

Task Force: Shales, Price Stability Keys to Growing Gas Role

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Domestic natural gas -- particularly that from shales -- is the fix for a host of problems, including the need for national energy security and measures to address pollution, as well as volatile energy prices, a task force formed last year said in a report released Monday.

The group -- convened by the Bipartisan Policy Center (BPC) and the American Clean Skies Foundation (ACSF) (see *Daily GPI*, [May 24, 2010](#)) -- said the growth of shale gas production "reduce[s] the susceptibility of [natural] gas markets to price instability and provide[s] an opportunity to expand the efficient use of natural gas in the United States."

With a more stable price horizon for gas, the report also urges state public utility regulators and industry to consider making greater use of longer-term supply contracts. "Rules that unnecessarily restrict the use of or raise the cost of long-term contract and hedging tools for managing supply risk should be avoided," the task force said.

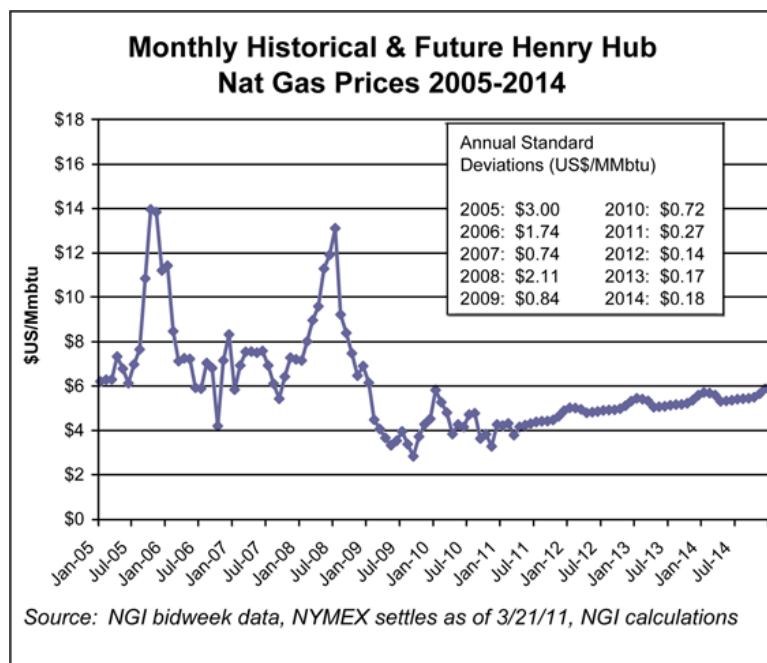
"With sound policies, the nation can capitalize on this abundant natural gas supply and convert it into intelligent energy progress," said Marianne Kah, a chief economist with ConocoPhillips.

The group's 70-page [report](#) calls on governments to "encourage the development of domestic natural gas resources, subject to appropriate environmental safeguards" given that the efficient use of gas has the potential to reduce harmful air emissions, enhance energy security and improve the prospects of U.S.-based energy-intensive manufacturers.

"We have a good problem," said task force co-chair Norm Szydlowski, CEO of SemGroup Corp. "Finding more natural gas provides an opportunity that is as much unparalleled as it was unexpected. Fundamental changes that have taken shape in the domestic supply and demand balance for natural gas, including an unprecedented level of available storage and import capacity, should allow markets to function more efficiently and fluidly in the future."

Among the task force findings:

- Public and private policymakers should remove barriers to using a diverse portfolio of gas contracting structures and hedging options. Long-term contracts and hedging programs are valuable tools to manage natural gas price risk. Policies, including tax measures and accounting rules, that unnecessarily restrict the use or raise the costs of these risk management tools should be avoided.
- The National Association of Regulatory Utility Commissioners (NARUC) should consider the merits of diversified natural gas portfolios, including hedging and longer-term contracts. NARUC should examine



whether the current focus on shorter-term contracts, first-of-the-month pricing provisions and spot market prices supports the goal of enhancing price stability for end-users.

- As the Commodity Futures Trading Commission (CFTC) implements financial reform legislation, including Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (see *Daily GPI*, [March 17](#)), it should preserve the ability of natural gas end-users to utilize the derivatives markets to manage commercial risk. In addition, the CFTC should consider the potential impact of any new rulemaking on liquidity in the natural gas derivatives market.
- Policymakers should recognize the role of gas pipeline and storage infrastructure and existing import infrastructure in promoting stable gas prices. Policies to support the development of a fully functional and safe gas transmission and storage infrastructure both now and in the future, including streamlined regulatory approval and options for market-based rates for new storage in the United States, should be continued.

With natural gas one-fourth the price of oil, "it is further welcome news to consumers that, with the right policies, U.S. natural gas appears poised to enter into an era of greater price stability," said Paula Gant, senior vice president for policy and planning of the American Gas Association.

Task force members represent gas producers and distributors, consumer groups and large industrial users, as well as independent experts, state regulatory commissions and environmental groups.

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