

## Cost Efficiencies of New Pipe Drive Gas Price Changes

The shortest distance between two points doesn't cut it in the world of natural gas pipelines. By the beginning of 2009, when Phase III of the new Rockies Express (REX) pipeline is operational, it will be cheaper to haul natural gas nearly 2,000 miles from the Rocky Mountain fields of Colorado, Wyoming, Utah and Montana to the northeastern megalopolis than it will be to carry gas approximately 1,300 miles from the Gulf Coast to the Northeast, according to a new report by Bentek Energy.

Labeling the possible rearrangement of natural gas prices across the country somewhere between "significant" and "bizarre," the report, "Reshuffling the Natural Gas Market," envisions a scenario where into-the-pipe prices for gas coming out of the Gulf of Mexico, which has always commanded a premium price because of its proximity to and connections with multiple market outlets, could be pushed below those for Rockies gas.

The report, previewed by Bentek at the recent GasMart 2007 in Chicago (see *Daily GPI*, [May 14](#)), points out that gas traveling through the all-new REX can move faster at extremely high pressure, while Gulf gas, coming through older pipes, cannot be compressed as much, and more gas is lost in transit. "The fuel rate for REX will be much lower, and they've based their tariff on it," said Bentek Vice President Rusty Braziel.

"The REX project in its entirety has a significant technological advantage over its competitors," Bentek points out. REX can operate with a maximum allowable operating pressure (MAOP) up to 1,480 PSIG (pound-force per square inch gauge), compared to between 600 and 1,050 PSIG for Texas Gas Transmission (TETCO), 450-790 PSIG on Tennessee Gas Pipeline (TGP) and similar pressures for the other pipelines. This advantage translates into lower charges for fuel and "lost and unaccounted for" (L&U) gas in the variable cost portion of the REX tariff.

The fuel and L&U rates in the guideline tariffs for REX, which are different for different zones, run between 0.87% and 2.22% for anchor shippers and 1.06% and 4.04% for others. This compares with TGP rates between 0.84% and 7.42% and TETCO rates between 2.04% and 7.94%. Columbia Gulf's onshore fuel and L&U rate ranges between 1.998% and 2.68%, while Columbia Gas is a single rate, 1.989%, Bentek said, quoting rates in May 2007. These are the formula rates, which may be discounted.

The lower rates are because "everything about the REX pipeline is 2007, the latest technology," Braziel said.

"Kinder Morgan has optimized pipeline diameter, compression, routing, internal pipeline coatings, compressor design, and many other factors to minimize the cost of moving gas through the system. For example, internal pipeline coatings minimize friction, optimize fuel consumption, reduce capital associated with installed horsepower, and enhance the operation and fuel consumption efficiency," according to the Bentek report..

The Bentek analysis shows Rockies gas replacing supplies from the Anadarko and Permian basins in the Midwest market when the second stage of REX is completed to Missouri. When REX Phase III delivers gas to Ohio, it will replace declining Canadian supplies and back out gas from traditional pipelines coming up from the Gulf Coast. That Gulf gas can serve Southeast markets. But it is likely the Gulf gas with no home in the Ohio market "will drive prices in the Gulf lower, relative to the rest of the country. The question is 'how much lower?' The answer to that all-important question will depend on the magnitude of Gulf area supply build-up and coincidental demand growth."

If there is significant new production from Gulf of Mexico development projects, while at the same time demand doesn't grow as fast, "it is not unreasonable to expect that Rockies prices could trade at a premium to Gulf prices. That would meet our definition of bizarre. In such a scenario, almost everything the industry has come to understand about basis relationships could be radically transformed, effectively reshuffling the U.S. gas supply deck," Bentek said.

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