



## The word is slowly spreading that we have have a problem

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Well I'm still zipping around the country and so will be a bit disorganized for a while longer, but having taken a few days off it was interesting to find that the [local paper](#) at our Thanksgiving destination (Santa Barbara/Goleta) was starting a short series on alternate energy sources.

Given the location, they had an interesting cost evaluation of the investment required to provide power to a normal house. Unfortunately, still being on travel, that bit of paper got left, and the site requires registration, so you are left with my poor memory, but I seem to recall that they quoted a final cost of around \$14,000 after tax incentives etc, to have your domestic power come from solar panels. They do, however, have just a tad more sun than many of us. The current level of takers in that community seemed to be around 15 a month.

In a quick scan of news elsewhere I see that [India](#) is recognizing their approaching peak production, and the need to find new sources, whether domestic or through pipelines from further north.

Addressing a session on energy at the India Economic Summit 2005, the Minister said domestic requirement was putting a heavy demand on Oil and Natural Gas Corporation (ONGC), which continues to be the dominant player in this field. "ONGC has done a good job in maintaining plateau production from the ageing fields so far. But there is apprehension of a steep decline in oil and gas production from these fields in next few years so we must get into finding new fields," he said.

But apart from the ability to find these reserves, one must also have the price incentive to do it. This is currently a topic of discussion in [China](#) where there is some concern about natural gas prices crimping production.

Tang Yali, vice-president of the Natural Gas & Pipeline Company under PetroChina. He spoke to China Daily on the sidelines of the China Gas Summit 2005 in Beijing.

"We now make little profit in the natural gas sector as a result of government-regulated low prices, far behind world levels," said Tang.

Wang Gongli, president of PetroChina's Planning and Engineering Institute, told the summit that the wholesale gas price in the United States was around 5.5 US cents per cubic feet last year, while in China it was less than 0.028 yuan (0.35 US cents) per cubic feet.

"Like gasoline and diesel, we now use higher profits in the upstream crude oil business to offset squeezed profit margins in the natural gas sector," Tang said.

"We have been talking with government bodies including the National Development and Reform Commission to increase gas prices and better streamline the energy pricing system," he said.

Domestic rival Sinopec yesterday made a similar complaint about the rigid price-setting mechanism, which does not fit in with a true market economy.

For ourselves, the MSM seem to be catching on that there may be a problem with natural gas this winter. The [CSM](#) quotes the Interstate Natural Gas Association of America (INGAA). Their conclusion

From Maine to Florida, from Virginia to Missouri, as much as half the United States confronts the possibility that harshly cold weather will lead to restrictions of natural-gas supplies. In some places - areas heavily dependent on natural gas to produce electricity - the prospect of "rolling blackouts," or controlled power outages, is much higher than in previous winters.

The odds quoted, given a harder winter, are 30% for the North East and 10% for slightly west (to Missouri) and South (to Florida). (They could get worse). The problem is most critical to the NorthEast since

Overall, 23 percent of America's electricity-generating capacity is fueled by natural gas. In New England, however, fully 40 percent of electricity is drawn from natural-gas-fired power plants, up from just 17 percent in 1999. At least 22 natural-gas-fired plants, with a collective 10,000 megawatts of generating capacity, have been built in the region since the late 1990s - a shift that, at the time, seemed good for business and for the environment (because natural gas burns cleaner than alternatives).

And unfortunately while some power generation comes from dual-fuel generators, this is not so much the case in NE.

And if we think it is bad here, just consider the case of the UK, where all of a sudden those arguing for a free market economy, might want to consider the current situation in [Europe](#).

There is no free, deregulated energy market on mainland Europe. The old monolithic utilities -- Gaz de France, Distrigaz of Belgium, Ruhrgas and the Dutch Gasunie -- thrive and some have expanded abroad. But the door to their domestic markets are shut. While British manufacturers wail at a quadrupling of the spot price of gas since the beginning of November, their continental counterparts are benefiting from prices at between one-third and half of the going rate in Britain.

Centrica, the company that inherited the British Gas retail brand, is short of fuel and wants to buy cheap wholesale gas from Russia, but it cannot access German pipelines to get the gas to Britain. The U.K. Energy Minister is on the stump complaining about the EU's failure to create a competitive energy market with open borders. The European Commission huffs and puffs and issues reports but the big European utilities just shrug.

I suspect that by the time that this winter is over, given the predictions that it may be a bit harder than some in the recent past, that there will be more than the odd series in local papers exploring the issues.

The problem however, as we constantly note, is one of time. It is all very well to write about solar panels, but if you can't get them for over a year, what do you do in February or July? And if anyone thinks we can expect a new nuclear power station in the United States within the next decade . . . . On the other hand, this may mean the return of the coal miner to the [UK](#)

In regard to comments elsewhere about the free market and its impact on price, I will mischievously end with another comment from the [Telegraph](#)

As everyone knows, we British love to talk about the weather. By contrast, we find economics boring, and science more so - to the extent that almost no one can be found to teach physics in our schools these days. Happily, this is a story in which the weather plays a key role.

It all began with the prediction that this might be a colder-than-average winter. Now, do not ask me why anyone believed this. Weather forecasts beyond a 24-hour time horizon are subject to very high margins of error. Never mind. It was enough to get them singing White Christmas in the City of London and before you could say "Bing Crosby" the price of natural gas leapt from 30 pence a therm to above 150 pence a therm.

This is what free markets often do: overshoot.

Sadly, by February we may no longer find this as amusing.

Incidentally my other reading on vacation was "[The New Great Game - Blood and Oil in Central Asia](#)" dealing with the problems of working with the local governance as some of the last potential great fields are found and exploitation is planned. While I will write on that more later, it was interesting to note that at the end of the book Lutz Kleveman indicates the progressive interest of Russia in reclaiming power over the region. And then one reads about the current development of a new field in Siberia at [Sibir](#) and some of the machinations there, and one does begin to wonder.



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