NW power group: Gas glut to cut electricity prices

JOHN MILLER - Associated Press - Associated Press

The council that helps ensure Idaho, Montana, Oregon and Washington have affordable electricity now expects a glut of natural gas supplies to last for years, potentially reducing costs for residential and business customers but also creating challenges for developers of alternative energy.

Staff at the Northwest Power and Conservation Council on Wednesday suggested changes to its fuel price forecasts, citing a "fundamental shift" in expectations. They now see natural gas prices falling as new technologies help tap the resource from deep within shale formations such as those in Pennsylvania or Wyoming.

The council hasn't formally adopted the proposed changes, but if they're right, natural gas customers would benefit directly, much as they currently are from falling prices.

For instance, Intermountain Gas Co., with 315,000 customers in southern Idaho, on Thursday said it would cut its prices starting in October by $14.4 million.

But customers of electricity utilities that produce a healthy share of their power from natural gas-fired plants, like Idaho Power Co.'s 300-megawatt Langley Gulch facility to be completed next year, could also see long-term relief.

"The wholesale prices for electricity should be impacted by this lower natural gas price," Massoud Jourabchi, the Northwest Power and Conservation Council's manager of economic analysis, told The Associated Press on Thursday. "That, in turn, will have an impact on customer retail rates. How much, it really depends on the particulars of the utility."

What has changed to make the four-state power council increasingly bullish on natural gas supplies? Companies are getting better at sucking natural gas from deep beneath the earth's surface, doing it more cheaply than ever before.

Intermountain Gas general manager Frank Morehouse in Boise noted that companies are even drilling in Idaho, despite the state's history as a natural-gas dead zone.

"The rapid development of shale gas has created a glut of natural gas that is likely to last for several years and depress prices," according to the northwest council's updated forecast. "The likely effect of the revised fuel price forecast on a revised power plan would be to reduce the forecast of electricity prices."

The council's Jourabchi cautioned against too-optimistic expectations: Many other factors go into electricity rates, such as weather, legislative action, environmental regulations, even the economy.

For instance, if the U.S. were to enter a prolonged economic malaise, it's possible some people could see electricity rates actually rise to offset a shrinking customer base.

"We always say, 'Your mileage may vary,'" Jourabchi said from his Portland, Ore., offices. "There's a whole slew of issues that come in ... because the customer rates are not wholly dependent on natural gas prices."

A potential side-effect of rising natural gas supplies and falling prices could be that some renewable energy projects like wind and solar may become less lucrative. That's because the prices investor-owned utilities pay for renewable energy in some states moves with the price of natural gas.

Take Idaho, for instance.

The last time the Northwest Power and Conservation Council reduced price forecasts for natural gas, for instance, Idaho regulators in 2010 slashed rates that regulated utilities must pay small renewables producers. Wind turbine developers rushed to persuade the state's Public Utilities Commission to grandfather them in under the old, more lucrative rate.

"Some were successful, some were not, depending on the maturity of their projects," said Gene Fadness, a spokesman for the regulator.

Oregon also uses natural gas to set rates for small, renewable power developers.

"If the forecasts are accurate and we are in for a period of lower natural gas prices, then the incentive rates paid by electric utilities for small renewable and co-generation facilities are likely to be lower," said Maury Galbraith, manager of the Oregon Public Utility Commission's electric rates and planning section. "The economics of developing those facilities will be more challenging."

Idaho Power Co., the state's biggest utility, puts costs of building solar plants at $150 per megawatt hour, compared with $109 for a gas plant like the one being built at Langley Gulch in southern Idaho.

Though costs for solar plants continue to fall, Mark Stokes, Idaho Power's power supply planning manager, said this reality persists: As natural gas prices drop, so, too, does the attractiveness of pricier new technologies.

"If the rate drops at all, it's going to impact the economics of any project," Stokes said. "Each one has to be looked at individually."

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