

Friday, August 29, 2008

No relief

Experts see natural gas prices going up long-term

The Business Journal of the Greater Triad Area - by [Matt Evans](#) Staff writer

Wild price swings, advances in technology and attention from the likes of market-mover T. Boone Pickens are giving domestically produced natural gas resources a jolt of attention.

But Triad businesses that rely on the relatively clean-burning fossil fuel to power factories and other facilities should keep their focus on the long-term, experts suggest.

None of the sources of recent media hype, nor the possibility that gas may someday be pumped off the North Carolina shore, will likely change the fundamental dynamic that energy prices are on the way up.

"The fundamentals of this business change so slowly over time. Sometimes the drillers get ahead, and sometimes consumers get ahead," said Aubrey Hilliard, president of Charlotte-based gas marketer Texican Horizon Energy, whose clients include municipalities and heavy industry among others. "Most of it are blips on the chart. Over the long term, there are no big game-changers out there."

But the blips can be costly and hard to predict, as natural gas users have surely noticed in recent months. Prices spiked to more than \$13 per thousand cubic feet in July, but have recently plunged down below \$8.

Long-term rising prices echoing the increasing price of crude oil and the decline of the region's manufacturing sector, which has traditionally been a big gas consumer, have cut back on overall natural gas demand in the state. But as concerns about pollution from coal and access to imported oil have risen, so has interest in natural gas as a key energy resource.

In the Triad, Duke Energy is ramping up its use of gas to generate electricity with plans to open two new natural gas-fired units at existing facilities in Rockingham and Rowan counties, where it will retire older, less efficient coal generators.

Piedmont Natural Gas, which supplies most of the Triad and has the largest service territory among the four distributors in the state, is also expecting long-term growth in demand.

The Charlotte-based company is investing up to \$350 million to build a new peak storage facility for liquefied natural gas in Robeson County south of Fayetteville, planned to be online in time for winter 2012.

Offshoring

There's not much natural gas to be found underground in North Carolina, experts believe, but the likelihood of finding nearby supplies off the coast has made natural gas a state electoral issue.

Republican gubernatorial candidate Pat McCrory and Democrat Beverly Perdue have sparred over the wisdom of ending the offshore drilling ban that restricts access to the Manteo Prospect, 45 miles off the coast of Cape Hatteras, and its estimated 5 trillion cubic feet of natural gas.

McCrory says he will move to end any restrictions on drilling off of the state's coast as soon as possible. Perdue says she's concerned about the environmental impact and the potential for hurricanes that could cause spills and threaten the tourism industry.

On the national level, Texas billionaire T. Boone Pickens has used the fortune he made in the oil business to thrust natural gas into the limelight. He is promoting what he calls the "Pickens Plan," which would invest \$1 trillion or more in wind-power generation and transmission, which he says will free up natural gas now used to make electricity to fuel cars, replacing imported oil.

Add to that mix of factors new technologies that allow drillers to tap gas trapped in shale beds that has until now been too costly to recover and the equation about what to expect gets even more complex. The New York Times reported recently that domestic gas production was up 8.8 percent in the first five months of this year compared to last, the fastest rate of increase since 1959.

What it comes down to for consumers, according to David Trusty, spokesman for Piedmont Natural Gas, is that the balance between supply and demand for natural gas is very tight right now, so shifts on either side — more demand from power plants, for example, or more supply from shale — can contribute to price swings.

Going up

On balance, though, the direction for now is up. Piedmont Natural Gas and PSNC, another major gas provider in the state, have recently won approvals for rate increases from the N.C. Utilities Commission based on overall increases in wholesale gas costs.

"We're really right there at the margin" between supply and demand, Trusty said. "The (Energy Information Administration) and the (Department of Energy) are forecasting increases in demand for natural gas, certainly at least in the short term, so unless we find significant additional supplies we're going to continue to have price signals with upward pressure."

There's more going on than can be explained by the fundamentals of supply and demand, though, according to Bill Gilmore, deputy director of the operations division of the Utility Commission, which oversees the state's gas industry. Those fundamentals generally create falling prices in the spring and early summer as home heating needs decline — that's just when prices were spiking this year.

"I've been in this business a long time, and I can't explain it with supply and demand," Gilmore said. "You can explain it in terms of market manipulation and excess speculation" on the part of hedge funds, and also fueled by new money from pension funds and others trying to ride a wave of rising commodity prices.

The uncertainty caused by such market speculation is probably the biggest threat to natural gas users right now, said Hilliard, the gas marketer. While the fundamentals of the energy market might point to slow but steady increases in gas prices, lax trading rules and a lack of transparency are making it impossible to know when costs might suddenly swing quickly up or down.

"I'm telling (clients) to buy longer term commitments and to build a portfolio of suppliers" to try to minimize the potential impact of such swings, he said. "Particularly until something is done about the speculators. They can really turn it all on a dime."

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