

FERC Hears Plan to Change Gas Markets

Consider the Rolodex. Once a standard tool of the American businessman, it has tumbled toward obsolescence in recent years, driven toward the margin in part by the emergence of more advanced technology and devices that make it far easier to interact with others and obtain information.

So what does it mean that energy industry stakeholders at a recent Federal Energy Regulatory Commission technical conference invoked the Rolodex in describing how natural gas is traded on weekends and after the markets close?

“It’s an old Rolodex system,” FERC Commissioner Philip Moeller told reporters Tuesday after the conference. “They’re literally calling people on their cell phones, [asking] ‘do you have gas?’”

Moeller at the conference helped to send up a trial balloon for a proposal that could address concerns about inefficiencies in how natural gas is traded, which could if implemented turn the natural gas system into something resembling a regional transmission organization for trading wholesale electricity.

Given that markets close at night and on weekends, FERC has heard concerns from generators and others, Moeller said, over how generators are often required to track down gas by calling individual marketers and others if they need to procure gas outside of market hours. He also noted that during this historic winter, generators in some cases were told to run for reliability reasons and bought gas, but later were not dispatched and were required to eat losses when they resold their gas for far less than they bought it for.

“And that’s because it’s such an inefficient process of buying and selling right now, when your gas markets close at 5 pm and on the weekend,” Moeller said.

Moeller’s comments come amidst uncertainty over the implications of gas-fired generation playing a larger role in the US electricity mix. And while FERC is taking steps to improve coordination of the natural gas and electric systems, Tuesday’s conference discussing how the gas and electric systems worked this winter featured a far more wholesale proposal from Donald Sipe of the American Forest and Paper Association.

Sipe called on FERC to “investigate and possibly order the implementation of” an information and trading platform for natural gas that is similar to the trading platform currently used for wholesale electricity trading within RTOs. The platform, according to Sipe’s presentation, would

contain “bids and offers for the purchase and sale of commodity and capacity for receipt and delivery points on and across multiple pipeline systems in a defined operability region.” Bids and offers would include location, amount, price and other attributes, and could “consist either of quantities already nominated and flowing (but available to be diverted at a particular price) or quantities to be nominated for flow at particular times.”

Introduced by Moeller at the conference, Sipe argued broadly that the current natural gas system faces many of the same challenges that the electricity system did 25 years ago, and that the improvements made since that time were not changes to the “laws of physics” but rather the flow of information among participants in the market.

A centralized trading platform, he said, could address a variety of issues that are driven not by a lack of pipeline capacity but instead by a lack of information, even as he highlighted the need for more pipeline. In the face of concerns about uncertainty over whether generators can get gas, Sipe argued that such an issue is based less on physical capabilities of the pipeline system but rather how a generator could figure out if there is gas available and if it can get to the plant on time.

Calling the proposal “low-hanging fruit,” Sipe said the idea was not a “radical departure from where this commission is already going.” He also argued that such a platform could be created incrementally, including by consolidating existing information platforms and creating a standardized set of products and services based on best practices.

“We don’t think you have to do this all at once. We don’t think you have to slash and cut until you establish an RTO for gas. You can begin to do things working off of what some of the [independent system operators] are doing with their information platforms,” Sipe said.

And while he said that new pipe will be necessary, it would not be a “Herculean lift” to create a platform system that features who has gas and where it is flowing within a regional footprint.

“This is really something that we think the commission should push and try to make happen,” Sipe said.

Moeller said he had been trying for several months to identify the right forum for Sipe to present the proposal, going back to last fall.

“I wanted him here because it’s part of the puzzle, but it’s also the part that drives those peak, really, really high gas purchase prices like over those cold three-day weekends. And if we can moderate those peaks, prices go down for everybody in dramatic ways.”

“It’s not going to solve the whole problem, but it’s a significant part. It’s a very inefficient marketplace right now, I would argue. Certainly not transparent,” Moeller added.

And while the concerns are obviously there about some aspects of the current gas market system, it is not yet clear whether Sipe’s proposal will gain traction in the near term.

In an interview Thursday, Acting FERC Chairman Cheryl LaFleur described watching panelists and others gathered during the conference during Sipe's presentation. She noted that, while Sipe was describing having an online resource or mechanism to get more liquidity and transparency into gas purchasing, her read of the room was that the concept was "resonating with a lot of people."

But when Sipe's proposal focused more on broader changes to natural gas markets and creating something resembling an RTO for gas, LaFleur said "I didn't feel the sense of resonance that this was something we'd go toward in the near term." And in noting calls during the conference for more liquidity and transparency in the gas markets, she said that it was useful to have Sipe provide a different angle on those issues.

During the conference, some stakeholders expressed concern over the proposal, while also noting that the devil will be in the details if this ever comes to fruition. On the natural gas side, representatives from the pipeline and supplier community noted that they are trying to move every molecule of gas they can, with incremental capacity coming from pipeline and storage.

And James Stanzone of National Grid, which has both electricity and gas as part of its portfolio, asked how pipelines that are built for certain loads and are not built for hourly variability would work within a more RTO-like system, and how supply within the system may not be accessible for all generators.

"There's a lot of complications when you start to look at physical molecules to be delivered and the actual facilities to be served. I think I'd like to peel the onion back a little more to understand it," Stanzone said.

Abraham Silverman of NRG Energy called the idea "fascinating" but also asked FERC to not lose sight of the fact that incremental gains can be made during what would likely be a multi-year process on such a platform. Silverman, who also referred to gas markets on weekends being "largely a Rolodex business," described the somewhat challenging nature of the present model, recounting how one of NRG's traders almost went through a divorce for selling gas during the birthday of the unnamed trader's child.

And so, while these broader changes could mean a bleaker future for the Rolodex, it may mean that more marriages stay together.

The proposal was one of a host of potential changes market participants and other stakeholders offered at the conference, from building more pipe to better valuing the benefits of baseload coal-fired and nuclear generation and allowing units to switch from gas to liquid fuel on an intraday basis. FERC is scheduled to take comments on matters discussed at the conference until the middle of next month.

— *Bobby McMahon*