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Addressing Acute Natural Gas Supply Scarcity and Price Spikes

1 Natural gas is a critical fuel for generating the electricity that serves millions of public power customers.
2 Scarcity of natural gas supplies, particularly when accompanied by significant price increases, can
3 threaten the reliability and affordability of electric service. These effects are compounded for consumers
4 who also rely on natural gas for home heating, industrial, or commercial needs.

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6 In February 2021, the arctic weather event known as Winter Storm Uri resulted in tragic loss of life and
7 severe economic impacts on utilities and consumers in areas served by the Electric Reliability Council of
8 Texas (ERCOT), Southwest Power Pool (SPP), and Midcontinent Independent System Operator (MISO),
9 plus several other regions. Although cold weather-related impacts on electric generation facilities
10 contributed to power shortages during Winter Storm Uri, many of the adverse effects of the storm were
11 attributable to the lack of availability of natural gas to gas-fired generators and the extremely high
12 deregulated gas commodity prices that followed.

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14 The price of natural gas reached unprecedented and financially destructive levels during Winter Storm Uri
15 for several days. These high natural gas costs led, in turn, to extremely elevated power prices in wholesale
16 spot markets, particularly the organized markets administered by ERCOT, SPP, and MISO.

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18 High prices and tight supplies of natural gas during Winter Storm Uri were caused by a number of factors.
19 A November 2021 report issued by the Federal Energy Regulatory Commission (FERC) and North
20 American Electric Reliability Corporation (NERC) concerning the Winter Storm Uri event (FERC-NERC
21 Report) found that the extreme cold adversely impacted natural gas production and processing capability
22 through frozen equipment, shut-ins to protect facilities against freeze-related impacts, and poor road
23 conditions that interfered with the ability to make on-site repairs or remove production fluids. At least
24 some of the reduction in natural gas production during Winter Storm Uri was related to the loss of
25 electricity at gas production and processing facilities, including power outages due to firm load shedding.
26 A FERC-NERC report on a February 2011 cold weather event in the Southwest identified some of the
27 same factors contributing to reduced natural gas production and processing capacity during the 2011
28 episode.

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30 Although natural gas is an essential fuel for home heating, electric generation, and other critical uses, the
31 wholesale price of the natural gas commodity is fully deregulated. The President of the United States

32 possesses certain emergency powers over the natural gas market under the Natural Gas Supply Act of
33 1978, but the precise authority to protect consumers from the impacts of a natural gas price spike is not
34 clearly established in the statute. Thus, when natural gas climbed to extremely high levels during Winter
35 Storm Uri, federal and state officials had limited authority to intervene. Market conditions were worsened
36 because the peak of the storm happened during the long President’s Day weekend. This forced many
37 market participants to lock-in high-priced natural gas orders for four days over the President’s Day
38 holiday weekend (Saturday through Tuesday) instead of a typical three-day weekend scheduling period
39 (Saturday through Monday).

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41 Public power utilities – and so public power utility customers – were among those adversely impacted by
42 the natural gas supply shortages and high prices during Winter Storm Uri. To address on a prospective
43 basis these natural gas-related problems, APPA staff consulted with outside experts on natural gas issues
44 and with a group of members, most of whom had been directly impacted by Winter Storm Uri. These
45 consultations helped inform potential legislative and regulatory responses to the problems highlighted by
46 the Winter Storm Uri event.

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48 The FERC-NERC Report includes recommendations aimed at diminishing the natural gas-related impacts
49 from future extreme cold weather events. Among the recommendations are: (1) Congress, state
50 legislatures, and regulators with jurisdiction over natural gas production, processing, and transportation
51 facilities should require those facilities to have cold weather preparedness plans; (2) natural gas
52 production, gathering, and processing facilities should consider implementing measures to protect against
53 freezing and other cold-related limitations; and (3) mandatory NERC reliability standards should include
54 processes for identifying and protecting critical natural gas infrastructure loads from firm load shedding,
55 and restricting such loads from participation in demand response programs. The FERC-NERC Report
56 also recommends a number of mandatory NERC standards intended to enhance winterization
57 requirements for electric generation facilities.

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59 The FERC-NERC Report does not address potential price caps on natural gas sales.

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61 **NOW, THEREFORE BE IT RESOLVED:** That the American Public Power Association (APPA)
62 supports the recommendations relating to the protection of natural gas production and delivery
63 infrastructure against extreme cold weather included in the November 2021 report prepared by the
64 Federal Energy Regulatory Commission (FERC) and North American Electric Reliability Corporation
65 (NERC) concerning the February 2021 Winter Storm Uri event (FERC-NERC Report); namely that: (1)

66 Congress, state legislatures, and regulators with jurisdiction over natural gas production, gathering,
67 processing, and transportation facilities should require those facilities to have cold weather preparedness
68 plans; and (2) natural gas production, gathering, and processing facilities should consider implementing
69 measures to protect against freezing and other cold-related limitations; and

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71 **BE IT FURTHER RESOLVED:** That APPA pledges to work with NERC, FERC, and other industry
72 stakeholders as they develop requirements that: (1) include reasonable processes for identifying and
73 protecting critical natural gas infrastructure loads from firm load shedding and/or restricting such loads
74 from participation in demand response programs; and (2) enhance reasonable winterization for electric
75 generation facilities where not otherwise already implemented; and

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77 **BE IT FURTHER RESOLVED:** That APPA supports federal legislation that would allow federal
78 authorities to cap the price at which wholesale sales of natural gas may be made during periods of acute
79 supply shortage or to otherwise limit excessive natural gas wholesale prices.

Adopted at the Legislative & Resolutions Committee Meeting

March 1, 2022

Sunsets in March 2030