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INSIDE: How an independent gas marketer, Tenaska, tops capacity rankings year after year

For Tenaska, Patience, Focus On Physical Side Pay Off

By **Michael Reed**, Managing Editor

Coming in first is getting to be a habit for Tenaska, which once again topped the Capacity Center list of top trading companies, this time for the fifth year in row.

Still, while such honors are deeply appreciated each time they are earned, accolades only serve as icing on the cake for the company, said Fred Hunzeker, president and CEO of Tenaska Marketing Group.

"We differentiate ourselves from other capacity traders because we are private and employee-owned," Hunzeker said. "It makes us very patient, and it gives us a very long-term horizon. We are not so concerned about this quarter's results. That patience allows us to stay focused on the market."

—Fred Hunzeker

"What we like about that list is that it really shows what we do, and that's focus on the physical side of the natural gas business," Hunzeker said. "We didn't set some goal that if we top that list everybody got a better bonus. It's what we do every day, year in and year out, and our customers know that."

And focus on the physical side they do. The Omaha, NB-based company increased its 2013 daily equivalent pipeline capacity traded by 5% to just under 3.7 Bcf/d over the previous year and increased its deal count 5% to 796 over the same period. In 2013, TMV sold or managed 2.5 Tcf of natural gas, accounting for 9.5% of all U.S. gas consumption.

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Of course, that means paying close attention to what Tenaska's customers, many of whom have been with the company for 15 years, say they need in the rapidly changing marketplace.

"What we hear most from customers are the classic things: reliability and dependability are their key needs," Hunzeker said, adding responsiveness and flexibility are often mentioned as well.

This was particularly true as much of the nation found itself in the grips of long-term, severely cold weather. To that end, with the breadth of transport storage capacity Tenaska controls, the company offered plenty of flexibility when it came time to re-source supplies from several directions for customers who found themselves in a bind this winter.

"Customers' needs are pretty basic, especially in extreme situations like what happened this winter," Hunzeker said. "They need their gas on time, where they want it, when they want it."

To a large extent, Tenaska's customer base hasn't changed over the years in that it is comprised of many of the same producers and consumers. However, the shale boom has changed some of their needs with many customers' supplies in different locations than previously. Adding to the mix is a resurgence in demand triggered by construction of chemical and fertilizer plants, export facilities and new gas-fired power generation.

"We are seeing a wave of new customers and old customers with new supply chain issues," Hunzeker said.

As Tenaska's natural gas marketing business approaches its 25th anniversary, its officers and employees are mindful that success starts with their relationships to customers when they pick up the phone, and the trust they have built through the years. It also involves a strategic effort to increase the company's share of what should remain a burgeoning market.

"Over the winter we were shown that we still have some constraints in the market," Hunzeker said, referring to what were thought to have been stable, lower gas prices. "Overall, though, the consensus is we've still got a lot of resources and North America can maintain robust production and stable prices going forward."

With increased demand for natural gas, particularly in the power generation, industrial, and LNG and NGL exports sectors, some analysts project the industry could be looking at 25-30% growth in the next five years.

"Interestingly, we've seen in the last couple of years a consolidation – people leaving the space," Hunzeker said. "Our strategy is to take advantage of the growth. We are excited in maintaining our core business and being here to help manage the supply chain as the market absorbs supply."

With regional offices in Dallas, Denver, Calgary and Vancouver, Canada, Tenaska seeks to position itself to listen to customer needs and respond accordingly with patient growth in volumes and number of additional employees.

"If we are going to be a supply chain management company, then we need to continue to grow to be able to provide transportation and storage services," he said. Despite the growing demand for natural gas, particularly in the power-generator sector, Hunzeker said the lower volatility prior to this winter has not necessarily made trading easier.

"It probably adds some complexity to trading," he said. "It creates more of a roundabout way to get there because the lower prices are driven by production growth in new areas not necessarily connected to demand."

In some areas it has become "very non-eventful" to trade gas, Hunzeker added, while in others the market is inefficient and complex. "It's kind of a tale of two cities. The places where it's complex and inefficient are the places we can add value."

Going forward, Tenaska and its customers, especially power generators and independent service operators (ISOs), will face further complications brought on by gas-electric market integration issues, which became even more apparent this winter.

Gas-fired generators are not limited to peak loads, producing electricity during winter and summer months. Many of these electric generators rely on interruptible and released capacity for natural gas transportation. With increasing demand to fuel electric generators, competition for pipeline capacity on an interruptible basis or in the secondary market will grow.

"We hear so much about integration of nomination timelines and things like that, but the real issue is how we are going to build additional pipeline and storage infrastructure to get gas to the power generators where and when it's needed," Hunzeker said. "Then the question becomes how is the cost going to be paid for by the marketplace? Pipelines will tell you they'll build it: tell me where you want it, sign a contract, and I'll build it." ***P&GJ***

Top Natural Gas Traders See Massive Spike In '13 Volume

By **Michael Reed**, Managing Editor

For the fourth year in a row, analysts at Capacity Center reported the total volume of natural gas pipeline capacity traded by the top 20 companies increased over the previous year — this time by a "remarkable" 106%, topping 15.8 Bcf/d.

Although the total number of entities participating in purchasing released capacity fell slightly from 2012 to 481, the nearly 27 Bcf/d traded on a daily equivalent basis through September 2013 represented nearly a 10% increase over the same period in 2012.

Not surprisingly, for a fifth consecutive year, the West Peabody, MA consultancy firm reported that Omaha, NB-based Tenaska repeated as the number one capacity trading company in the nation, increasing its daily equivalent traded to just under 3.7 Bcf/d, up from 3.45 Bcf/d in 2012.

"Simply put, they (Tenaska) have laser-like focus when it comes to looking for capacity to optimize and control that contract as part of their overall optimization scheme," said Greg Lander, president of Capacity Center. "They have so much capacity, and they do so much with that capacity that they can do things we don't see anybody else doing."

The next three spots on the traders list were held by Sequent Energy, BP and Amerada Hess, all of Houston, repeating their rankings from the previous year, respectively. In the fifth position was Proliance Energy/ETP, of Indianapolis, IN which moved up 147 spots to become the list's biggest gainer.

Lander pointed out that Proliance, which had been an affiliate of local gas distribution company Vectren, entered into a joint venture with some other distribution companies and now basically manages the group's capacity.

"Because there is less margin in the business, I think they basically decided there was not enough reason as distribution companies to maintain that business," Lander said. "They wanted to monetize and still have somebody else perform the capacity management. As a result, Energy Transfer Partners (ETP) really kicked in and expanded that business."

Aside from the continuing trend toward growth in capacity trading volume levels on a year-over-year basis, which Lander said indicates "an emergence of players who are heavily focused on owning and controlling capacity and doing so by virtue of the secondary market," he pointed to a "huge change" in what type of firms occupied the fifth through 11th spots this year.

"The banks are basically getting out of the gas trading business, largely because of the lack of volatility and the lack of arbitrage margin," Lander said.

The list showed eight of the top 10 companies are primary market players, meaning they are physical players that buy and sell the gas to meet demands or manage the demands of other entities, as opposed to those being in the market to trade and profit off of volatility and price difference.

Also trending is the lessened concentration of capacity trading activity by the top 20 firms. In 2013, 57% of all non-affiliate deals were made by the top 20, a decrease from the 63% traded last year – more in line with the 56% level of 2011.

Interestingly, the grouping of trading firms listed from numbers 11 through 20 was extremely tight, with just under 130 MDth (thousand decatherms) of annualized daily equivalent separating those spots, the data showed.

In addition to Proliance/ETP, newcomers to the top 20 were Concord Energy (up 56 places), Louis Dreyfus (up 56), Exelon Non Regulated (up 100), NJR Energy Service (up 32) and Infinite Energy (up 5). Returning to the list after a year's absence were EDF (up 12) and Atmos Non Regulated (up 37).

Entities dropping off the top 20 were NextEra, GenOn, CenterPoint Non Regulated,

Capacity Center 2013 Top 20 Capacity Traders

2013 Rank	Acquiring Shipper	Daily Equiv	2013 Deal Count	Rank Change from 2012	Daily Equiv Change 2012 to 2013	Deal Count Change 2012 to 2013
1	Tenaska	3,668,710	796	-	5%	5%
2	Sequent Energy Mgmt	1,807,873	962	-	(36%)	(6%)
3	BP	1,388,626	1,130	-	8%	14%
4	Amerada Hess	1,114,820	1,433	-	0%	2%
5	Proliance Energy / ETP	1,056,526	93	+147	8856%	389%
6	Concord Energy LLC	655,482	107	+56	734%	75%
7	Atmos Energy Non Reg	646,336	189	+37	358%	26%
8	Louis Dreyfus	636,246	155	+56	734%	76%
9	Direct Energy	572,890	1,301	-3	(2%)	(25%)
10	BG Energy Merchants LLC	527,271	95	+10	89%	7%
11	Exelon Non Reg	456,111	88	+100	1463%	(35%)
12	EDF Trading No. Amer.	408,925	1,179	+12	83%	45%
13	Dominion Non Reg	401,467	360	-5	(12%)	(10%)
14	NJR Energy Services	390,011	96	+32	214%	1%
15	DTE Energy Unreg	373,516	206	-3	3%	(10%)
16	Interstate Gas Supply	369,437	434	-2	10%	7%
17	Macquarie Energy	354,548	691	-10	(33%)	46%
18	Infinite Energy Inc	353,843	690	+5	0%	0%
19	Shell	329,123	131	+1	23%	(18%)
20	Scana Corp. Unreg	326,470	241	-5	(0%)	(6%)

The Top 20 Capacity Trader rankings utilized Capacity Center's database of all capacity release deals done on every interstate pipeline during the period January 1, 2013 through September 30, 2013.

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>
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Iberdrola Non-Reg, Texla, Gavilon, Atmos Regulated and ConocoPhillips.

Northeast Moving Forward

Because the capacity market tends to lag behind the physical market, Lander said he foresees much more trading of Northeast capacity in coming years as the Algonquin and other expansions come online, much like what happened around the Barnett Shale between 2004 and 2006.

"Shale has changed some of the players who were reaching forward from REX (Rockies Express Pipeline) and the Midcontinent, and what we are seeing in both is new capacity and, eventually, in trading of that contracting capacity," Lander said. "It'll lag by six months to a year once the new capacity comes on.

"What we saw throughout the Northeast was, while there was some amount of trading, the vast majority of those with capacity in New England and New York were holding onto that capacity because the price of gas was so cheap. By controlling the capacity, they control the price." ***P&GJ***

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