

NATURAL GAS TRANSMISSION AND DISTRIBUTION MODULE

The natural gas transmission and distribution module (NGTDM) of NEMS represents the natural gas market and determines regional market-clearing prices for natural gas supplies and for end-use consumption, given the information passed from other NEMS modules (Figure 15). A transmission and distribution network (Figure 16), composed of nodes and arcs, is used to simulate the interregional flow and pricing of gas in the contiguous United States and Canada in both the peak (December through March) and offpeak (April through November) period. This network is a simplified representation of the physical natural gas pipeline system and establishes the possible interregional flows and associated prices as gas moves from supply sources to end users.

Flows are further represented by establishing arcs from transshipment nodes to each demand sector represented in an NGTDM region (residential, commercial, industrial, electric generators, and transportation). Mexican exports and net storage injections in the offpeak period are also represented as flow exiting a transshipment node. Similarly, arcs are also established from supply points into a transshipment node. Each transshipment node can have one or more entering arcs from each supply source represented: U.S. or Canadian onshore or U.S. offshore production, liquefied natural gas imports, supplemental gas production, gas produced in Alaska and transported via pipeline, Mexican imports, or net storage withdrawals in the region in the peak period. Most of the types of supply listed above are set independently of current year prices and before NGTDM determines a market equilibrium solution.

Only the onshore and offshore lower 48 U.S. and Western Canadian Sedimentary Basin production, along with net storage withdrawals, are represented by short-term supply curves and set dynamically during the NGTDM solution process. The construction of natural gas pipelines from Alaska and Canada's MacKenzie Delta are triggered when market prices exceed estimated project costs. The flow of gas during the peak period is used to establish interregional pipeline and storage capacity requirements and the associated expansion. These capacity levels provide an upper limit for the flow during the offpeak period.

Arcs between transshipment nodes, from the transshipment nodes to end-use sectors, and from supply sources to transshipment nodes are assigned tariffs. The tariffs along interregional arcs reflect reservation (represented with volume dependent curves) and usage fees and are established in the pipeline tariff submodule. The tariffs on arcs to end-use sectors represent the interstate pipeline tariffs in the region, intrastate pipeline tariffs, and distributor markups set in the distributor tariff submodule. Tariffs on arcs from supply sources represent gathering charges or other differentials between the price at the supply source and the regional market hub. The tariff associated with injecting, storing, and withdrawing from storage is assigned to the arc representing net storage withdrawals in the peak period. During the primary solution process in the interstate transmission submodule, the tariffs along an interregional arc are added to the price at the source node to arrive at a price for the gas along the arc right before it reaches its destination node.

NGTDM Outputs	Inputs from NEMS	Exogenous Inputs
Natural gas end-use and electric generator prices	Natural gas demands	Historical consumption patterns
Domestic and Canadian natural gas wellhead prices	Domestic and Canadian natural gas supply curves	Historical flow patterns
Domestic natural gas production	Mexican and liquefied natural gas imports and exports	Rate design specifications
Canadian natural gas imports and production	Macroeconomic variables	Company-level financial data
Lease and plant fuel consumption	Associated-dissolved natural gas production	Pipeline and storage capacity and utilization data
Pipeline fuel use		Historical end-use prices
Pipeline and distribution tariffs		State and Federal tax parameters
Interregional natural gas flows		Pipeline and storage expansion cost data
Storage and pipeline capacity expansion		Supplemental gas production
Supplemental gas production		

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Figure 15. Natural Gas Transmission and Distribution Module Structure

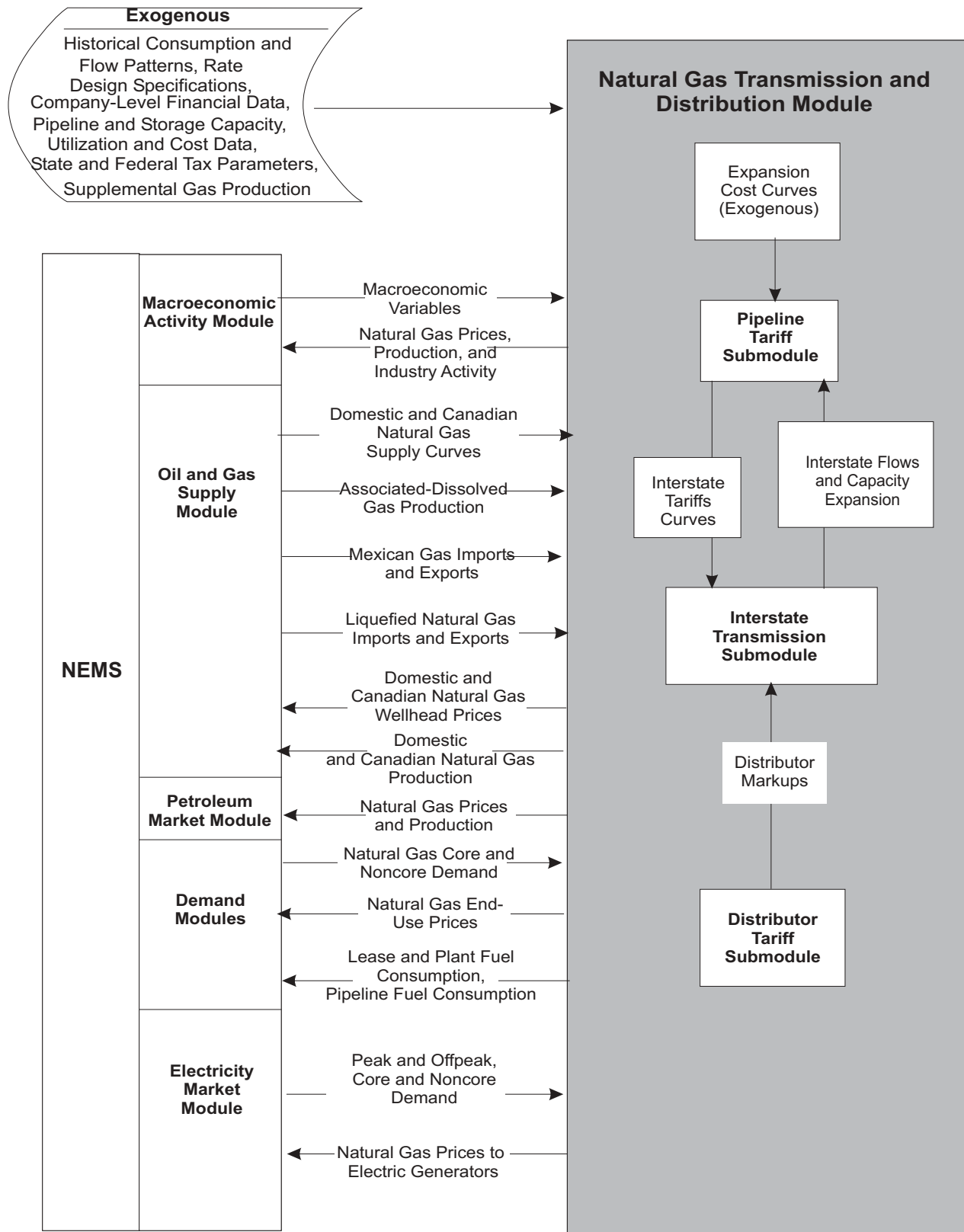
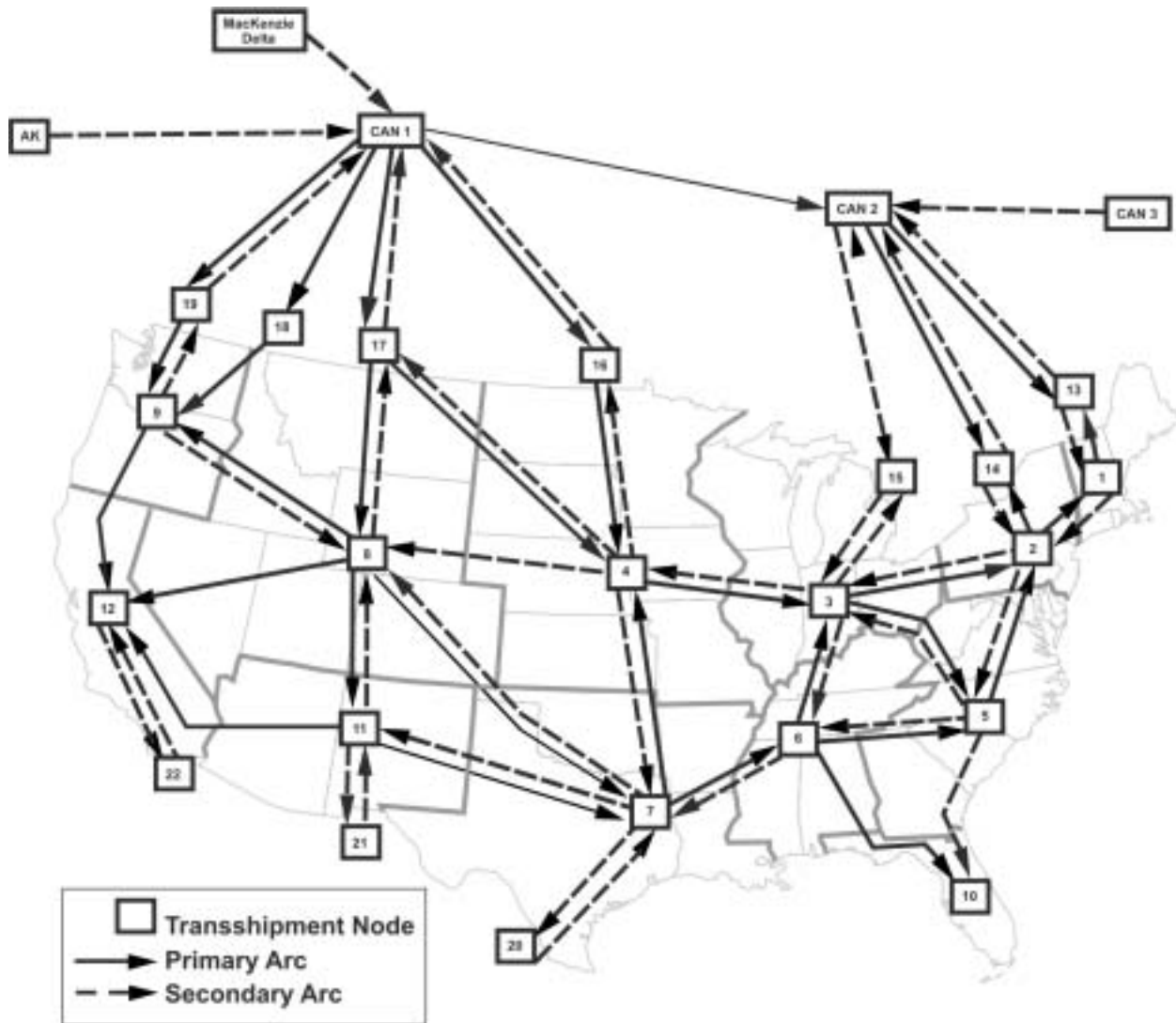


Figure 16. Natural Gas Transmission and Distribution Module Network



Interstate Transmission Submodule

The interstate transmission submodule (ITS) is the main integrating module of NGTDM. One of its major functions is to simulate the natural gas price determination process. ITS brings together the major economic factors that influence regional natural gas trade on a seasonal basis in the United States, the balancing of the demand for and the domestic supply of natural gas, including competition from imported natural gas. These are examined in combination with the relative prices associated with moving the gas from the producer to the end user where and when (peak versus offpeak) it is needed. In the process, ITS simulates the decision-making process for expanding pipeline and/or seasonal storage capacity in the U.S. gas market, determining the amount of

pipeline and storage capacity to be added between or within regions in NGTDM. Storage serves as the primary link between the two seasonal periods represented.

ITS employs an iterative heuristic algorithm, along with an acyclic hierarchical representation of the primary arcs in the network, to establish a market equilibrium solution. Given the consumption levels from other NEMS modules, the basic process followed by ITS involves first establishing the backward flow of natural gas in each period from the consumers, through the network, to the producers, based primarily on the relative prices offered for the gas from the previous ITS iteration. This process is performed for the peak period first since the net withdrawals from storage during the peak period

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will establish the net injections during the offpeak period. Second, using the model's supply curves, wellhead prices are set corresponding to the desired production volumes. Also, using the pipeline and storage tariffs from the pipeline tariff submodule, pipeline and storage tariffs are set corresponding to the associated flow of gas, as determined in the first step. These prices are then translated from the producers, back through the network, to the city gate and the end users, by adding the appropriate tariffs along the way. A regional storage tariff is added to the price of gas injected into storage in the offpeak to arrive at the price of the gas when withdrawn in the peak period. This process is then repeated until the solution has converged. Finally, end-use prices are derived for residential, commercial, and transportation customers, as well as for both core and noncore industrial and electric generation sectors using the distributor tariffs provided by the distributor tariff submodule.

Pipeline Tariff Submodule

The pipeline tariff submodule (PTS) provides usage fees and volume dependent curves for computing unitized reservation fees (or tariffs) for interstate transportation and storage services within ITS. These curves extend beyond current capacity levels and relate incremental pipeline or storage capacity expansion to corresponding estimated rates. The underlying basis for each tariff curve in the model is a forecast of the associated regulated revenue requirement. Econometrically estimated forecasting equations within a general accounting framework are used to track costs and compute revenue requirements associated with both reservation and usage fees under current rate design and regulatory scenarios. Other than an assortment of macroeconomic indicators, the primary input to PTS from other modules in NEMS is the level of pipeline and storage capacity expansions in the previous forecast year.

Once an expansion is forecast to occur, PTS calculates the resulting impact on the revenue requirement. PTS assumes rolled-in (or average), not incremental, rates for new capacity. The pipeline tariff curves generated by PTS are used within the ITS when determining the relative cost of purchasing and moving gas from one source versus another in the peak and offpeak seasons.

Distributor Tariff Submodule

The distributor tariff submodule (DTS) sets distributor markups charged by local distribution companies for the distribution of natural gas from the city gate to the end user. End-use distribution service is distinguished within DTS by sector (residential, commercial, industrial, electric generators, and transportation), season (peak and offpeak), and service type (core and noncore). DTS sets distribution tariffs by estimating or assuming the annual change in these tariffs, starting from base-year values that are established using historical data.

The annual change in distributor tariffs for residential, commercial, and industrial core customers depends on an assumed increase in operational efficiencies combined with a depreciation rate, as well as the annual change in natural gas consumption and in national average capital and employment costs. Distributor markups to the noncore industrial customers are assumed not to change over time. Distributor markups to electric generators are allowed to change in response to annual changes in consumption levels within the sector. The natural gas vehicle sector markups are calculated separately for fleet and personal vehicles. Markups for fleet vehicles are set and held constant at historical levels, with taxes added. Markups for personal vehicles are set at the industrial sector core price, plus taxes, plus an assumed distribution cost. This price is capped at the gasoline equivalent price, as long as minimum costs are covered.