



Aliso Canyon NatGas Storage Outage Looms Over FERC Summer Market Update

David Bradley May 19, 2016

Electric capacity nationwide will be sufficient to meet forecast demand, according to a FERC report released Thursday, but the outage at Southern California Gas Co.'s (SoCalGas) Aliso Canyon gas storage facility poses risks in California.

"Market conditions going into this summer continue to reflect the impact of low natural gas prices that have resulted from robust production and near record levels of natural gas in storage," according to the Summer 2016 Energy Market and Reliability Assessment issued Thursday by the Federal Energy Regulatory Commission's offices of Electric Reliability and Enforcement. "Moreover, despite modest load growth, regional electric system reserve margins are forecast to be adequate.

"However, despite an optimistic national outlook, the recent events at the Aliso Canyon natural gas storage facility in California present an area of particular concern. The loss of this resource may pose a risk to local electric reliability and has the potential to result in elevated energy prices."

Depressed natural gas prices will continue to exert pressure on power generators to abandon coal, according to the report.

"As coal plants continue to retire and natural gas plants remain price competitive, we expect natural gas-fired generation to remain robust. Natural gas-fired generation has surpassed coal plant output since July 2015 and EIA [the Energy Information Administration] projects this will continue through 2016. Coal and gas futures prices support this view, and power burn could reach 34.5 Bcf/d in July, 3% higher than last summer's peak...

"Basis swaps futures for the New York City and Mid-Atlantic markets fell 32 cents on average from last summer, indicating those markets expect to be well supplied with Marcellus gas this summer. The Boston area basis swap is 60 cents higher than last summer, suggesting expectations for greater congestion due to above-normal temperatures and a reduction in capacity along the Algonquin pipeline because of planned maintenance to tie in the Algonquin Incremental Market expansion project this summer. The Southern California basis swap is flat from last summer, signaling the Aliso Canyon storage field outage may not have a large effect on natural gas prices at the border this summer. Finally, basis swap futures in Northern California are down 17 cents from last summer, a product of cheap natural gas deliveries from the Rockies and Western Canada."

And natural gas inventories, which grew to 2,754 Bcf in the week ended May 13 (see [related story](#)), will likely approach last year's record at the end of the injection season, FERC said.

According to the California Independent System Operator (CAISO), summer power supplies should be adequate even after the closure of Aliso, the state's largest natural gas storage facility (see [related story](#)). Natural gas supplies in the Los Angeles Basin are facing potential curtailments, but peak electricity supplies for the rest of the state are adequate, CAISO told FERC.

An assessment completed last month predicted as many as 14 rolling blackouts in the Los Angeles Basin and surrounding areas due to the closure of Southern California Gas Co.'s Aliso Canyon gas storage facility following a prolonged leak (see *Daily GPI*, [May 12](#)).

"Obviously, one of the lessons learned was that we had an over-reliance on Aliso Canyon," said Robert Weisenmiller, of the California Energy Commission, who testified at FERC Thursday along with representatives from CAISO, SoCalGas, Southern California Edison, and the Los Angeles Department of Water and Power.

The National Oceanic and Atmospheric Administration has said it expects above-average temperatures for much of the West, the northern tier of the country and much of the East through at least July (see *Daily GPI*, [April 21](#)). MDA Weather Services recently said that it believes a transition from a Pacific El Nino to a La Nina event could lead to hotter-than-normal summer weather (see *Daily GPI*, [April 7](#)).

Some of the information in FERC's report came from the North American Electric Reliability Corp.'s 2016 Summer Reliability Assessment, which hasn't been released yet and is still subject to change, FERC said.