Oklahoma provides model for other states with new fuel rules for electricity generation

A group backed by the natural gas industry has pointed to new Oklahoma rules as a model for other states in long-term fuel contracts for electricity generation.

By Paul Monies | Published: June 29, 2012 1

New Oklahoma rules allowing long-term natural gas contracts for electricity generation have the potential to lock in millions in benefits for ratepayers while gas prices are low.

That's according to a report this week by the industry-backed American Clean Skies Foundation. The group urged state regulators across the country to follow the lead of those in Oklahoma and Colorado in allowing long-term fuel contracts for natural gas.

In May, Oklahoma Gov. Mary Fallin approved an update to Corporation Commission rules that gives utilities greater flexibility to enter into long-term fuel contracts. The rules were backed by natural gas producers such as Devon Energy Corp. and Chesapeake Energy Corp.

No Oklahoma utility has entered into long-term fuel contracts for natural gas under the new rules. Public Service Co. of Oklahoma is studying its options. The Tulsa-based utility has more than 520,000 customers in eastern and southwestern Oklahoma.

“The rules are helpful,” said Alan Decker, PSO's director of regulatory services. “They're going to allow us to have a little more flexibility in how we put together fuel purchases and our fuel portfolio. We haven't fully sorted it out at this time.”

Decker said pending Environmental Protection Agency rules will affect how the utility operates its plants, which would then in turn affect future fuel choices and fuel contracts.

Natural gas, coal even

For the first time, natural gas and coal had the same share of electricity generation in April, the federal Energy Information Agency said Wednesday. Both fuels were at 32 percent as coal use declined and natural gas use rose for the month. It was the first time natural gas matched coal since the agency began collecting data on fuel use for electricity generation in 1973.

Environmental concerns and new federal emissions rules for power plants are expected to make it harder — and more expensive — for utilities to justify increased coal use for electricity generation. In April, PSO said it would phase out its last two coal-fired units at the Northeastern plant near Oologah.

The American Clean Skies Foundation report said states should allow regulated utilities to enter into long-term fuel contracts for natural gas, with hedging to smooth out the fluctuations. It said suppliers and generators could agree to a fixed price for part of the fuel, with the balance priced at market rates. The report's authors said work still needs to be done to help capture savings for ratepayers while natural gas prices remain low.

“Unless key changes to commercial and regulatory frameworks are established at the state level, longer-term, large-scale fuel shifts by existing power plants and commitments to new gas-fired capacity are at risk,” the report stated.

Gregory Staple, the foundation's CEO, said the long-term contracts can help reduce risk for gas suppliers, electricity generators and customers.

“The once-in-a decade opportunity we see for electricity generators to secure affordable gas over the mid- to longer-term is similar to the historic opportunity that homeowners and businesses now have to refinance mortgages at today's record-low interest rates,” Staple said in a statement.

Utility customers have long benefited from low coal prices, which can be locked in with long-term contracts between three and 10 years. In public filings on the Oklahoma fuel rule earlier this year, a group of coal producers warned regulators against favoring one type of fuel over another. The group, American Coalition for Clean Coal Electricity, said tilting the fuel procurement process to a specific fuel could unnecessarily burden residents and businesses.

Oklahoma's rules keep competitive bidding for fuel contracts and don't favor one type of fuel over another. Fuel contracts will no longer require pre-approval by the commission, which sometimes led to procedural delays. The commission retained the power to review long-term fuel contracts to make sure they are in the best interests of consumers.