

Capacity Center Releases Post Order 712 Capacity Trading Stats
Capacity Trading up to 10 Times Max Rate under new Order 712 Rules

By, Greg Lander, President, CapacityCenter.com

FERC Order 712 took effect August 1, 2008. Among other things, Order 712 lifted the rate cap on firm capacity trades between shippers.

“We believe the markets are just beginning to feel the impact on secondary capacity market values that Order 712 will bring. In the normally quiet month of August, the ruling has already generated an additional \$5.7 Million in above max rate payments,” says Greg Lander, President of Capacity Center.

There have been 1,864 Capacity Trades in the first 36 days that the Order 712 rules have applied. Of these 1,864 trades, there were 61 trades where the releasing Shipper (seller) realized a price that exceeded the pipeline’s max rate for the capacity traded.

Above Max Rate Deals Comprise 3% of Deals, 12% of Market Quantity and Nearly 21% of Total Market Value

The capacity traded in the first 36 days under the new rules totaled 678 Bcf and 11.2 Bcf per day. Of the 11.2 Bcf/d, above max rate deals comprised nearly 1.4 Bcf/d (12%) and 79.1 Bcf of capacity in total. The 79.1 Bcf also comprised 12% of total capacity traded while the number of above max rate deals comprised 3% of the total number of deals consummated.

Analysis performed by Capacity Center indicates that the total value of all deals traded in the 36 days was \$78 Million. Above Max rate deals accounted for \$16.1 Million of the total value traded (20.8%). Sellers realized a gain of \$5.7 Million dollars over max rates on those transactions. The average amount over max rate was 156%, with some transactions on NWPL having traded at 10 times max rate.

Retail Aggregator Deals Comprise 55% of Market Quantity and 70% of Market Value

Retail Aggregator program related releases represented 1,104 of the 1,864 trades, representing 55% of total transacted capacity. In addition, the Retail Program trades represented 70% (\$54.3 Million) of the total value transacted (\$78 Million).

With few exceptions, retail program related capacity trades are transacted at max rates due to state regulated programs which specify that the capacity be transacted at max rates. It will be interesting to follow whether retailers are able to capitalize on reselling the capacity they do not need to meet their demands in some Northeastern and Southeastern markets for above max rates.

Non Retail Aggregator Deals Comprise 33% of Market Quantity and only 9.6% of the Total Market Value

Excluding the Retail aggregator program capacity trades and the above max rate trades, the remaining open market trades totaled 222 Bcf and 3.6 Bcf/d during the 36 day period measured. As a percentage of Max rate, this remaining 33% of the traded market completed deals, on average, at 16.7% of max rate. This resulted in a total market value of only 9.6% of all capacity traded.

Shift in Trends

With FERC clamping down on non-biddable roll-over deals and the implementation of Order 712, there is a marked shift in capacity trading trends. Capacity Center is experiencing this shift as more and different types of shippers are making greater use of the Offer Bulletin (capacity deal alerts) service to hunt for deals in the open capacity markets.

In addition, the new rules in capacity trading markets have some market participants expecting the capacity relationship to the financial basis markets to finally reach a predictable and tradable correlation. To date there have been a number of Nov-Mar and twelve month-strip deals above max rates that are showing evidence of the physical capacity market converging with the financial basis market.

Capacity Center is undertaking a study to quantify the current and expected correlation of these two markets.

Capacity Trading Market Estimated to grow to over \$1 Billion Annually

Annualizing the deal flow in the first 36 days and the impact Order 712 is already making indicates that the market has already grown at an annual rate of \$200 Million to a total of \$800 Million in total capacity trading.

Expectations are that this will increase by approximately another \$200 Million annually, to over \$1 Billion, as more companies implement Order 712 strategies, as weather gets cooler, and as the effect of market-area capacity constraints make their way into the capacity trading market.

Before Order 712, once the market price of capacity in a supply or market area reached max rates that market would go “dark”, meaning that normal trading stopped and any deals done moved to the “gray-market” to effectively achieve a higher than max rate price. With Order 712, this should no longer happen and the market will grow as a result.

Above Max Rate Active Markets

Currently the main market where capacity is trading above max rates entails the Rockies to the northwest and Rockies to the east. This is due to excess supply in relationship to available pipeline capacity. To date, winter conditions where values may trade above max rate due to demand in market zones exceeding pipeline capacity has not, as yet, fully impacted above max rate deal values. Additional markets where capacity is trading above max rates are: Canadian to Chicago and the east, San Juan to California, Gulf Coast to Leidy (Market Area Storage), and Gulf Coast to Transco Zone 6 both NY and non-NY.

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About CapacityCenter.com

CapacityCenter.com operates the only 24/7/365 natural gas interstate pipeline data center covering all the US pipelines. Its automated services monitor capacity release offers, system notices and deal awards information and streams transaction details as they occur to its customers via email. The company also has the only historical database of all capacity transactions for use by its customers for analysis and custom reports. Capacity Center is owned and operated by Skipping Stone.

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