



Natural Gas Integrated Resource Planning

Interest in a Natural Gas IRP Rule
and Possible Structures

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How I approached this presentation:

- The question being proposed is not:
“Should natural gas local distribution companies (LDC’s) do integrated resource planning?”
- We have been through this once before in Case Number GO-95-329, Investigation of Integrated Gas Resource Planning Rules

Quotes from Commission Order, GO-95-329

“It is clear that, in a post-636 era of governmental restraint and greater freedom in the operation of the competitive market, additional burdensome regulation imposed by this Commission would be undesirable and regarded as anathema. It is equally clear that capable long-range planning is no longer an option, but a business necessity for those utilities that hope to survive in an increasingly competitive environment.”



Quotes continued:

(Commission Order in GO-95-329)

“The Commission would restate, therefore, that the purpose of IRP rules is to promote well-supported, thorough, long-range planning by regulated utilities.”

“.. that any resultant rules should not be prescriptive in nature. Decision making should remain with utility managers, not the Commission.”

What makes this so difficult?

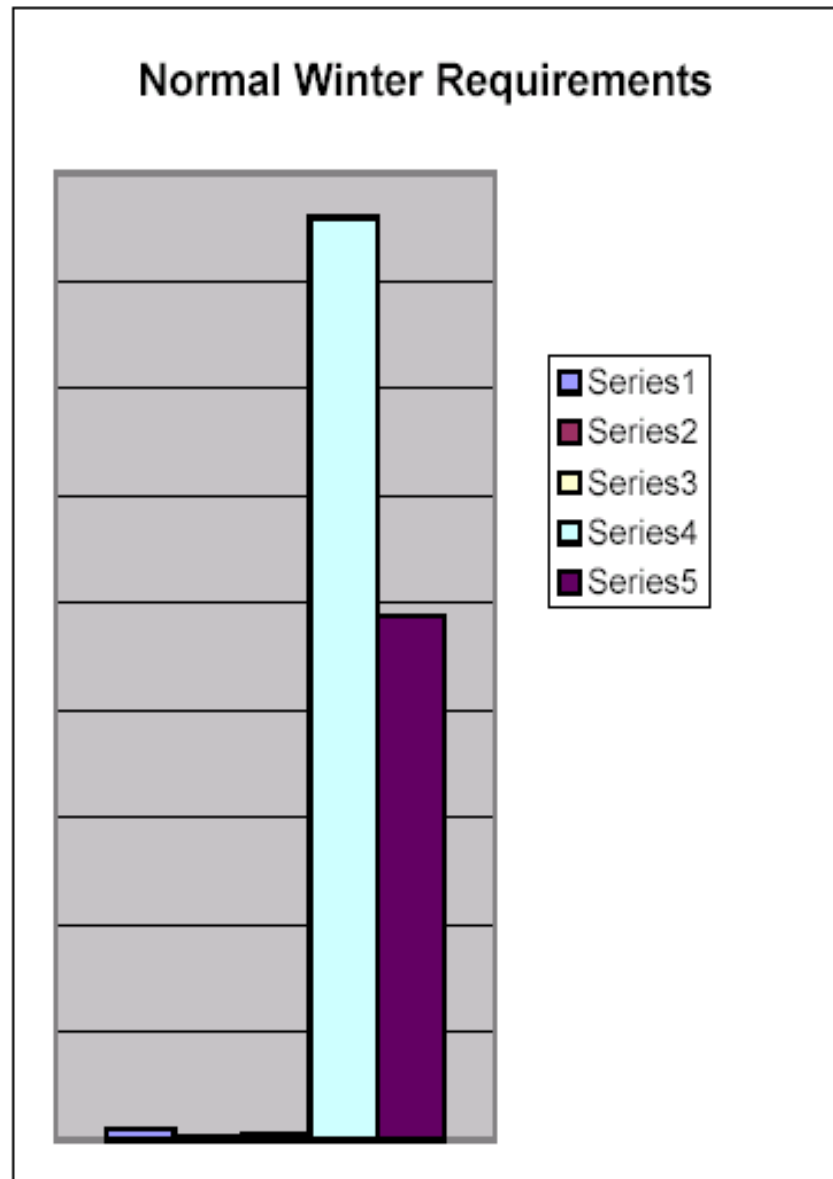
- **Many differences in LDCs**
- **Missouri LDCs**
 - **AmerenUE**, with three different service areas (Fisk/Lutesville, Cape Girardeau, Columbia/Jefferson City area (recently added former Aquila Eastern system))
 - **Aquila Networks**, with three different service areas (Southern System, Northern System, Light & Power)



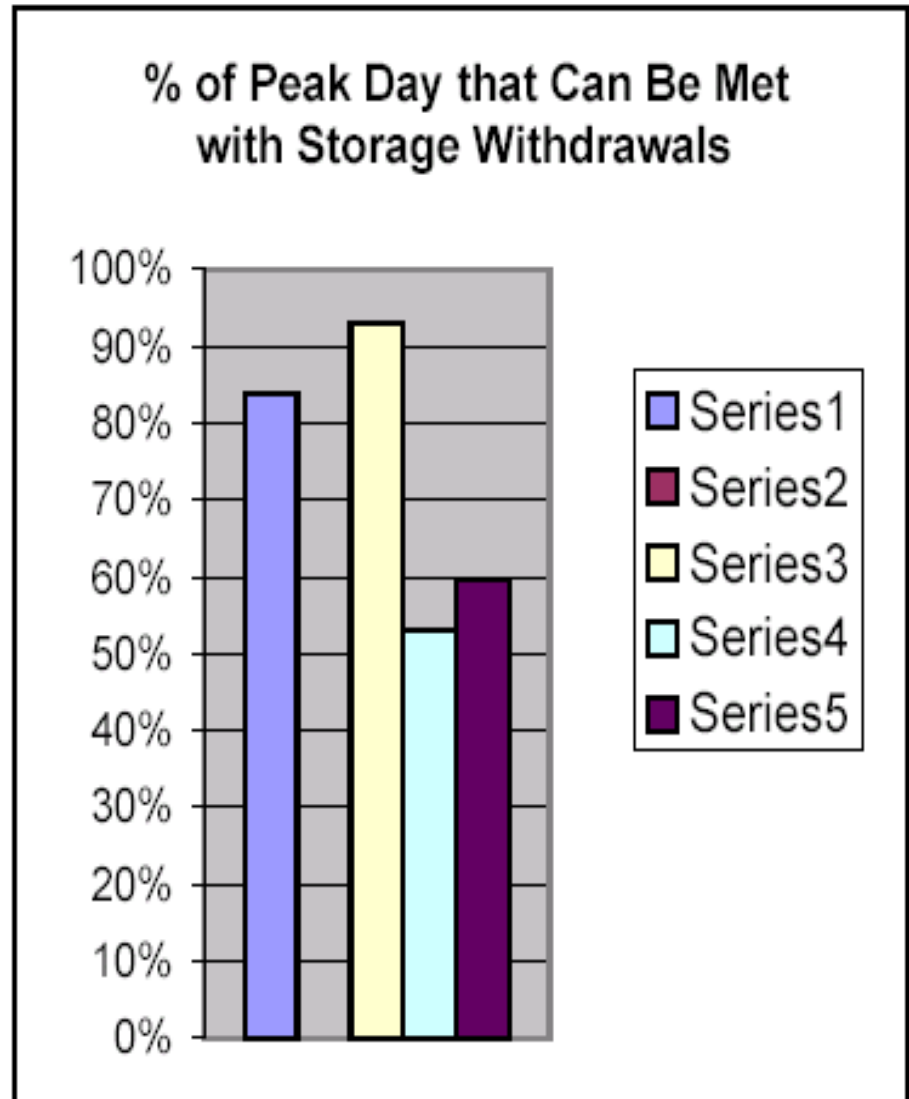
- **LDCs** (continued)

- **Atmos**, with six different service areas, eight for reliability purposes (Butler, Kirksville, SEMO (SE Mo Integrated, Jackson, Piedmont), Greeley, Consolidated District, Neelyville)
- **Fidelity**
- **Laclede**
- **MGE**, with difference for the areas of KC, St. Joseph, and Joplin
- **Missouri Gas Utility**
- **Southern Missouri Gas**

- Customer requirements are different for each LDC
- Current planning is different among the LDCs



- Pipeline & Supply Options (limited especially for smaller LDCs)
- Storage Options
- Demand Side Management





Natural Gas IRP Rule Options

- No Rule
- General Rule
- Detailed Rule
- Wait
- Other?

Pros and Cons of Each Alternative

No Rule Option:

(Again, not saying that IRP is not required, just that there is no IRP rule)

- Each LDC continues to evaluate its own resource requirements that considers the costs, benefits, and risks related to the level of detail reviewed
- Each LDC continues to decide on appropriate outlook (5-year, 10-year, other)

Pros and Cons of Each Alternative

No Rule Option - continued

- Will resource planning be done with no rule?
- May result in only minimal review and minimal supporting documentation of capacity/demand analysis and selected resource plan.
- Will information be shared with Staff? If so, when?
- Pro or Con - Deficiencies will be pointed out in rate cases or in the ACA review

Pros and Cons of Each Alternative

General Rule Option:

Rule stating purpose of natural gas integrated resource plan

Similar in detail to:

- Natural Gas Price Volatility Mitigation Rule
or
- Purpose section of Electric IRP Rule

4 CSR 240-40.018 Natural Gas Price Volatility Mitigation

PURPOSE: This rule represents a statement of commission policy that natural gas local distribution companies should undertake diversified natural gas purchasing activities as part of a prudent effort to mitigate upward natural gas price volatility and secure adequate natural gas supplies for their customers.

(1) Natural Gas Supply Planning Efforts to Ensure Price Stability.

- *(A) As part of a prudent planning effort to secure adequate natural gas supplies for their customers, natural gas utilities should structure their portfolios of contracts with various supply and pricing provisions in an effort to mitigate upward natural gas price spikes, and provide a level of stability of delivered natural gas prices.*
- *(B) In making this planning effort, natural gas utilities should consider the use of a broad array of pricing structures, mechanisms, and instruments, including, but not limited to, those items described in (2)(A) through (2)(H), to balance market price risks, benefits, and price stability. Each of these mechanisms may be desirable in certain circumstances, but each has unique risks*

and costs that require evaluation by the natural gas utility in each circumstance. Financial gains or losses associated with price volatility mitigation efforts are flowed through the Purchased Gas Adjustment (PGA) mechanism, subject to the applicable provisions of the natural gas utility's tariff and applicable prudence review procedures.


- (C) Part of a natural gas utility's balanced portfolio may be higher than spot market price at times, and this is recognized as a possible result of prudent efforts to dampen upward volatility.
- (2) Pricing Structures, Mechanisms and Instruments:
 - (A) Natural Gas Storage;
 - (B) Fixed Price Contracts;
 - (C) Call Options;
 - (D) Collars;
 - (E) Outsourcing/Agency Agreements;
 - (F) Futures Contracts; and
 - (G) Financial Swaps and Options from Over the Counter Markets; and
 - (H) Other tools utilized in the market for cost-effective management of price and/or usage volatility.



Pros and Cons of Each Alternative

General Rule Option - continued

- Each LDC continues to evaluate its own resource requirements that consider the costs, benefits, and risks related to the level of detail reviewed, but rule may give some basic requirements
- Each LDC continues to decide on appropriate outlook (5-year, 10-year, other), but rule may give minimum requirement



Pros and Cons of Each Alternative

General Rule Option - continued


- May result in only minimal review and minimal supporting documentation of capacity/demand analysis and selected resource plan
- Will information be shared with Staff?
- Pro or Con - Deficiencies will be pointed out in rate cases or in the ACA review

Pros and Cons of Each Alternative

Detailed Rule Option:

(Probably more detail than the draft Gas Supply Rule that was circulated to the LDCs in September 2002)

- Small LDCs comments on this draft: requires too much documentation
- Larger LDCs comments: wanted many requirements deleted



Pros and Cons of Each Alternative

Detailed Rule Option - continued

- Detailed Rule can still allow each LDC to evaluate its own resource requirements, but must address minimum requirements of rule
- By having a rule, do the requirements become minimum or maximum requirements?
- More time consuming for LDC to prepare
- More time consuming for Staff to review



Pros and Cons & Questions of Each Alternative Detailed Rule Option - continued

- Provides information upfront, without Staff having to request it through the DR process
- Eliminates perception of after-the-fact review
- Are requirements different for smaller LDCs?
- How prescriptive should rule be (e.g. require 10-year planning)?



Pros and Cons of Each Alternative

Other Options:

Wait:

Until more is known about the concerns and proposed changes/fixes for the electric IRP rule

Other?