ELECTRICITY:

Support absent for centralized natural gas trading platform

Rod Kuckro, E&E reporter

Published: Monday, October 6, 2014

The electricity and natural gas industries may share a watchdog in the Federal Energy Regulatory Commission, but they largely have evolved independently and operate within very different market structures.

Only within the past year have regulators pressed for greater coordination between the industries as cheap gas became the preferred fuel for generating baseload electricity. And those efforts at coordination have exposed some tension, as neither industry seems welcoming to changes that would require fundamental shifts on how they do business.

So it may be surprising that stakeholders in both industries are united in throwing cold water on a proposal to create a centralized trading platform for natural gas.

The idea is being pushed by the American Forest and Paper Association (AFPA) and was the subject of a three-hour meeting at FERC on Sept. 18 convened by Commissioner Philip Moeller (Docket No. AD14-19-000).

The AFPA concept is designed to bring greater transparency to the gas market, enable near-real-time intraday trading and automate the clearing of natural gas transactions. That, AFPA attorney Donald Sipe said, should help moderate electricity prices.

"Our guys are getting killed in New England and elsewhere. We've got mills that are closing down for part of the winter because of these [electricity] price spikes," Sipe said in an interview.

Sipe was referring to what occurred last winter when temperatures plunged during January's polar vortex and drove up demand for natural gas, which led to record high electricity prices in New England and farther south along the East Coast.

Moeller directed interested parties to file comments on an unusually quick timeline for FERC -- by Oct. 1 -- and, in a blow to members of the energy bar, said comments should be no longer than five pages.

More than 30 stakeholders weighed in and agreed that there are numerous options for improving how both electric and gas markets work.

A typical sentiment was expressed by the Electric Power Supply Association, which said "there are market design and operational issues which require revision" in both the electricity and gas industries to ensure reliability. But the concept put forth by AFPA and Sipe "is not sufficiently developed" to allow either electric or gas market participants to evaluate it, the lobby for merchant power generators said.

The Interstate Natural Gas Association of America, which represents pipeline operators, said "the trading platform will not create capacity where there is none on a capacity-constrained pipeline."

Moreover, "homogenizing pipeline transportation products and relinquishing control of the pipeline network to the administrator of the trading platform would dampen the incentive" for operators of natural gas power plants and others "to commit to long-term firm contracts needed to underpin new infrastructure," INGAA said.

In practice, the natural gas industry does not add to the nation's pipeline system until it has customers signed up to long-term contracts for the capacity, also known as firm service. Most independent power generators will not sign such contracts because they do not need the gas every day and prefer to buy it on the spot market.

The solution, said Richard Kruse, vice president of regulatory affairs for pipeline operator Spectra Energy Partners, may be to have groups of power plant owners and other customers with variable needs for gas "get together and pool their demand to create an aggregate load that can be reflected in one contract."

America's Natural Gas Alliance said the problem is not one of gas supply and that the solution "lies with electricity market rule changes that will enable infrastructure enhancements and the development of portfolio management tools."

The PJM Interconnection, which operates the nation's largest wholesale electricity market, delivering electricity to 61 million people over a footprint that includes 13 states and the District of Columbia, suggested a handful of FERC actions to improve the natural gas markets, including issuance of a "policy statement" on the need for new pipeline service to meet electric generation needs.

Xcel Energy Inc., which operates nearly 11,000 megawatts of natural gas-fired generation serving customers in eight states, cautioned FERC not to do anything that would "further encourage gas-fired generators to rely solely on no-firm pipeline services."

But Xcel suggested that FERC create a forum for the natural gas industry to discuss solutions such as developing new gas storage services to serve the needs of generators in particular.

To Sipe, the comments by stakeholders at the Sept. 18 meeting and in the subsequent filed comments demonstrate the "disconnect" between the electricity and gas sectors. "They're talking past each other," he said.

Sipe agreed that before even thinking about a new gas trading platform, there are a series of questions FERC could ask about ways to improve the operation of the current gas market, such as automating the process of confirming orders for natural gas. "It's pretty bizarre in this day and age that we've got people doing manual confirmation processes that takes several hours just to figure out whether or not a transaction can flow," he pointed out.

Once such questions are answered, a person might conclude, "this platform looks like a good idea," Sipe said.

Sipe is sanguine as to the possibility that the idea could gain traction. "Two years ago, this wasn't even a conversation," Sipe said. "I think it's going to happen eventually. I don't think this is a sustainable model for the pipeline industry."