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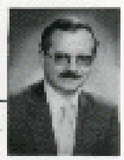
"We Know Real Estate."

From Energy Savers

The true story behind transportation gas

By James S. Behr

Guest Contributor



Property Owners and Managers transporting natural gas have learned a great deal about this phenomenon, particularly over the past heating season.

Their vocabularies now include new words like interruption, curtailment and penalty. They also know that transporting gas saves money in large quantities. However, nothing in life is free, and some hassles accompany the savings.

Transportation of natural gas or self-help gas is a direct result of deregulation. Specifically, all gas utilities must allow transportation of natural gas within the provisions set by each utility in conjunction with the PUC. The specific provisions, particularly transportation rates, set by the utility, dictate whether savings are worth the effort.

Pittsburgh is a highly competitive market served by three competing gas utilities. Each utility will readily recommend transporting gas as a method of retaining a commercial customer. In many instances a utility will negotiate their transportation rates, when competition exists, making transportation even more attractive. The advantages of transporting, reduced operating costs, most often overshadow the less obvious problems.

Transportation is basically a complex process of moving natural gas from the wellhead to a particular facility utilizing a network of existing pipe lines. The process can involve one or several interstate and/or intrastate pipelines. Each pipeline offers different levels of service, interruptible or firm and each retains a portion of the gas shrinkage to compensate for the line losses. Once the gas is delivered to the transporting utilities "city gate" additional transportation costs and shrinkage are incurred plus interruptible or firm service must be chosen in addition to selecting standby service.

In addition to the mechanics of transporting, a gas supplier must be selected. Most brokers do not own any gas, they first acquire customers then find a supplier to meet the needs of a group of customers. This low cost gas is generally produced in or around the Gulf Of Mexico. The customer has no knowledge of where the gas originated and in most cases this service is subject to interruptions. The broker generally will not explain the problems of moving gas over long distances nor the possibility of the gas being curtailed during the final interruption. When questioned about transporting over long distances the response is generally "we have never had an interruption" or "the local utility wouldn't dare shut off your gas". More recently some brokers claim to offer a blend of local Appalachian Basin production with Southwestern production.

Owners and Managers of commercial real estate provide "basic human services" and are at risk if supplies are interrupted.

Eliminating this is a possibility by purchasing natural gas produced locally within the Appalachian Basin.

The producer owns his gas and has generally contracted with the connecting interstate pipeline for firm service to insure his gas moves from the well. More importantly local production is not subject to the problems associated with moving gas over long distances.

Local production cannot be interrupted due to shortages 1,500 miles away. These local producers will also supply "city gate" pricing, thereby eliminating the need for a third pipeline. In most cases standby service can be reduced or eliminated using local production.

Transporting gas also involves nominating (ordering) gas on a monthly basis, usually 60 days in advance. This process requires an in depth knowledge of the facilities' [illegible] as well as possible.

Basically the local utility will not permit you to use their facilities for borrowing or storing gas. Exceeding the utilities limits will result in additional costs.

This process is best performed by someone off site who knows the score. Nominating services may involve additional costs, however this is money well spent.

The single largest mistake a manager can make is to solicit competitive bids for transportation gas.

Unless you have many years experience in purchasing gas commercially, evaluating the various proposals will be next to impossible.

Managers who go this route almost always buy on price and then regret their decision when the inevitable problems occur.

Transportation gas is an effective way of reducing operating costs. However, it does require some knowledge of how the system works.

Because the process is relatively new to commercial real estate and few owners or managers have in depth knowledge of the process. Ask questions, know the rules and don't be intimidated by a lack of knowledge. Ask until you're satisfied there are no more questions.

Transporting natural gas is full of pitfalls and changes almost continually. Don't stop asking questions. Savings of 10 to 40% make it well worth the effort.

J.S. Behr, Jr. is president and general manager of Energy Savers, Inc., a Pittsburgh consulting firm specializing in building automation systems and transportation gas services.

Transportation Gas The True Story

By: James R. Behr

Property Owners and Managers transporting natural gas have learned a great deal about this phenomenon, particularly over the past heating season. Their vocabularies now include new words like interruption, curtailment and penalty. They also know that transporting gas saves money in large quantities. However, nothing in life is free, and some hassles accompany the savings.

Transportation of natural gas or self-help gas is a direct result of deregulation. Specifically, all gas utilities must allow transportation of natural gas within the provisions set by each utility in conjunction with the PUC. The specific provisions, particularly transportation rates, set by the utility, dictate whether savings are worth the effort.

Pittsburgh is a highly competitive market served by three competing gas utilities. Each utility will readily recommend transporting gas as a method of retaining a commercial customer. In many instances a utility will negotiate their transportation rates, when competition exists, making transportation even more attractive. The advantages of transporting, reduced operating costs, most often overshadow the less obvious problems.

Know The Facts

Transportation is basically a complex process of moving natural gas from the well-head to a particular facility utilizing a network of existing pipe lines. The process can involve one or several interstate and/or intrastate pipelines. Each pipeline offers different levels of service, interruptible or firm and each retains a portion of the gas, shrinkage, to compensate for their line losses. Once the gas is delivered to the transporting utilities "city gate" additional transportation costs and shrinkage are incurred plus interruptible or firm service must be chosen in addition to selecting standby service.

Quality Of Supply

In addition to the mechanics of transporting, a gas supplier must be selected. Most brokers do not own any gas, they first acquire customers then find a supplier to meet the needs of a group of customers. This low cost gas is generally produced in or around the Gulf Of Mexico. The customer has no knowledge of where the gas originates and in most cases the service subject to interruptions. The broker generally will not explain the problems of moving gas over long distances nor the possibly of the gas being curtailed during the heating season. When questioned about transporting over long distances the response is generally "we have never had an interruption" or "the local utility wouldn't dare shut off your gas". More recently, some brokers claim to offer a blend of local Appalachian Basin production with Southwestern production.

Play It Safe

Owners and Managers of commercial real estate provide "basic human services" and are at risk if supplies are interrupted. Eliminating this risk is possible by purchasing natural gas produced locally within the Appalachian Basin. The producer owns his gas and has generally contracted with the connecting interstate pipeline for firm service to insure his gas moves from the well. More importantly, local production is not subject to the problems associated with moving gas over long distances. Local production cannot be interrupted due to shortages 1,000 miles away. These local producers will also supply "city gate" pricing, thereby eliminating invoices from each pipeline. In most cases standby service can be reduced or eliminated using local production.

Transporting gas also involves nominating (ordering) gas on a monthly basis, usually 60 days in advance. This process requires an in depth knowledge of the utilities rate structures to avoid penalties. Basically, the local utility will not permit you to use their facilities for borrowing or storing gas. Exceeding the utilities limits will result in additional costs. This process is best performed by someone off site who knows the score. Nominating services may involve additional costs, however, it is money well spent.

Learn The Process

The single largest mistake a manager can make is to solicit competitive bids for transportation gas. Unless you have many years experience purchasing this commodity, evaluating the various proposals will be near impossible. Managers who go this route, almost always, buy on price and then regret their decision when the inevitable problems occur.

Transportation gas is an effective way of reducing operating costs, however, it does require some knowledge of how the system works. Remember the process is relatively new to commercial real estate and few owners or managers have an in depth knowledge of the process. Ask questions, know the risks, and don't be intimidated by a lack of knowledge. Ask until you're satisfied, there are no dumb questions!

Transporting natural gas is still in its infancy and changes happen almost daily, don't stop asking questions. Bottom line savings of 20 to 40% make it well worth the effort.

James R. Behr is vice president and general manager of Energy Savers, Inc., a Pittsburgh based company specializing in building automation systems and transportation gas services.