

**Spring 2005 Peak Load  
Management Alliance Meeting**

**I used to be a consultant**

**I quit!!!!**

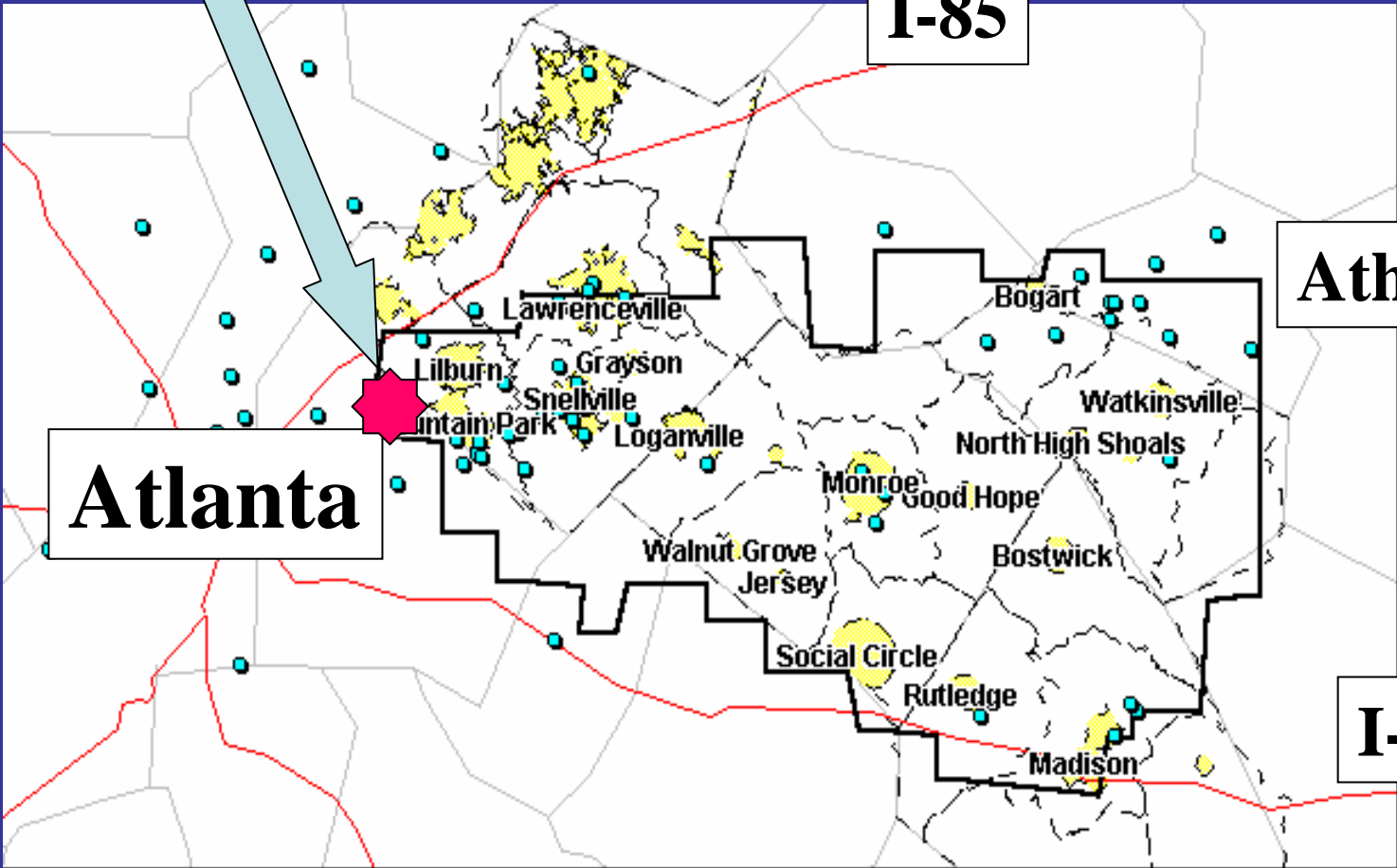
**And got a real  
job in July 1995**

# Walton EMC Service Area

Stone Mountain

I-85

Athens



Atlanta

I-20

**1995**  
**Electric Deregulation**  
**Was On the Way**

**1996**  
**Talk of Deregulation**  
**of Natural Gas**

# Gas Is Deregulated

- **Natural Gas Competition and Deregulation Act of 1997 – signed November 1, 1997 – effective October 1, 1998**
- **AGLC became “pipes” and system operations company**
- **GPSC certified gas marketers**
  - 21 different marketers in 1<sup>st</sup> yr
- **Some EMCs partnered with marketers**
- **Walton went with Peachtree Natural Gas**

# Open Market – Panic Reigns

- **When 1/3 of market switched the rest would be randomly assigned**
- **Marketers saw this as a two-for-one**
- **Customers didn't understand but felt the pressure to switch**
- **Switching occurred at a hectic pace**

# WEMC's Experience

## Customers signed for Peachtree

- **Oct 1998 - 283**
- **Nov 1998 - 2,378**
- **Dec 1998 - 4,832**
- **By July 1999 - > 24,000**

# Random Assignment

- **By July 1999 about 80% had switched**
- **GPSC set random assignment for Aug 11, 1999**
- **On October 1, 1999 Walton had 27,000+ customers signed up for Peachtree (one year of operation)**
- **We were billing all customers and reading most meters**

# Market Share – Oct 1, 1999

<b>GNG</b>	<b>31%</b>
<b>SCANA</b>	<b>30%</b>
<b>Shell</b>	<b>11%</b>
<b>Peachtree</b>	<b>11%</b>
<b>All Others</b>	<b>17%</b>

**Walton Sitting Pretty  
with 27,000 +**

**October 26, 1999**

**Peachtree Natural Gas**

**Declares Bankruptcy**

**December 9, 1999**

**all Peachtree customers  
switched to Shell**

# Walton Out of Gas

- **But, customers weren't happy**
- **They kept asking us to get back into gas**

# Walton Applies for Certification

- **Feb 9, 2000 (3 months later) we submitted an application for certification as marketer**
- **April 18, 2000 GPSC dismisses application (Enabling Act won't allow)**
- **We fought it and lost**
- **We were told the law had to be changed**

# Round Two

- **On April 25, 2002 the Natural Gas Consumers Relief Act to Amend the Natural Gas Deregulation Act was passed**
- **It allowed EMCs to have a gas affiliate**
- **July, 15, 2002 new application filed**
- **October 1, 2002 Walton EMC Natural Gas was certified as a marketer**
- **November 1, 2002 Walton was selling gas**

# **New Challenges**

- **In addition to refining the billing system**
- **Build system for exchanging transactions directly with AGLC**
- **Find source of gas and contract with pipelines**
- **Nominate gas and transport to meet AGLC's daily & storage requirements**
- **Develop risk management & pricing strategies**

# Financial Issues

- **Gas is bought, burned, billed, booked**
- **Most gas is used during 3 months**
- **Pipeline capacity is paid every month**
- **Gas is bought and stored in summer for winter peaks**
- **AGLC gets paid up front whether marketer collects or not**

# Surprise #1 – True-Up

- **AGLC sets DSR based on estimation**
- **Then compares what was burned to what was put in and does a “true-up”**
- **Short marketers are billed**
- **Long marketers get paid only when short marketers pay**
- **Long marketers float can be considerable**

# Surprise #2 – LNG

- **AGLC uses LNG as part of peak balancing**
- **Marketer pays AGLC for capacity**
- **Marketer pays for gas to be stored**
- **LNG is liquefied in summer and withdrawn in winter**
- **We had to pay for capacity and couldn't inject gas – because we started in Oct**
- **We still faced penalties for not having gas in storage**

# Surprise #3 – Wholesale costs

- **Much more volatile than expected**
- **Much higher than expected**
- **Dangers from rapid drop in price**

# Surprise #4 – Bad Debt

- **Twice that expected**
- **20 times that of electricity**
- **Customers allowed to switch w/o paying**
- **Credit scores don't always predict future behavior**
- **Number of thieves and cheats greater than expected**

# Surprise #5 - Growth

- **Growing faster than expected**
- **Essentially no advertising**
- **Challenge of growing infrastructure at same rate**
- **Concern about potential equally rapid loss of customers**

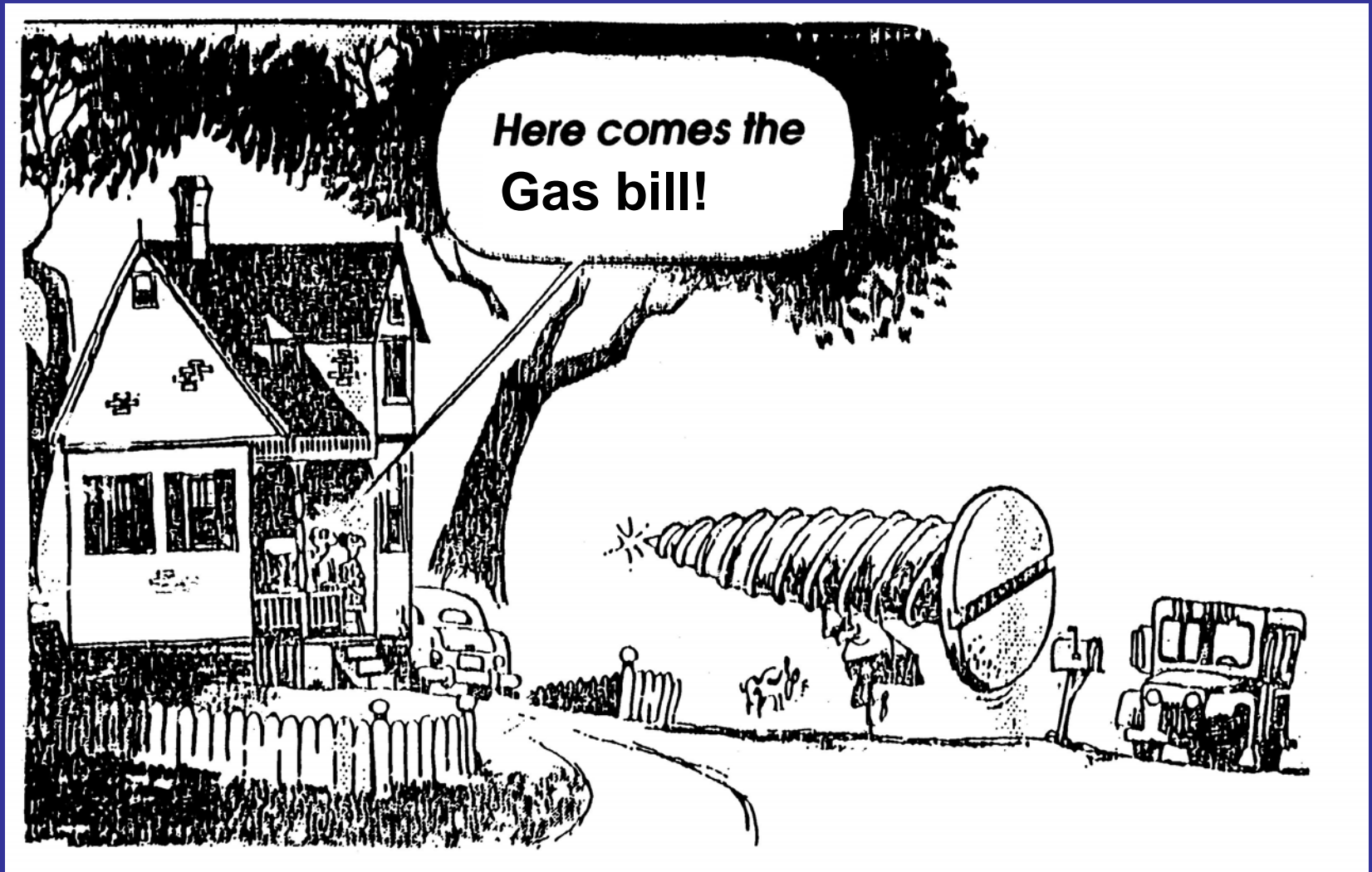
# Surprise #6 - Regulation

- **New regulations**
- **Reporting requirements**
- **Data requests**
- **Only aspect not regulated is price**

# Surprise #7 - Inertia

- **Gas customers don't switch suppliers easily or often**
- **Low price doesn't motivate as much as expected**
- **One industrial account said a \$20,000/yr saving wasn't enough to switch**

# Surprise #8 – Really Wasn't



Thank you