

Are We Missing Something?

Yes, and Altos has a solution.

by

Dr. Dale M. Nesbitt

President

Altos Management Partners and MarketPoint Inc.

334 State Street, Suite 204

Los Altos, CA 94022

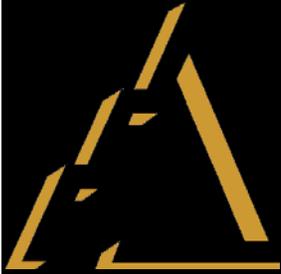
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(650) 948-8830 Main

(650) 948-8824 Direct

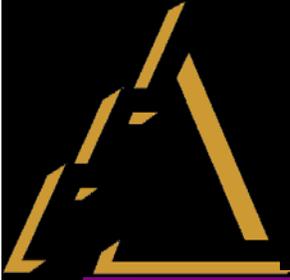
dale.nesbitt@altosmgmt.com

www.altosmgmt.com and www.marketpointinc.com

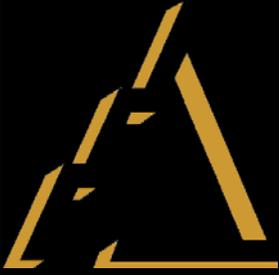


There Just Aren't Any Simple Problems Any More

- **Single fuels (e.g., power only)**
- **Single regions (e.g., North America only, NWPP only, Oregon only)**
- **Single nodes**
- **Single market segments (e.g., pipelines only, upstream only)**
- **Single technical issues (e.g., power flow models, hydraulic models)**
- **Single issues (e.g., margin compression from LNG entry, transmission operation)**
- **Single scenarios (e.g., deterministic models)**
- **Statistical correlations among prices that are not completely misleading.**
- **Retainer studies contribute little**
- **Real world problems are horizontally and vertically interconnected and strongly multidisciplinary**
- **Real world problems require that we represent a market with a multiplicity of independent, goal seeking agents and that we integrate that with a definitive representation of the “chemistry and physics”**



Prerequisites for Success in Power/Energy Modeling



Prerequisite No. 1

PROBLEM

1. **Geographic diversity**

SOLUTION

1. **GIS coupled with graphical “Tinkertoy Set” for building models**
 - ✓ You must be able to “drag and drop” regions hierarchically into your model.
 - ✓ You must be able to use a GIS to characterize each region at whatever level of the hierarchy.
 - ✓ **Altos has that in our modeling system today.**
 - ✓ **Spatial economic/physical approach**
 - ✓ **Different fuels have different regional characteristics**

Altos Offers Hierarchical Regionality

Today

- Root
 - WGTM
 - Africa
 - Demand: North Africa
 - Demand: Algeria
 - Demand: Libya
 - Demand: Tunisia
 - Demand: Other Africa
 - Supply: Nigera Supply
 - Supply: North Africa
 - Supply: Northwest Africa
 - Supply: Oil in Africa
 - Supply: Southwest Africa
 - Australia
 - Europe
 - Latin America
 - Demand: Brazil
 - Demand: Mexico
 - Demand: Northern South America
 - Demand: Southern S. America
 - Supply: Bolivia-Chile-Argentina
 - Supply: Brazil
 - Supply: Columbia-Ecuador-Peru
 - Supply: Mexico
 - Supply: Oil in Latin America
 - Supply: Trinidad-Tobago
 - Supply: Venezuela
 - Mainland Asia
 - Middle East
 - Pacific Rim
 - Russia
 - World LNG Liq/Regas
 - World Oil

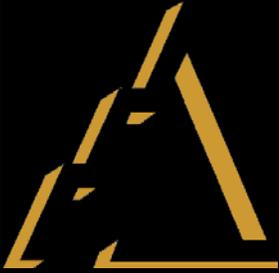
Hierarchical regional representation

Diagram and map of selected region

Actions Logic Views

Market Model

Palette of actions



Prerequisite No. 2

PROBLEM

2. Facility/asset enumeration

SOLUTION

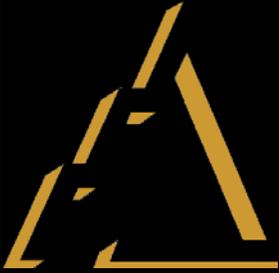
2. Graphical process “Tinkertoy Set” with unlimited expansion capability

- ✓ You must be able to drag and drop facility nodes into your model.
- ✓ You must be able to drag facility nodes on top of a GIS
- ✓ You must be able to aggregate or disaggregate
- ✓ **Altos has node based drag and drop in our modeling system today**
- ✓ Different fuels use different facilities



Altos Has Process Networks Overlaying Maps at Whatever Level You Want





Prerequisite No. 3

PROBLEM

3. Everything is connected to everything else (which means you cannot ignore fuels, demand elasticities, etc.)

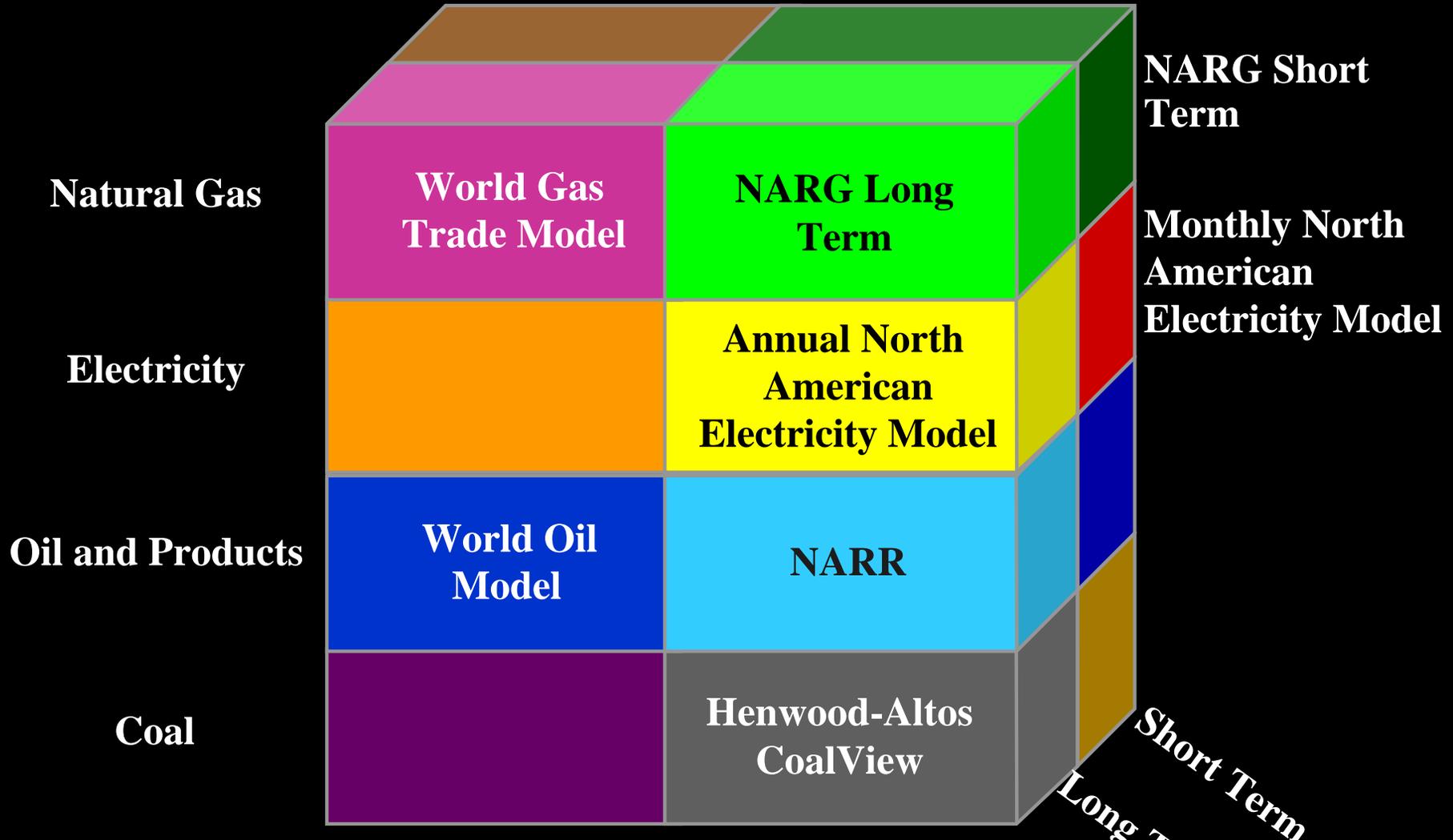
SOLUTION

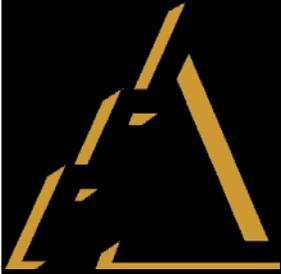
3. All your models need to be housed within a common software platform so they can be interconnected

- ✓ **Altos has comprehensive power, gas, oil, products, and coal interconnected today**
- ✓ **Standalone models are naïve models**
- ✓ **Single fuel models are naïve models**
- ✓ **Single issue models are naïve models**



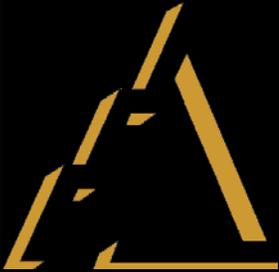
Altos Today Offers a Complete, Maintained, Fully Interconnected Suite within MarketBuilder





The Altos Gas and Power Models Were Selected and Coupled by the National Petroleum Council (2003)

- **Andrew Slaughter, Shell (Lead)**
 - ✓ **281-544-4992, andrew.slaughter@shell.com**
- **Ken Medlock, formerly El Paso, now Rice University**
 - ✓ **713-348-3757, medlock@rice.edu**
- **Mike Hupp, Dominion**
 - ✓ **804-819-2388, Michael_Hupp@dom.com**
- **Meg Gentle, Anadarko/Cheniere**
 - ✓ **meg.gentle@cheniere.com**
- **Gary Tsang, ExxonMobil**
 - ✓ **281-654-4203, gary.h.tsang@exxonmobil.com**
- **Rusty Riese, BPAmoco**
 - ✓ **281-366-0775, rriese1@bp.com**
- **Red White, ExxonMobil, retired 2004**
 - ✓ **713-864-7213, redwhite@houston.rr.com**
- **Contributors: Keith Barnett, AEP; Ken Logan, TransCanada**
- **They used NARG for gas integrated with NARE for power.**
- **They reported the forward market situation in North America to Secretary of Energy Spencer Abraham**
- **Their workproduct, a major step forward, is completely available under license through Altos and the NPC.**
- **Contact John H. Guy, NPC, (202) 393-6100 to request the Supplementary Modeling Team (Altos model) workproduct.**



Prerequisite No. 4

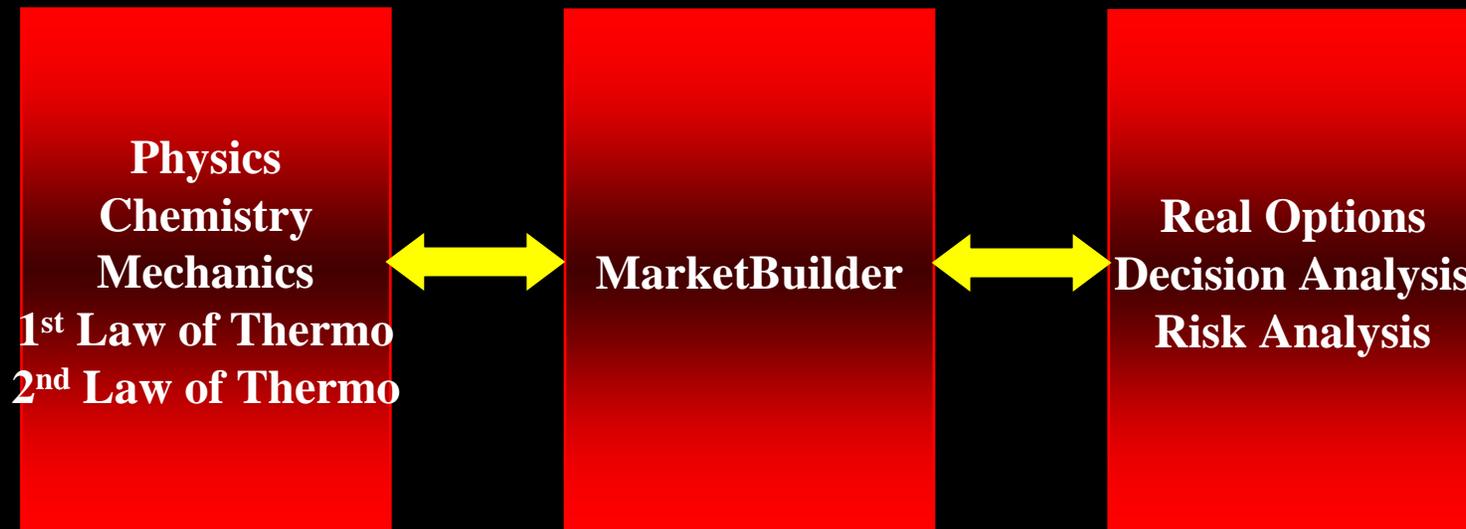
PROBLEM

4. **Single purpose models are largely useless**

SOLUTION

4. **You have to have “physics and chemistry” integrated into economic models.**

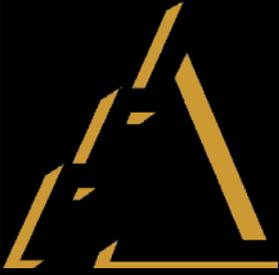
✓ **“Dispatch” is NOT economics**



Hydraulic models (Stoner)
Power flow models (PTI, Power World)

Market model

Real options models
(FEA, Amram)



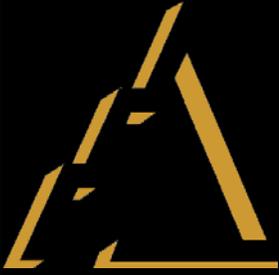
Prerequisite No. 5

PROBLEM

5. **The world is nonlinear, and very highly so.**

SOLUTION

5. **Inherently nonlinear equations and solution technique ONLY.**
 - ✓ Linear programming is called “linear” for a reason.
 - ✓ Linear differential equations are called “linear” for a reason.
 - ✓ Discrete linear approximations to nonlinear models are computationally wasteful (and usually intractable)
 - ✓ **Altos is intrinsically nonlinear.**



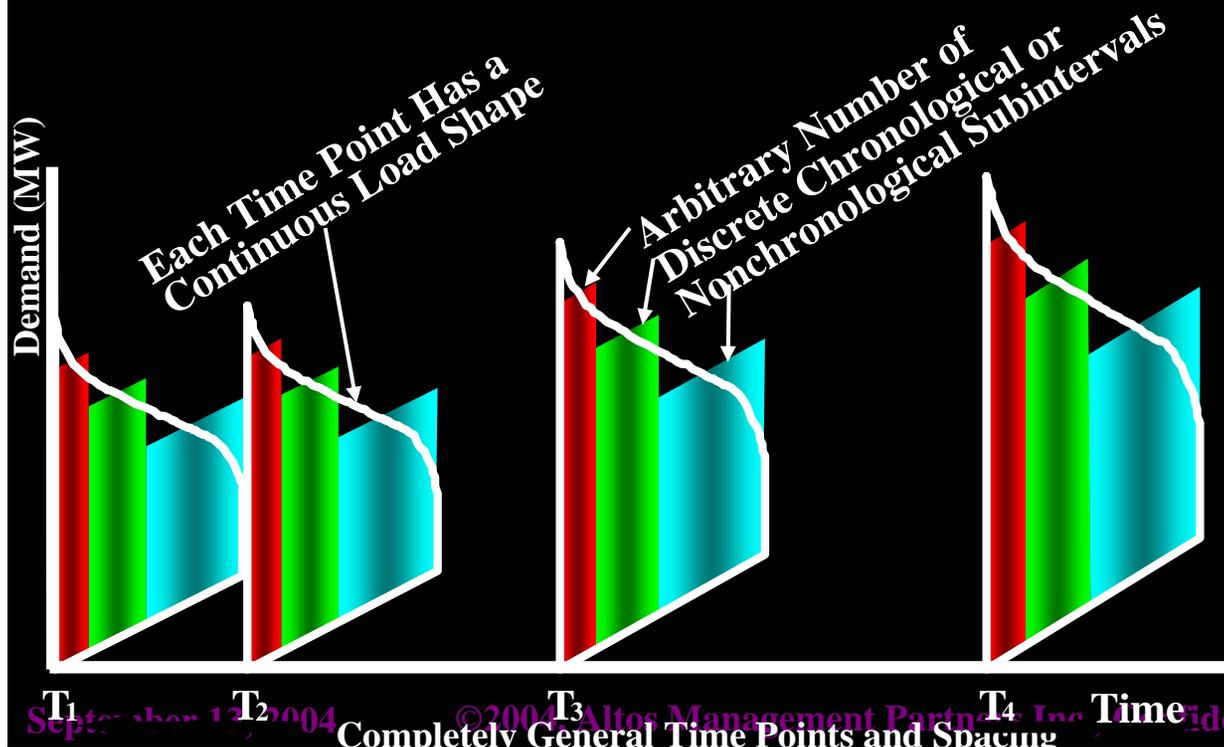
Prerequisite No. 6

PROBLEM

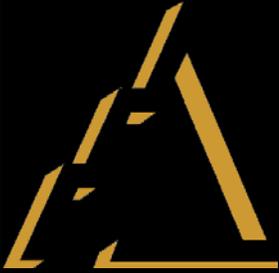
6. **Completely general temporal structure**

SOLUTION

6. **Continuous forward timeline with arbitrary and different time increments**



- ✓ You must be able to skip intervals
- ✓ Integrals and derivatives across time intervals must be pre-programmed
- ✓ **Altos has this**



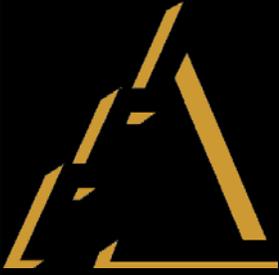
Prerequisite No. 7

PROBLEM

- 7. The agent decision space is huge**

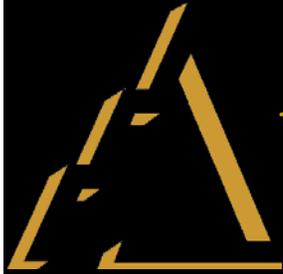
SOLUTION

- 7. Price iteration**
 - ✓ You just cannot get there with mathematical programming, simulation, systems dynamics, or “genetic algorithms”
 - Compute time
 - Roundoff/truncation
 - Algorithmic “drift”
 - Conceptual and empirical deficiencies
 - ✓ **Altos does price iteration across fuels, geographies, and times now**



Altos Has This in Place Today

- **Altos has tried to build the “ideal economic modeling system.”**
 - ✓ It links together disparate models, whether built by Altos or by others.
 - ✓ It can benefit from better embedded
 - Physics and chemistry
 - Uncertainty (my next talk)
- **Altos is licensed and operational at a number of sites throughout the world.**
- **I will demo it for anyone who wants after the session or any time of your choosing.**



Altos Is Not the New Kid on the Block, We Are the Old Kid (30 Years)

- 1965: Mexico CFE Model
- 1973: SRI-Gulf Model
- 1977: EIA LEAP Model
- 1979: TVA SAM Model
- 1981: EPRI IFM and LMSTM
- 1982: DOE World Oil Model
- 1983: North American Regional Gas (NARG) Model
- 1988: California Refining/Transportation Model
- 1989: World Gas Trade Model (WGTM)
- 1991: Crude Quality Model
- 1991: Western European Gas Model
- 1992: Southern Cone (South America) Model
- 1993: OG&E, Duke, Minnesota Power, SCE, CIPSCO, PP&L competitive electric models
- 1995: Southeastern Australia Model
- 1995: PanEnergy North American Regional Electricity Model
- 1995: Altos North American Electricity Model
- 1998: Altos Short Term NARG Model
- 2002: Completely Modernized Technology
- 2003: Modernized World Oil and Gas Models
- 2003: USGS and NPC partnerships
- 2004: Henwood partnership

We took the most established model in the business out of the market for almost six years to modernize it.

