As gas prices jump, so does demand for marketers

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Despite sharply higher gas prices during the first quarter compared with a year earlier, the amount of gas sold by North America's largest marketers continued to grow, according to Platts' latest quarterly survey.

Some industry observers suggest that the price volatility itself may be prompting more companies to seek the services of experienced marketers.

"High prices are driving customers to us," said Fred Hunzeker, president of Tenaska Marketing Ventures. Whether they are producers facing larger credit exposures or end-users needing help financing the purchase of gas, marketers are gaining customers in the current commodity market.

"I would think that volatility tends to stimulate activity, certainly in the financial markets, but in the physical markets as well where customers need someone to provide physical transactions that are responsive to price changes," added Ben Schlesinger, president of consultancy Benjamin Schlesinger and Associates.

In the latest rankings, BP once again took the lead with 27.1 Bcf/d in North American sales for the first quarter. While a year-ago figure was unavailable, those sales are down somewhat from the 29.9 Bcf/d BP reported for the fourth quarter of 2007.

In second place, Shell Energy reported sales of 15.4 Bcf/d, up from 12.5 Bcf/d a year earlier. ConocoPhillips said it sold 13.5 Bcf/d, compared with 13.2 Bcf/d last year. In fourth place, Constellation Energy Commodities reported 12.6 Bcf/d in sales, a significant gain from 8.2 Bcf/d a year ago.

In fifth place, Chevron reported 8.5 Bcf/d of sales, up from 8.6 Bcf/d. Louis Dreyfus Energy Services was close behind with 8.4 Bcf/d, a significant gain from last year's 5 Bcf/d.

Sempra's trading unit reported 7.1 Bcf/d in sales for the first quarter, down from 9.1 Bcf/d a year earlier. At the close of the quarter, Sempra finalized its joint venture with a division of the Royal Bank of Scotland and is now known as RBS Sempra Commodities (*GD 2/27*). Including European volumes, the trading unit reported a total of 14.2 Bcf/d in physical sales for the most recent quarter.

Rounding out the top 10 for the first quarter are Nexen with 6.6 Bcf/d, up from 5.4 Bcf/d a year ago; Tenaska with 6.4 Bcf/d, up from 5.3 Bcf/d; and Lehman Brothers Commodity Services, which completed its purchase of Eagle Rock Energy Partners this past year, with sales of 4.6 Bcf/d.

It has now been a little over a year since AIG Financial Products purchased a 49% interest in TMV *(GD 3/16/07)*, and that partnership has paid off in the current commodity environment, the company noted. Gas sales have risen 1.1 Bcf/d just in the past year.

"A year ago we talked about how we were combining our physical presence in the marketplace and our great staff with … capital and balance sheet to expand our products and services to customers," TMV's Hunzeker said. "Now we are seeing the execution of that strategy." "On the producer end, higher prices are driving their credit exposures up, so they migrate to people with strong balance sheets, which is where we are with AIG — it's why we did the deal," Hunzeker said. "On the market side, higher prices are driving the need for hedging and in some cases for help in financing the purchase of gas inventories, and once again, the strong balance sheet and access to capital have allowed us to expand our business."

According to Hunzeker, "you would expect to see volumes shrink in a higher- priced environment as [companies] live within their credit means, but our volumes are marching upward."

In addition to higher prices, marketers are finding their services are needed to help customers cope with another trend: the growing demand for gas to produce electricity.

"The increasing use of gas for power generation calls for more contractual flexibility — for shorter-term deals, for storage and balancing," Schlesinger noted. "Even with the delay in carbon legislation, the investment community remains leery of the risks in building coal-fired power plants. Local objections to siting of those plants has prevented any new siting of coal-fired facilities. And that's going to mean additional gas demand."

"Those volumes are unpredictable and fluctuating," Hunzeker said of the power sector's gas needs. "People can trade large amounts of gas at pools, but that is a heck of a lot different than delivering short-notice gas to pipelines. We think as a physical marketer we're well positioned with a large and flexible portfolio to meet those needs."— *Stephanie Seay, Melanie Tatum*