultimately increase the cost for public power utilities and their customers, including fixed and low-income individuals. Affordability is a key part of ensuring reliable electric service. APPA supports federal legislation that would allow federal authorities to temporarily cap the price at which wholesale sales of natural gas may be made during periods of acute supply shortage or to otherwise limit excessive natural gas wholesale prices.

Efficient and predictable permitting processes are key to ensuring the infrastructure needed to move natural gas used to provide electricity to residences and businesses. Recently proposed policy changes at FERC have injected significant uncertainty into the process. FERC is currently considering two draft policy statements that outline a revised approach for its evaluation of new natural gas pipeline project applications under the Natural Gas Act (NGA). One draft policy statement addresses FERC's general policy for granting certificates for pipelines and liquefied natural gas projects under the NGA. The other policy statement explains how FERC would assess the impacts of natural gas infrastructure projects on climate change in its reviews under the NGA and NEPA, with a focus on FERC's consideration of greenhouse gas (GHG) emissions associated with proposed projects. APPA filed comments in response to the draft policy statements, citing the importance of new pipeline infrastructure and urging FERC to provide clearer guidance on how it will balance the benefits and adverse impacts of proposed projects. APPA also urged FERC to clarify the suggestion that it will encourage applicants to mitigate "indirect" GHG emissions from new pipeline projects, given the substantial uncertainty that the proposed policy has created for natural gas pipeline companies, and the potential deleterious effects on pipeline infrastructure development.

## APPA Contact

John Godfrey, Senior Government Relations Director, 202-467-2929 / [jgodfrey@publicpower.org](mailto:jgodfrey@publicpower.org)

Sarah Mathias, Senior Government Relations Director, 202-467-2959 / [smathias@publicpower.org](mailto:smathias@publicpower.org)

Corry Marshall, Senior Government Relations Director, 202-467-2939 / [cmarshall@publicpower.org](mailto:cmarshall@publicpower.org)

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