Spring 2005 Peak Load
Management Alliance Meeting
I used to be a consultant

I quit!!!!

And got a real job in July 1995
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 1st 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 a 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

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>GNG</td>
<td>31%</td>
</tr>
<tr>
<td>SCANA</td>
<td>30%</td>
</tr>
<tr>
<td>Shell</td>
<td>11%</td>
</tr>
<tr>
<td>Peachtree</td>
<td>11%</td>
</tr>
<tr>
<td>All Others</td>
<td>17%</td>
</tr>
</tbody>
</table>
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

Here comes the Gas bill!
Thank you