

PSC ROUNDTABLE – ELECTRIC AND GAS IRP

NATURAL GAS INTEGRATED RESOURCE PLANNING

A GOOD IDEA OR A BAD IDEA?

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WHY WE SHOULD INVESTIGATE GAS IRP

- Past Reasons
- Present Reasons



THE PAST – WHY GAS IRP WAS INITIALLY CONSIDERED.

- Energy Policy Act of 1992
- FERC Orders 436, 500 and 636
- Stakeholder Interest at State Level



ENERGY POLICY ACT OF 1992 ("EPACT")

EPACT included provisions that encouraged energy efficiency and required state public service commissions to consider use of integrated resource planning by gas LDCs.



FERC ORDERS 436, 500, 636

- These FERC Orders required interstate pipelines to provide open access to end users and gas marketers/brokers, completely unbundle their merchant and transportation services and develop capacity release mechanisms among other things.
- The resulting industry restructuring had a major impact on gas utilities. Local distribution companies were now responsible for gas procurement and assumed the responsibilities for arranging the procurement, storage and transportation of gas supplies.



Case No. GO-95-329 -- In the matter of the investigation of integrated resource planning rules by the Staff of the Missouri Public Service Commission

“ . . . the Commission has determined that the wisest course of action at the present time is to postpone consideration as to whether the Commission should go forward with some type of planning rule for gas. This will allow for the electric utilities to assess the relative value of IRP regulations for both the electric utilities and, potentially, for gas utilities. An additional period of time will also enable the Commission to gain additional experience and insight into precisely which areas require regulatory oversight and which do not in the post-636 regulation of gas utilities.”



THE PRESENT – WHY WE SHOULD CONSIDER A GAS IRP RULE

- Natural Gas Price Increase
- Upward Price Volatility
- Increased Natural Gas Bills



NATURAL GAS PRICES HAVE INCREASED SIGNIFICANTLY

Review of current NYMEX strip price for natural gas prices back to 1999 shows we are in a new paradigm for natural gas pricing.



Gas Prices – Current Market:

04/29/2005 C=6.585 -1.068 O=7.630 H=7.850 L=6.550 Mov Avg 3 lines



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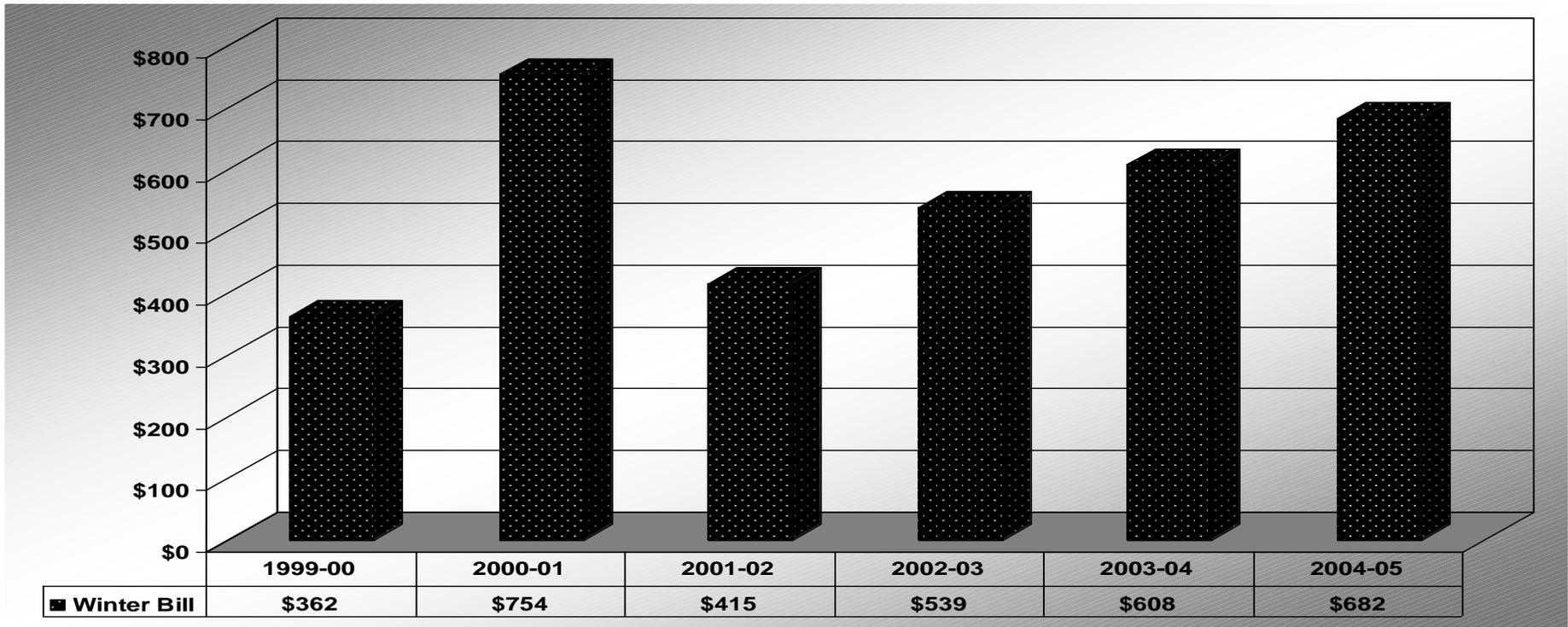
UPWARD PRICE VOLATILITY

- Consumers concern about recent upward price volatility.



AVERAGE MISSOURI CUSTOMERS NATURAL GAS BILLS HAVE INCREASED DRAMATICALLY

What higher commodity costs have done to bills in the St. Louis area:



GAS IRP GOALS

- Provide reliable energy service to core market firm natural gas customers while minimizing costs subject to risk considerations.
- Consider supply side and demand side resources on a comparable basis to achieve the best integrated resource portfolio.



KEY DIFFERENCES BETWEEN ELECTRIC AND GAS INDUSTRIES THAT IMPACT IRP.

Industry Structure: Electric: Vertically integrated
Gas: Separate firms handle production, transportation and distribution.

Planning Practices: Electric 10-30 yr. planning horizon
Gas 1-10 yr. planning horizon

Large Customer End-Use Market Characteristics



GAS IRP STRATEGIES

- Create several alternative plans and test for robustness by evaluating plans across different scenarios.
- LDCs should consider avoidable distribution and gas procurement costs in resource decision making.
- LDCs, Staff, Public Counsel, state energy offices and other interested parties should have input to help achieve IRP goals.



KEY ISSUES THAT ANY IRP RULES SHOULD ADDRESS

- Demand Forecast
- Supply-Side Resources
- Demand-Side Resources
- Resource Integration



DEMAND FORECAST

- Customer Growth - Monthly CCF Usage Forecast
- Peak Day Forecast



SUPPLY SIDE RESOURCES

- Gas Supply Resource Options
- Pipeline Capacity Resource Options
- Financial Instruments
- Portfolio Purchasing Strategy e.g.
Combination of physical and financial,
different supply basins.



DEMAND SIDE RESOURCES

- Identification of DSM Resource Options
- Evaluation of DSM Options
- Risk Mitigation and Affordability Benefits



RESOURCE INTEGRATION

- The last step of the gas IRP process.
- It involves finding the least cost mix of demand and supply side resources given a demand forecast.
 - Modeling Process
 - Decision Making Tools



POTENTIAL BENEFITS OF GAS IRP

- Lower and less volatile bills.
- Provides documentation and support for the strategic planning activities of LDCs.
- IRP can help overcome market barriers that inhibit demand side management programs.
- Can facilitate public participation, input and understanding.



POTENTIAL DETRIMENTS OF GAS IRP

- The direct and indirect costs of IRP process could be substantial.
- Achievable DSM potential for gas IRP could be limited.
- LDCs may argue that compliance with IRP rules is tantamount to preapproval.



**NATURAL GAS INTEGRATED
RESOURCE PLANNING A GOOD IDEA
OR A BAD IDEA?**

YES!

