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US deep freeze healthy for oil, coal

Some plants' usage hits three-year high

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NEW YORK: The arctic blast that's turning the northern half of the US into a giant icebox has been good news for oil and coal.

Plants were using the most fuel oil in three years last Thursday to produce the electricity that's powering heaters across New England. In the PJM market, which stretches from Illinois to Washington, DC, coal has once again surged past natural gas to become the biggest fuel for power generation. Oil demand there jumped sixfold.

It marks a rare, albeit temporary, reversal of a broader transformation taking place in America's power mix: The US shale boom has unleashed record volumes of cheap natural gas, turning that fuel into the country's biggest source of power generation. But this week's deep freeze triggered gas price spikes across the eastern US, and generators are taking advantage of the rally to burn cheaper oil and coal.

"Most likely gas prices are too high," said Tai Liu, an analyst at Bloomberg New Energy Finance. At \$18 per million British thermal units for natural gas, he said, "I'd rather run my coal units if I can choose between the two."

At one hub in New England, spot gas more than tripled earlier this week to over \$35 per Btu, data compiled by Bloomberg show. Last Thursday, gas futures traded on the New York Mercantile Exchange staged their biggest rally in two months.

The increased coal use could add weight to the Trump administration's push for bigger payments to coal and nuclear power generators. US Energy Secretary Rick Perry has been calling for them to be compensated more for the "resilience" they offer the power grid during extreme weather events — like the polar vortex that tripped plants offline in early 2014.

As of Thursday afternoon, utilities and grid managers including PJM, the South-west Power Pool and New England's system operator had reported none of the gas pipeline freeze-ups that plagued plants during the vortex. Coal stocks also froze in 2014.

One of the nation's biggest coal generators, American Electric Power Co, said it had seen no curtailments due to the weather affecting supplies.

The stakes are higher this year as PJM imposed rules that penalise generators

who fail to deliver supplies that they're contracted for. Several generators invested in dual-fuel capabilities at plants after the vortex.

The National Weather Service is warning that "dangerously cold" temperatures

and strong winds will continue to chill the Northern and Central Plains, Great Lakes and Northeast into the weekend. Wintry weather is also coming to the Pacific Northwest and Northern Rockies, where heavy mountain snow will make for more

difficult travel.

Temperatures in Boston are forecast to drop to 1 degree Fahrenheit (-17 Celsius) on Dec 31, 23 degrees below average, according to AccuWeather. New York City will see a low of 9 degrees Fahrenheit that day.

President Donald Trump advised those living in the US East to "bundle up," warning that the region could see the coldest New Year's Eve on record.

Trump, who decided earlier this year to pull the US out of the international Paris climate agreement, also said: "Perhaps we could use a little bit of that good old Global Warming that our Country, but not other countries, was going to pay trillions of dollars to protect against."

Temperatures meanwhile aren't forecast to reach the same lows seen during the polar vortex, but this latest chill stands to deliver a similar — if not larger — boost in heating demand.

"The forecast is shy of the coldest temperatures observed from that season," Bradley Harvey, a meteorologist at Radiant Solutions, said in an interview. "But this event is longer lasting."

Power at PJM's Western hub more than doubled on Thursday to average \$223.23 a megawatt-hour in the hour ended 11am local time, the highest since February 2015, according to Genscape data compiled by Bloomberg.

Late December to early January is set to yield the most gas-weighted heating degree days — a long-standing gauge for heating demand — since 1950, according to Radiant Solutions. The count will probably top those of the polar vortex, the firm said.

The chill, however, won't last forever. The weather is forecast to warm up early next year. And coal and oil could lose their leg up even sooner.

"We are still flushing out the market," John Borruso, director of natural gas trading at Con-Edison Energy in Valhalla, New York, said Thursday.

"Because of these cold temperatures, we are going to see some of these units step back in; I think we are going to see some gas units dispatch tomorrow." BLOOMBERG



People pose for photographs in front of a frozen water fountain at Bryant Park, Dec 28, in New York. A large swath of northern New York is encased in ice and snow. AP