

Natural Gas Interchangeability

A bi-directional view from Tractebel

Tractebel North America is a unit of Tractebel Electricity and Gas International based in Brussels, Belgium. In addition to other energy interests in the U.S., Mexico and Canada, Tractebel owns and/or operates 59 power, cogeneration, steam and chilled water facilities representing a capacity of more than 5,700 MW of electricity generation. A vast majority of this generation is gas-fired. One of our subsidiaries, Tractebel LNG North America, owns and operates an LNG receiving terminal in Everett, Massachusetts. Everett commenced operation in 1971 and currently serves approximately 20% of New England's annual gas demand. Tractebel also has LNG receiving terminals under development in the Bahamas and Mexico. Tractebel Electricity & Gas International, the parent company of Tractebel, owns over 50,000 MW worldwide, and also owns an LNG regasification facility in Zeebrugge, Belgium, which has been in operation since 1987. Tractebel also owns an interest in Atlantic LNG in Trinidad.

From the introduction, you can see that Tractebel is one of the few participants that have an interest on both sides of this issue, as an end-user and a supplier. As you can imagine, we have differing views internally, but what we all can agree on is the need for a fair and level playing field that will lead to some level of regional gas quality standardization. As an industry participant with an understanding of both sides of the spectrum, we appreciate opportunities to share our views and assist in the LNG learning curve. We also hope that FERC and DOE continue to look to Tractebel for its views and participation.

I will first address a couple of issues regarding gas interchangeability for generation. Gas is a major and growing fuel source for generation due to its low emissions. From a fuel supply standpoint – price and availability are Tractebel's biggest concerns. Certainly gas quality is important, but most power plant infrastructure is built with some level of separation and scrubbing to address these aberrations. The introduction of LNG sourced gas supply into the supply mix does not really concern us. LNG sourced gas does not contain the heavy hydrocarbons like the high Btu gas coming from some domestic sourced gas. These liquids are stripped out when the gas is liquefied. While a higher Btu content is not necessarily a concern, a wide-ranging and unstable Btu content is.

Today's efficient turbine and environmental controls technology is especially sensitive. In the future, turbine manufacturers, who are not already doing so, need to design and engineer future technology for a more variable and wider range of gas specification. We might suggest that this could apply to all manufacturers of gas-fired equipment, even at the residential level as we push the efficiency and environmental limitations.

We also want to impress upon the turbine manufacturers that the gas quality specifications they publish have a direct impact on what some pipelines are trying to impose in their quality specs (especially for LNG sourced supplies). Therefore, it is imperative that manufacturers make sure that each element of their specs is necessary and achievable. I can actually give you an example of specs imposed on one of our facilities by a manufacturer where none of the intrastate pipeline tariffs could meet these specs.

With respect to LNG –we have heard loud and clear that LNG is necessary, and is coming in a big way. Some estimates show up to 20% of U.S. gas supply needs being met by LNG in the next 20 years. We have also heard the forecasts for a 30 Tcf U.S. market. However, we seem to be producing roadblocks at a much quicker pace than we are supply options to meet this market growth opportunity. We’ve observed in the past how the gas industry can be its own worst enemy and has stymied growth. If the gas industry is serious about this market growth, then we need to recognize the limits and constraints on our domestic production, and proactively seek solutions to issues involving new supply sources.

A major issue relative to LNG sourced gas is the Btu content. I discussed earlier how Btu can affect generation. There are obviously concerns and issues regarding high Btu in other applications. The industry needs to get its arms around this issue, and determine how real of a concern this is. Further research and analysis should continue on an expedited basis, in order to validate the necessary quality parameters. If necessary, processing facilities are available to resolve the problem, but they are very expensive. We could probably debate for weeks as to who should pay for these costs. However, regardless of who actually pays the upfront capital costs, the market will eventually foot the bill. Additionally, we have a choice to make very soon. Do we continue to constrain LNG supply sources, or move to open our markets to a broader range of available supply?

Finally, a comment with regard to pipeline tariffs and receipt of LNG sourced gas. LNG sourced gas should not be singled out; and it should not be required to meet a higher quality standard than domestically sourced gas. And certainly, LNG sourced gas should not be required to simply meet a safe harbor quality standard without appropriate due process. Pipelines should be required to amend the quality provisions of their tariffs through proper regulatory channels, with full and open participation of all interested parties.

In summary, the U.S. needs LNG sourced gas supplies. Interested participants need to work together to find common ground on what works, and pursue cost effective solutions for what doesn’t. We must also make sure that quality standards in tariffs are supportable and not arbitrarily developed.