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IOWA EXPERIENCE WITH RESTRUCTURED NATURAL GAS INDUSTRY LESSONS AND OUTCOMES

NARUC Energy Regulatory Partnership Program

The Public Services Regulatory Commission of Armenia
and The Iowa Utilities Board



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TRANSPORTATION RULES

- Established in 1986
- Applicable to investor-owned utilities
- Each utility required to offer
 - Interruptible transportation with reserve
 - Interruptible without reserve
 - Firm with reserve
 - Firm without reserve
- Cost based rates and charges
 - Initial distribution rate was equal to full service distribution rate
- Established service for industrial and large commercial customers



NATURAL GAS UTILITY PROFILE

1995

2009

	<u>Number of Customers</u>	<u>Percent</u>	<u>Number of Customers</u>	<u>Percent</u>
Residential	726,072	89%	829,921	89%
Small Commercial	83,489	10%	90,684	10%
Large Commercial	1,385	< 1%	1,029	< 1%
Transportation	<u>447</u>	<u>< 1%</u>	<u>1,708</u>	<u>< 1%</u>
Total	811,393	100%	923,342	100%

	<u>Mcf Sales</u>	<u>Percent</u>	<u>Mcf Sales</u>	<u>Percent</u>
Residential	77,874,323	33%	65,692,053	30%
Small Commercial	42,307,850	18%	37,959,802	17%
Large Commercial	9,159,287	4%	6,717,175	4%
Transportation	<u>105,628,761</u>	<u>45%</u>	<u>107,730,246</u>	<u>49%</u>
Total	234,970,221	100%	218,099,276	100%



FIRST PILOT PROJECT

- Established in 1995
- Telemetering of small volume customers unnecessary
- Customers wanted one bill – indifferent from who
- Customers interested in price and are motivated to switch suppliers
- Importance of customer education



SMALL VOLUME NATURAL GAS MARKET

- Primary Barriers
- High Monthly or Administrative Charges
- Requirement for Telemetering Equipment
- Daily Metering Requirement
- Nomination of Usage Levels
 - Daily and Monthly
- Daily Balancing Charges



SMALL VOLUME GAS RULES

Tariff Filing Alternative

- Prescribed approach
- Administrative fees no higher than customer charges
- No telemetering, daily metering, or daily balancing requirements
- Imbalances resolved monthly
- Utility pipeline capacity and storage
- Billing arrangements

Plan Filing Alternative

- Notice
- Encouraged to collaborate
- Required to address 14 specific issues
- Offered flexibility



SECOND PILOT PROJECT

- Established in 1997 for Iowa schools
- Involved all 4 IOU natural gas utilities
- Schools organization aggregated schools/supplier provided natural gas
- Many lessons learned
 - Provided both utilities with valuable experience
 - Marketers gained experience aggregating small volume winter use customers
 - Schools saved money
- Extended and modified multiple times



SMALL VOLUME GAS INQUIRY

- Initiated in 1998
- Collaborative state-wide approach
- Representatives from 23 different groups
- 5 Workshop events

Workshop Objective

To develop consensus recommendations on each pertinent issue. Consensus should balance appropriate customer protections with fair marketer participant accessibility while maintaining system reliability. Implementation should result in choice of natural gas suppliers for all customers in Iowa.



Small Volume Gas Inquiry cont ...

- Utility obligation to serve
- Utility owned pipeline capacity and storage
- Marketer certification
- Penalties for non-supply
- Affiliate conduct
- Switching suppliers
- Pooling and aggregation
- Billing arrangements
- Customer education



Small Volume Gas Inquiry cont ...

1. Legislative Approach

- Tied to the passage of electric restructuring legislation
- Suppliers could serve gas and electric customers
- Creates consistent energy marketplace and efficiencies

2. Intermediate Approach

- Non-legislative approach
- Addressed each issue identified in workshops
- State-wide uniformity

3. Tariff Filing Option

- Addresses originally identified barriers
- Could be combined with legislation in the future
- Utility-specific approach



INDUSTRY CHANGES IMPACTING SMALL VOLUME GAS PROJECT

- Electric restructuring legislation was not implemented
- Collapse of Enron
- Unprecedented winter price spikes (\$9 - \$12 per dekatherm)
- Guaranteed bill program
- Budget billing
- Utility gas price hedging programs



PERMANENT TARIFFS

- Modeled after school-related pilot participants tariffs
- Available to all non-residential small volume customers
- Capped participation levels
- Customer pools for monthly balancing
- Daily balancing service in lieu of telemetry requirements
- Lower nomination charges
- Lower fees for switching suppliers
- Provided access to interstate pipeline capacity
- Billing addressed



MARKETER CERTIFICATION

- Statute enacted in 1999
- Aggregators combine retail end users into a group and arrange for the acquisition of competitive natural gas services
- Competitive natural gas providers take title to natural gas and sell it for consumption by a retail end user in Iowa
 - Excludes public utilities subject to rate regulation
 - Excludes municipally owned utilities operating in their incorporated area



Marketer Certification cont ...

- Board is required to certify all competitive natural gas providers and aggregators (CNGPs) providing competitive natural gas services in Iowa
- Applicants must reasonably demonstrate managerial, technical, and financial capability
- The Board may establish reasonable conditions or restrictions
- Directed the Board to establish administrative rules
- Established review period of 90 days with possible 60 day extension
- Dispute resolution



Marketer Certification cont ...

- Administrated rules adopted in 2001
- \$125 Application fee
- Application form provided
- Defines competitive natural gas services
 - Natural gas sold at retail in Iowa excluding the sale of natural gas by a rate-regulated public utility or municipally owned utility



Marketer Certification cont ...

- Distinguishes small and large volume users
 - Small volume users – usage under 25,000 therms per month or 100,000 therms per year
 - Large volume users – usage over 25,000 therms per month or 100,000 therms per year
- Review of financials required in order to serve small volume users
- Annual report requirement
- Violation could result in revocation of certificate



SMALL VOLUME GAS PROJECT CONCLUSION

- Final SVG program tariffs achieved service availability for interested customers
- Schools and marketers expressed interest in SVG program--not residential customers
- Programs could be increased incrementally if program caps are reached
- Continue to have new marketers (CNGPs) seeking certification in Iowa



QUESTIONS?



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