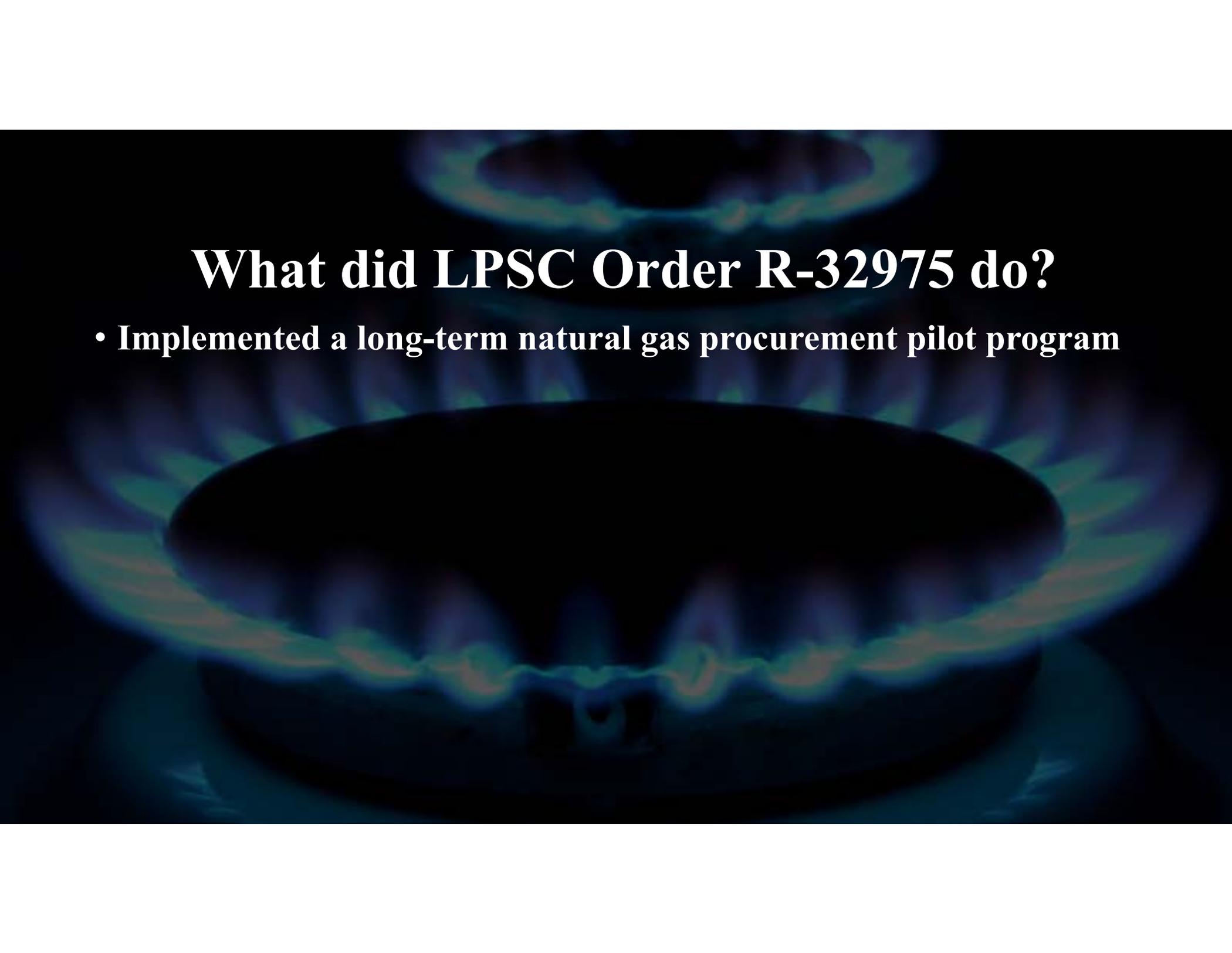


General Order R-32975
Long-Term Natural Gas Hedging
Pilot Program
Technical Conference

January 5, 2016

Overview of Order R-32975:

- **Staff directed to:**
 - **Perform long-term natural gas hedging public interest determination**
 - **Develop appropriate methodology**
- **Three separate drafts followed by intervenor comment periods**
- **Decided at Open Session held June 24,2015**

A close-up photograph of a gas stove burner with blue and orange flames. The burner is in the center, and the flames are bright and intense. The background is dark, making the flames stand out.

What did LPSC Order R-32975 do?

- **Implemented a long-term natural gas procurement pilot program**

Goal of Order R-32975 Pilot Program:

- **Supply data for assessment of whether long-term natural gas hedging is in the rate-payers' best interest assessment**

How is the goal of Order R-32975 Accomplished?

- **Louisiana-jurisdictional Electric IOUs required to propose at least three long-term natural gas procurement programs**
- **Each of the three natural gas procurement program shall utilize a different “Instrument”**

“Instruments”

- **For clarity, each Electric IOU must propose three natural gas stabilization programs**
- **Each of the three natural gas stabilization program must utilize a different “Instrument”**
- **There are five identified “Instruments” to choose from**

What are the identified Instruments?

- **Fixed-price, long-term delivery of physical gas to a generator or distribution gate**
- **Nationally or OTC-indexed contracts, with or without OTC basis contracts, with swaps or collars providing price stability**
- **Futures contracts based at HH**
- **Upstream supply acquisition and/or joint ventures at the field level**
- **Variations on the above instruments, or additional instruments not listed that provide long-term natural gas cost stability**

How to procure the Instruments?

- **Each of the above Instruments is tied to one or more of three “Procurement Methods” in LPSC Order R-32975**

What are these Procurement Methods?

Procurement Method 1

- **“RFP” process**
- **Found at *Attachment D to Rules of Order R-32975***
- **Applicable for:**
 - **Fixed-price, long-term delivery of physical gas to a generator or distribution gate**
 - **Upstream supply acquisition**
 - **Joint Ventures**

Procurement Method 2

- **“Bilateral Negotiation”**
- **Found at *Attachment E to Rules of Order R-32975***
- **Applicable for:**
 - **Fixed-price, long-term delivery of physical gas to a generator or distribution gate**
 - **Upstream supply acquisition**
 - **Joint ventures at the field level**

Procurement Method 3

- **“Futures”**
- **Found at *Attachment F to Rules of Order R-32975***
- **Applicable for:**
 - **Nationally or OTC-indexed contracts, with or without OTC basis contracts, with swaps or collars providing price stability**
 - **Futures contracts based at HH**

- **Each procurement process has its own procedural schedule and requirements**

Attachment D: Procedures for RFP Procurement

- **Applicable for:**
 - **Fixed-price, long-term delivery of physical gas to a generator or distribution gate**
 - **Upstream supply acquisition**
 - **Joint Ventures**

Attachment D “RFP” Procedural Schedule

- **Application filed**

Attachment D “RFP” Application Contents

- **Means of procurement selected**
- **Natural gas supply need**
- **Instrument(s) selected**
- **Copy of draft RFP**
- **Term of transaction**
- **Volume, and rationale for volume, being considered**
- **Proposed rate-making treatment for transaction**

Attachment D “RFP” Application Contents

- **Other potentially related relief**
- **Security concerns for counterparties**
- **Specify the flexibility of supply origin**
- **Supplier contingencies**
- **Any required change of law**
- **Contract governance**

Attachment D “RFP” Application Contents

- **Quantity minimums and maximums**
- **Desired supply type**
- **Service level**
- **Requested delivery points and pipeline**

Attachment D “RFP” Procedural Schedule

- **Interventions allowed**
- **Confidentiality Agreement put in place with Staff and Intervenors**

Attachment D “RFP” Procedural Schedule

- **Holding of one or more Bidder Conferences**
- **Staff and intervenor comments on RFP based on input at Bidder Conferences**
- **Final RFP issued**
- **Bidding and selection period**
- **RFP results announced**
- **Utility files either:**
 - **Request for Certification, including contract(s) seeking approval, if any**
 - **Notification**

Attachment D “RFP” Request for Certification

- **Contents:**
 - **Overview of transaction**
 - **Analysis comparing**
 - **Specifications outlined in Application**
and
 - **Specifications of the final transaction in Request for Certification**
- **Upon the filing for a Request for Certification there shall be:**
 - **LPSC Publication of certification request, and interventions re-opened for 10 days**
 - **Minimum of sixty (60) days shall be allowed for evaluation and testimony by Staff/Intervenors**
 - **10 day response period for data requests**
 - **Hearing on whether to recommend Request for Certification**
 - **LPSC vote at next B&E**

Attachment D “RFP” Notification

- **Not successful in finding specific transaction, make a filing with the Commission detailing the steps it took to procure a transaction and why it has been unable to do so (a “Notification”)**
- **Upon the filing of a Notification there shall be:**
 - **A LPSC Publication of the Notification, and interventions re-opened for 10 days**
 - **Minimum of thirty (30) days shall be allowed for evaluation and testimony by Staff/Intervenors**
 - **10 day response period for data requests**
 - **Hearing on whether to accept Notification**
 - **A LPSC determination on the recommend acceptance of the Notification**
 - **LPSC vote at next B&E**

Attachment E: Procurement through Bilateral Negotiations

Applicable for:

- **Fixed-price, long-term delivery of physical gas to a generator or distribution gate**
- **Upstream supply acquisition**
- **Joint ventures at the field level**

Attachment E “Bilaterals” Procedural Schedule

- **Application filed**

Attachment E “Bilaterals” Application Contents

- **Natural Gas supply need**
- **Selected instrument/instruments**
- **Deliverables and performance criteria by counterparty**
- **Selection of counterparty process**
- **Term of bilateral**
- **Estimated costs**
- **Volume and Rationale**

Attachment E “Bilaterals” Application Contents

- **Ratemaking treatment**
- **Other related relief**
- **Security and credit concerns for counterparties**
- **Flexibility of supply origin**
- **Supplier contingencies**
- **Change of law**
- **Dispute resolution process**

Attachment E “Bilaterals” Application Contents

- **Requested delivery points**
- **Evidence that bilaterally-negotiated program reasonable option**

Attachment E “Bilaterals” Procedural Schedule

- **Interventions allowed**
- **Confidentiality Agreement put in place with Staff and Intervenors**
- **Minimum 60 days allowed for evaluation of Application**
 - **10 day response period for data request**
- **Hearing on Application**
- **LPSC Determination on Application**

Attachment E “Bilaterals” Procedural Schedule

- **Private negotiations between parties**
 - **Upon commencement of negotiations, Staff and intervenors shall be made privy to:**
 - **Regular process reports**
 - **Final transaction documents**

Attachment E “Bilaterals” Request for Certification

- **Upon completion of successful negotiations, file Request for Certification**

Attachment E “Bilaterals” Request for Certification

- **Contents:**
 - **Overview of transaction**
 - **Final legal and financial documents**
 - **Analysis comparing**
 - **Preliminary specifications in Application**
to
 - **Final specifications in Request for Certification**

Attachment E “Bilaterals” Request for Certification

- **Intervention re-opened for 10 days**
- **Minimum 30 days for evaluation of Request for Certification**
 - **5 day response period for data requests**
- **Hearing on Request for Certification**
- **LPSC Determination**

Attachment E “Bilaterals” Notification

- **Not successful in finding specific transaction, make a filing with the Commission detailing the steps it took to procure a transaction and why it has been unable to do so (a “Notification”)**
- **Intervention re-opened for 10 days**
- **Minimum 30 days for evaluation of Notification**
 - **5 day response period for data requests**
- **Hearing on Notification**
- **LPSC Determination**

Attachment F: Long-term Hedges or Futures Purchases on Recognized Exchanges

Applicable for:

- **Nationally or OTC-indexed contracts, with or without OTC basis contracts, with swaps or collars providing price stability**
- **Futures contracts based at HH**

Attachment F “Futures” Procedural Schedule

- Application filed

Attachment F “Futures” Application Contents

- **Natural gas supply need**
- **Rationale for choosing procurement method**
- **Proposed terms**
- **Estimated costs**
- **Volume and rationale being considered**
- **Current and projected market prices for hedge**
- **Range of market price variances, around which the actual price procured would still be acceptable under the terms of the Application**

Attachment F “Futures” Application Contents

- **Plans to address**
 - **Default risk**
 - **Credit support**
 - **Collateral management**
- **Ratemaking treatment**
- **Evidence that procurement is reasonable option**

Attachment F “Futures” Application Contents

- **Risk management plan/Financial Hedging Safeguards**
 - **Hedged physical delivery**
 - **Primary supply contract indexed to Henry Hub**
 - **Basis contract from Henry Hub to receipt point**
 - **Commodity swap converting floating to fixed price based on an index**
 - **Underwriting contract with a clearing house**

Attachment F “Futures” Risk Governance Policy Contents

- **Risk governance policy and oversight procedure governed by a management committee**
 - Describe categories and quantity acceptable risks
 - Plans to manage and report risks
 - Named members/leadership of the management committee
 - Permitted transaction types
 - Period of years (tenor) permitted
 - Pricing method
 - Options for delivery
 - Existence of (previous) separate agreements
 - Swap mechanism
 - Approved clearing houses

Attachment F “Futures” Risk Governance Policy Contents

- **Approved clearing houses**
 - (If none, justify)
- **Justify clearing house fees and premiums**
- **Criteria for initial and ongoing counterparty credit-worthiness assessments**
- **Policies and procedures for transparency**
 - **Forward swap contract commitments**
 - **Financial exposure**
 - **Mark to market calculations, interval, methodology and software utilized**
 - **Segregated collateral cash management protocols**
 - **Value and liquidity market tracking metrics**
 - **Stop-loss monitoring thresholds**
 - **Federal and state compliance reporting and regulatory audits**
 - **Reporting of positions and financial exposure, including mark to market**

Attachment F “Futures” Procedural Schedule

- **Intervention period**
- **Confidentiality agreement**
- **Review of Application**
- **Minimum 60 days allowed for evaluation of Application**
 - **10 day response period for data request**
- **Hearing on Application**
- **Approval of Application**

Attachment F “Futures” Attempt to Procure

- **After approval of its Application, Utility goes out and procures a contract(s) that comply with what was approved in that Application**

Attachment F “Futures” Request for Certification

- **Successful Procurement**
 - **Utility goes out and procures a contract(s) that comply with what was approved in Application**
 - **Files Request for Certification**

Attachment F “Futures” Request for Certification

- **Contents:**
 - **Overview of transaction**
 - **Analysis comparing**
 - **Specifications outlined in Application**
and
 - **Specifications of the final transaction in Request for Certification**

Attachment F “Futures” Request for Certification

- **Intervention re-opened for 10 days**
 - **Minimum 30 day evaluation by Staff and Intervenors**
 - **5 day response period for data requests**
- **Hearing on Request for Certification**
- **LPSC determination on acceptance of Request for Certification**

Attachment F “Futures” Procedural Schedule

- **Non-Procurement**
 - **Utility goes out and tries to procure a contract(s) that comply with what was approved in Application, but is unsuccessful**
 - **Files Notification detailing the steps it took to procure a transaction and why it has been unable to do so**
 - **Intervention re-opened for 10 days**
 - **Minimum 30 day evaluation by Staff and Intervenors**
 - **5 day response period for data requests**
 - **Hearing on Notification**
 - **LPSC determination on acceptance of Notification**

Subsequent and Final Applications

- **Following a:**
 - **Request for Certification**
or
 - **Notification**
- **Election IOU should submit a:**
 - **Subsequent Application**
or
 - **Final Application**
 - (Nothing in Sections 1 through 7 on pages 23-26 of the Commission's Order states that the three separate applications cannot be filed concurrently.)
- **Each Application must utilize a different natural gas cost stabilization instrument**
- **In no event would an Electric IOU be required to submit more than three Applications to the Commission**
- **Intent is merely to encourage Electric IOUs to explore the feasibility of procuring more than one type of natural gas price stabilization instrument**

Application, Subsequent Applicant, Final Application

- **Each Electric IOU shall file three Applications**
- **Each Application shall utilize a different instrument**

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January 5, 2016