

US gas market lost balancing mechanism: Analyst



Extended volatility should be expected in the US natural gas market regardless of price levels as the ability to conduct fuel switching shrinks, according to a senior analyst at ConocoPhillips.

The ability to switch between natural gas to coal and vice-versa is an important way for markets to balance prices, ConocoPhillips' Matthew Henderson told the LDC Rockies & West Gas Forum today in Denver, Colorado.

But with the continuous retirement of coal-fired power plants, that flexibility has diminished, he said.

More than 100 coal-fired power plants were converted to or replaced by natural gas-fired plants in the US from 2011 through 2019, according to the US Energy Information Administration.

Coal plant retirements set to occur over the next several years will have a greater impact than the past decade of retirements, Henderson said, because "it's now eating into the core of the fleet".

Previously retired coal plants were either no longer in use, or had only minor capacity. But the baseload capacity for many grids is now being affected.

"If you're an analyst like me you're thinking this is a problem," he said. "Because we've lost our ability to balance in the market and that means that the [gas] price has to do more work to incentivize [reducing] demand."

Companies have [announced plans](#) to close 86,000MW of coal capacity from 2022-2030, at least in part due to the US Environmental Protection Agency's implementing rules that have forced shutdowns.

Renewable energy resources have helped to make up for the reduced capacity from coal, but their intermittency will mean more volatility for natural gas.

"When the sun doesn't shine and the wind doesn't blow, guess who's going to have to make up the difference?" Henderson said. "It's going to be natural gas."

Henderson also noted that the Russia-Ukraine conflict also raised volatility for US gas markets by increasing European demand for US LNG exports, an issue that was partially offset by the shuttering of the 2 Bcf/d (57mn m³/d) Freeport LNG terminal in June.

"The overall arching premise here is we're going to need a lot more energy," Henderson said. "It's going to take a little bit of everything to meet growing energy demand needs."

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