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Texas pipelines ensure delivery of affordable, reliable natural gas

Thure Cannon, Texas Pipeline Association

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This is a portion of the new 42-inch natural gas pipeline being installed near Alpine, Texas. This portion of the pipeline is just north of Alpine. The pipeline starts at the town of Coyanosa and will extend 148 miles just 12 miles upriver from Presideo, Texas.

The network of pipelines underground that deliver the essential oil and natural gas to our homes and businesses operate based on a free-market system designed to ensure an affordable abundant supply of energy.

Texas natural gas is traded daily at 120 North American market hubs. Physical deliveries are negotiated in one of three ways:

- Daily physical spot market (bought and sold for next-day delivery);
- Monthly spot market (sold on contracts for the upcoming month); and
- Long-term contracts.

Prices are set by market forces. Neither the Railroad Commission of Texas (RRC), the state of Texas nor any state or federal agency has the power to regulate the natural gas market. It is a commodity and commodity prices are inherently volatile. In periods of short supply and extreme demand, prices can spike dramatically.

This is exactly what happened during Winter Storm Uri: demand far exceeded supply.

Electric generators operating on natural gas for a fuel source had to compete in the daily physical spot market for gas – unless they had negotiated firm, long-term contracts.

To avoid volatility, generators need to be incentivized to enter into firm monthly spot market and long-term contracts for the purchase and transportation of natural gas. Firm contracts benefit both parties, guaranteeing shippers pipeline capacity, and pipelines predictable revenues through reservation charges.

Texas has significant storage capacity and, in fact, only one third is being used.

Reliability, however, requires securing both firm supply *and* firm transportation. If supply is there, pipeline companies can and do ensure delivery during periods of extreme demand, as demonstrated during Uri.

It's also vital to understand the difference between interstate and intrastate pipelines.

Interstate pipelines do not sell gas to consumers but only transport. Texas pipelines do both, with state protections for human needs customers, giving them the highest priority for gas supplies in an emergency.

The Federal Energy Regulatory Commission (FERC) determines if new interstate pipelines can be constructed, their location and the maximum rate of transportation based on cost-of-service. New pipelines can only be built after these three issues are resolved, often taking years and thus restricting access to abundant natural gas.

The Texas intrastate market, on the other hand, is an independent competitive market that allows pipelines when and where there is sufficient market demand. Pipelines can be built in a timely manner to meet ever-increasing demand, with transportation rates negotiated between shippers and pipeline companies.

It is often overlooked that these are negotiations between very sophisticated parties, with market and legal professionals specifically employed for these purposes. If shippers believe the proposed rate is discriminatory or unreasonable, they can request the RRC review it. The RRC can then set a new rate set on a forward-looking basis. Contracts that have already been executed, however, cannot be retroactively modified.

This is a well-established and fundamental legal principle in all commercial dealings.

Texas legislators have worked diligently to keep energy prices low and supplies abundant in a state that is growing by more than 1,000 people daily. With newly adopted legislation, as well as continuing market redesign discussions, generators will have more tools to negotiate long-term contracts and Texas will continue to be a leader in the energy industry.

Thure Cannon is the president of the Texas Pipeline Association

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