MANAGEMENT'S PERSPECTIVE ON UNDERGROUND GAS STORAGE

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Certainly the views of the Management of Coastal Corporation's Natural Gas Group on gas storage have been very favorable throughout the years, evidenced by our system companies having developed 25 storage fields and 340 Bcf of working storage capacity since 1941 for our own system needs. And, building on the extensive storage development and operating experience we gained over the forty years, we started my company, ANR Storage Company, in 1978 to develop and operate gas storage facilities for non-affiliated customers as a new corporate business opportunity. Since then ANR Storage has developed and placed into operation four new fields in the state of Michigan and one in Kansas which is owned on a 50/50 partnership basis. Today, we are preparing the necessary applications for government permits to develop, thru a partnership, a depleted gas field in the state of New York to provide storage service to 5 east coast gas distribution companies and are also currently involved in proposed gas storage projects in several other regions of the country.

In all the ANR Storage projects, we simply provide a service to store a specific volume of gas for a customer, either a transmission company or a local distribution company for a fee. We look for and acquire the appropriate reservoir, perform the engineering design, raise the necessary capital, oversee development and then operate the storage field for use by the customer who pays us a monthly fee for the rights to store their gas. We do not own any working gas stored in our fields, nor are we involved in gas sales in any way. We take the customers gas when they deliver it to us, inject it into the reservoir and withdraw it as the customer calls for it.

Whether we at ANR Storage are developing contract storage for use by others or whether one of our own system companies develops storage for its own needs, one basic theme always predominates: The Proposed Storage Facility Must Be Cost Effective. If it is not, a Company's management will not select it as a viable option they can use in the efficient management of their gas business.

Historically, where cost-effective gas storage was available to a pipeline, it enabled them to operate their systems on a high load-factor basis which meant transmission facility designs were being highly optimized and the unit...
cost of transmission was correspondingly then as low as practicable.

Gas distributors who had cost-effective storage available to them were historically able to optimize their purchase pattern from their pipeline supplies, thereby keeping their overall gas acquisition costs as low as possible.

The importance of cost-effective gas storage has never been more exemplified in the U.S. than it is today. The gas pipeline industry in our country has been transformed from being a gas merchandizer with monopoly on markets under total government regulation, to becoming de-regulated and a provider of gas transportation services to any markets which can be competitively served. Additionally, today any category of gas user, including end-users, can now deal directly with producers for gas supplies, by-passing their traditional pipeline or distribution supplier, a dramatic change from the past.

This new opportunity by the pipelines to provide transportation services to any new markets they can access has fostered significant competition within the pipeline industry. To be competitive in these times, pipelines must ensure their unit transportation costs are as low as practicable. Hence, the importance of operating the pipelines at high-load factor rates. While the pipelines will likely still have some merchandizing function in the future those pipelines with cost-effective storage will, most likely, be in the most advantageous position over the long term to offer low cost transportation services.

Similarly, gas distribution companies who have storage available to them will have the greatest flexibility in their gas purchasing activities, allowing them to buy the lowest cost supplies available during off peak seasonal periods when pipeline transport rates will likely also be low.

Today’s U.S. producers who now see the future market for their gas supplies as predominately a spot market with prices established by competition on a seasonal basis, are now exploring the use of storage to enhance their seasonal sales opportunities. Storage, once again, will only work to their advantage if it is cost effective.

The emphasis on the cost effectiveness of storage to be a viable tool which company managements can use in the efficient operation of their businesses places direct responsibility on the engineers and geologists to ensure that the reservoir selected and that its design and operation for storage are the most cost effective for the service to be provided.

At ANR Storage Company, since selling and providing gas storage is our only business, we are extremely sensitive to optimizing our storage facility designs because the storage services we offer will not be purchased by our prospective customers if it is not a cost-effective option for them to use in the efficient conduct of their business.