



**Presentation On Asset
Management To Staff
Subcommittee on Gas**

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□ Asset Management Arrangements (AMA)

- Arrangement by which owner of a bundle of gas supply assets hires a third-party to manage its assets, such as:
 - Gas procurement function – physical transactions
 - Pipeline optimization
 - Storage optimization through either physical delivery of gas already in storage or physical injections into storage
 - Entire portfolio or specific assets

- Type of Entities
 - Gas Utilities
 - Multi-state
 - Municipalities
 - Power Plants
 - Producers

- ❑ Asset Manager Usually Is Selected through A Competitive Bidding Process
- ❑ Typically, LDCs issue Requests For Proposals (RFPs) seeking an Asset Manager for a specified period of time that ranges from a single season to 3 years.
- ❑ Process is often supervised by state commission staffs and sometimes requires informational filing with commission or commission approval - e.g. Massachusetts

Typical LDC Asset Management Process

- LDC determines what type of Asset Management Arrangements (AMA) it needs
- LDC prepares and distributes RFP to potential AMA Managers includes:
 - Proposal overview and schedule/deadlines
 - Scope of services
 - Requirements
 - Support detail to evaluate deal
- Potential AMA Managers – provided Q&A period
- AMA Manager submits bids which includes assumptions and conditions
- LDC evaluates bids and determines shortlist
- More detail discussions between LDC and shortlist candidates
- AMA Manager selected and contracts executed

- Storage
 - Seasonal – Summer Fill
 - Annual
- Transportation Management
- Supply Contract Management
- Portfolio

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- ❑ LDC releases storage and transportation for summer and looks to AMA Manager to provide storage fill services to LDC
 - ❑ Seasonal Summer Fill -
 - Storage released (requirement for optimization)
 - Transportation may be released with storage
 - Typical requirements
 - Storage inventory of a certain level by end of period
 - Follow pipeline ratchet schedules
 - Existing inventory may be given to asset manager – title has to change
 - Payment typically ratable

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- ❑ LDC releases storage and transportation for year and looks to AMA Manager to fill and provide reliable bundled city-gate gas supply
 - ❑ Annual
 - Storage released (requirement for optimization)
 - Transportation may be released with storage
 - Typical requirements
 - Storage required at a certain level by end of period
 - **Customer has call on storage during entire term of deal**
 - Follow pipeline ratchet schedules
 - Existing inventory may be given to storage manager – title has to change hands
 - Payment typically ratable could be based on summer or winter delivery

- ❑ LDC releases supply, storage and transportation contracts and looks to AMA Manager to provide reliable bundled city-gate gas supply and storage fill services to LDC
- ❑ Assets released or assigned – Supply Contracts, Storage/transportation Contracts
- ❑ Typical requirements
 - **Customer has call on released assets for Load Requirements for entire term**
 - Customer has right to nominate volume into and out of storage facilities within GISB intraday nomination guidelines for balancing and operational purposes
 - Asset Manager takes migration risk
 - Asset Manager takes temperature/weather risk
 - Asset Manager provides different level of supply
 - Asset Manager pays a “Management Fee” to the utility

Benefits to Customers

- ❑ AMA Manager evaluates portfolio value and pays the Utility for this value through the Management Fee
 - Provides a guaranteed return on asset
 - Moves migration risk to AMA Manager
 - AMA permits manager to optimize assets to decrease delivered cost to customers
- ❑ AMA Manager assumes responsibility for trading, optimizing assets, nominating, balancing and reconciling accounting invoices reducing overhead costs
- ❑ Clarity provided by FERC 712 allows more participants - more competitive offers
- ❑ Enhancement to efficient use of storage capacity
- ❑ AMA Manager able to optimize beyond LDC assets area

- ❑ AMA Manager evaluates unused asset value
- ❑ Value buckets can include
 - Play Days – incremental days available above storage fill days (calculated on and injection space, space of storage and storage pipeline ratchets)
 - Unencumbered transportation – calculated based on historical load profiles
 - Optimization of transportation and supply – leverage spreads between locations

AMA Manager Value

In short, the AMA Manager can obtain incremental value from the capacity than many utilities due to the manager's:

- Market breadth and presence
- Expertise to maximize value
- Robust trading and mid/back office organization
- Ability to provide financial and physical execution from one capable source

Lack of Clarity with respect to application of FERC Rules concerning Tying, Bidding and Maximum Rates Were Deterring Certain AMA Transactions

Shell Energy Led An Effort Seeking Clarification of these Rules Before FERC

Recognizing their benefits, FERC clarified its rules to encourage AMAs

How will Order 712 Affect Business?

The biggest changes will be:

- ❑ Exemption of Asset Management Arrangements (AMA) from Tying, Bidding and Maximum Rate restrictions applied to other Capacity Releases. This will eliminate concerns about management fees and the reimbursement of transportation charges by the releasing shipper.
- ❑ Removal of the Maximum Rate Ceiling on Capacity Releases (Storage and Transportation) with Terms of One Year or Less.
- ❑ Exemption of Storage Fill Transactions from the prohibition on tying release to extraneous conditions.

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Extra Slides

What Doesn't Order 712 Do?

- It doesn't change the maximum rate ceiling for releases with terms of over one year.
- It doesn't eliminate bidding requirements and tying restrictions, except for AMAs and releases done pursuant to state retail access programs.
- It doesn't allow buy/sell arrangements, except for gas delivered to the releasing shipper in AMAs.
- It doesn't do away with the shipper must have title requirement.
- It doesn't allow pipelines to charge market-based rates.

What are the Requirements for an Asset Management Arrangement?

In order for a transaction to qualify as an AMA it must include

"... a condition that the releasing shipper may, on any day during a minimum period of five months out of each twelve month period of the release, call upon the replacement shipper to (i) deliver to the releasing shipper a volume of gas up to one hundred percent of the daily contract demand of the released transportation capacity or (ii) purchase a volume of gas up to the daily contract demand of the released transportation capacity."

Issues Clarified in the Final Rule

- ❑ “Any Day” requirement – changed to “5 month” requirement
- ❑ Multi-year AMAs are exempt from restrictions on tying/ bidding requirements
- ❑ “Supply” Asset Management Transactions qualify as AMAs (subject to the “5 month” requirement)
- ❑ “Storage Fill” Transactions that are not AMAs are exempt from the tying prohibition
- ❑ Posting Requirements