

Gas Daily

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LOW HYDRO SEEN BOOSTING GAS DEMAND IN WEST

Drought in the Pacific Northwest and a subsequent drain on hydroelectric generation is likely to increase reliance on gas along the West Coast this year, according to analysts.

More than half of the power in the Northwest is produced by hydro, largely from generators on the Columbia River in Oregon and Washington and the Snake River in Washington. Power forecasters use flows through The Dalles Dam on the Washington/Oregon border as a general measurement of the amount of available hydro expected.

The most recent regression forecast, released on February 25 by the National Oceanic and Atmospheric Administration, expects flows through The Dalles Dam to be at just 69% of normal from April through September.

The last time flows through The Dalles Dam fell to such low levels was in 2005, according NOAA.

Lower hydro output could leave the Northwest in need of gas-fired power generation to make up the difference. But Northwest Intermountain Power Producers Executive Director Robert Kahn believes the impact will be greater on the Southwest since Northwest utilities export electricity to California, the largest West Coast demand center.

Those exports have become a major component of power supply in the state and, when hydro exports dip, it can quickly and materially affect electricity prices in California.

That added volatility could make gas-fired generation more attractive to utilities this year, particularly since California utilities are not allowed to import power from coal-fired plants.

“It’s safe to say that hydro deficits will [result in] higher gas use,” Jefferies & Company Managing Director Subash Chandra agreed. “Every little bit from hydro helps, especially given a soft economy.”

Platts pricing data shows the spot gas price at Pacific Gas & Electric’s city-gate averaged \$7.46/MMBtu for the months of April to September that year, 75 cents higher than the five-year average for the same period at PG&E. The average Southern California Gas border point price in 2005 was \$7.22/MMBtu, 85 cents over its five-year average for those months.

As of March 1, the Platts-ICE forward curve showed summer 2010 basis for Southern California Gas’ border market at a premium to Henry Hub at plus 11 cents/MMBtu, while the winter 2010-2011 package was also positive at plus 3.75 cents. Typically, West Coast basis trades at a discount to Henry Hub, although historical basis