Energy Strategy Value Series

Expert Witness Testimony (Energy Rate Cases)

Alboran has in-depth knowledge of the gas value chain and quickly sees through the intricacies of the energy utility market. We can help your rate case settlement outcome by our unrivalled analytical capacities. Alboran possesses unique understanding of regulatory and downstream issues.

Alboran conducts original research in technology and strategy issues related to the energy value chain. Much of Alboran's recent research focus has been on the natural gas value chain. We have analyzed the US gas value chain (downstream, midstream and back to the upstream) now documented in a string of reports. These studies provide support for Europe's challenges in all segments of the natural gas business, for which the US provides a mature gas market example.

1. Price scenarios may alter gas-to-oil strategy for US unconventionals

***Oil & Gas Journal*, 2011, Vol.109, Issue 1, pages 74-81.**

Diverting capital expenditure from gas to oil projects is the latest tactical response of US oil and gas companies for capturing value from a quicker recovery of oil prices after the recent recession as compared to natural gas prices. The strategy shift includes moving gas rigs to liquid prone areas, as shown in US rig count statistics. Slowing gas rig activity eventually will lower production output and help bring supply and demand back into balance, thus adjusting the current oversupply and leading to a recovery in wellhead gas price. Two plausible scenarios for gas price recovery may alter the current shift of North American unconventional gas companies diverting capital investment into oil rather than gas development projects. Neither the scenario for a price shock or smooth recovery is necessarily a correct prediction of the future, but each provides useful insight in what might happen next, based on current changes and trends in the US gas industry. Several lessons also can be drawn from this strategy shift for unconventional gas development worldwide.

2. Regulatory Reform Options to revitalize the US Natural Gas Value Chain

***Utilities Policy*, 2012, Vol. 21, pages 50-58.**

The key question addressed here is whether US utilities can sustain the delivery of a domestic natural gas flow, and fund growth, as strategically required for the clean energy transition. Profits made by US energy companies from the transmission and distribution of natural gas have been lagging - or even negative - over the past decade. Several major energy companies have become rated as 'junk bonds', which brings them on the brink of near-failure. For the envisioned energy transition, inter-fuel competition must be efficient and fair. Recommendations are formulated for improving energy regulation of the mid and downstream natural gas segments in order to revitalize these key pillars of the energy transition program. Effective incentives are needed for innovation and growth of the natural gas value chain, and to ensure better and fair inter-fuel competition.

3. Why untenable US natural gas boom may soon need wellhead price-floor regulation for industry survival

***First Break,* 2010, Vol. 28, Issue 9 (Sept), pages 33-38.**

This special topic article for First Break advocates a proposal to introduce a wellhead price-floor (in the US and Europe and other gas markets may follow suit), in order to help solve luring liquidity problems for the unconventional gas business. I realized that the mid and downstream segments (regulated) absorb none of the risk in the US gas business. It is all levied back to the wellhead. That seems unfair and something should be done about it.

4. Average Cost of Retail Gas (WACORG) highlights pricing effects in the US Gas Value Chain: Do we need Wellhead Price-floor Regulation to bail out the Unconventional Gas Industry?

***Energy Policy*, 2011, Vol. 39, pages 6291-6300.**

The total annual revenue stream in the US natural gas value chain over the past decade is analyzed. Growth of total revenues has been driven by higher wellhead prices, which peaked in 2008. The general rise in natural gas prices between 1998 and 2008 did not lower overall US gas consumption, but shifts have occurred during the past decade in the consumption levels of individual consumer groups. Industry's gas consumption has decreased, while power stations increased their gas consumption. Commercial and residential consumers maintained flat gas consumption patterns. This study introduces the Weighted Average Cost of Retail Gas (WACORG) as a tool to calculate and monitor an average retail price based on the different natural gas prices charged to the traditional consumer groups. The WACORG also provides insight in wellhead revenues and may be used as an instrument for calibrating retail prices in support of wellhead price-floor regulation. Such price-floor regulation is advocated here as a possible mitigation measure against excessive volatility in US wellhead gas prices to improve the security of gas supply.

5. Value Chain Analysis of the Natural Gas Industry – Lessons from the US Regulatory Success and Opportunities for Europe

***Journal of Natural Gas Science and Engineering*, Vol. 2, pages 86-104.**

Corporate energy development decisions are critically impacted by energy policies and regulations. Long-term, mid-term and short-term measures are distinguished based upon the duration of their impact on the performance of the US natural gas market. This analysis of the physical and financial value chains and the regulatory framework that governs the US natural gas market provides new insights on appropriate policies and regulatory strategies that could improve both the liquidity and security of supply in the European gas market. Strategic and tactical instruments for maximizing returns on investment for regulated energy utilities are also formulated.

We are delighted to provide additional information on our services.

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