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New Englanders Have Only Themselves to Blame for Energy Price Spikes

By William Murray
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Cold snaps like the one the U.S. northeast has experienced this month are great opportunities to learn how energy markets work — or don't work. All one has to do is watch energy prices rise and fall in different regions during severe cold weather.

New Year's Day 2018 was the coldest yet in the 21st century in the contiguous 48 states, with "Dangerously cold wind chills" setting records from Maryland to Maine. Boston has tied a 100-year record for seven days in a row with a high below 20 degrees Fahrenheit — and that was before the worst of the weather storm hit. No wonder meteorologists were calling the recent weather formation a "winter bomb cyclone."

Both prices and demand for domestic natural gas have surged as people have started plugging in their space heaters. Gas consumption set a new record for daily use on January 1, surpassing the previous record set in January 2014 in the midst of the "Polar Vortex." Energy prices in most of the country increased 20–30 percent to account for the strong demand before quickly returning to previous levels. But in parts of New England prices spiked more than 400 percent.

Why? New England — including Vermont, New Hampshire, Maine, Massachusetts, Connecticut, and Rhode Island — is the only part of the country that has constrained supplies of natural gas. This

constraint is largely self-induced by “above-ground” political issues. Local and state opposition have blocked a number of natural gas pipelines in recent years, with the result that the region hasn’t benefited from the gas production growth in the Marcellus shale formation in nearby Pennsylvania

This means that the 50,000 miles of U.S. natural gas pipelines built during the past decade largely skipped New England, leaving the region with the highest electricity prices in the United States. A study by the U.S. Chamber of Commerce found residents in the Northeast pay 44 percent more than the national average for electricity and 29 percent more for natural gas. Industrial users of electricity pay 60 percent more than the national average, according to the Chamber.

Prices at trading hubs like the Algonquin Citygate, serving Boston, surged from less than $10 per million British thermal units (mmBtu) to more than $100 per mmBtu during the recent cold snap. As if more evidence was needed of constrained suppliers, New York’s Transco Zone 6 hub reported a record high sale of gas at $175 per mmBtu on January 4, higher than the previous record of $125 set during the “Polar Vortex-influenced” winter of 2014.

Combined with the cold weather, these supply constraints make natural gas a scarce commodity. As a result, utilities in New England were forced to fire up ancient fuel oil generators to meet power demand. Unfortunately, fuel oil emits far more greenhouse gas pollutants than natural gas. Generators reached their maximum allowed emissions at some sites, which in turn forced utilities back onto the expensive natural gas spot markets.

While the Massachusetts legislature considers carbon pricing proposals that could swing support behind more gas pipelines on climate change and environmental grounds, the region is years away from any new market signals for investment decisions.

The whole situation might have been different if the Massachusetts Supreme Court hadn’t blocked the public funding model supporting the $3.2 billion Access Northeast pipeline in August 2016 to supply parts of Connecticut, Rhode Island, and Massachusetts. A similarly large $3.3 billion pipeline supplying Massachusetts and New Hampshire — Northeast Energy Direct — was cancelled in April 2016 due to lack of political support.

Supporters of these pipelines point out that a lack of gas suppliers resulted in New England consumers spending $7.5 billion in higher energy costs between 2013 and 2016. A similar argument can be made today, since both gas pipelines might have been constructed in time for the current cold weather.

To make matters worse, water-borne supplies of liquefied natural gas (LNG) can't be exported into New England because of strict adherence to protectionist maritime laws. Instead, New England imports more expensive LNG supplies from Trinidad and Nigeria. For instance, Dominion Energy is within days of exporting its first cargo of Marcellus gas from its LNG terminal in Cove Point, Maryland. But the company cannot access New England markets because of the Jones Act, a 100-year-old law that says only U.S. vessels and crews can transport cargoes between U.S. ports.

Unless New Englanders discard their anti-infrastructure pose on energy, they will continue to pay more than Americans in any other region of the country for energy and electricity for years to come.

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