

Enbridge's bargain gas price won't last!

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This has been a great winter *not* to be locked into a long-term contract for natural gas. And it's a good time to slam the door on pushy gas marketers.

But the bargain available now from gas utilities such as Enbridge Inc. might not last long. The higher cost of locking in a stable fuel price to heat your home, water and vegetables could soon look reasonable again.

As my colleague Ellen Roseman mentioned yesterday, Enbridge is charging less than 27 cents for a cubic metre of gas compared with 39.9 cents for the most expensive of the five-year, residential gas supply contracts available.

Other marketers do charge less. Canadian RiteRate Energy is charging 33.8 cents for a five-year contract. But that's still well above the current Enbridge price, which is only 24.5 cents if you count a temporary rebate, down from 43.1 cents two years ago.

Unfortunately, more than Enbridge's rebate may be temporary. Once the regulated utility uses up supplies of gas it bought at a lower price, it will have to pass on higher costs to consumers.

Alberta energy companies are now fetching a substantially higher price for gas for the one-year heating season to begin in November, Ian MacLellan of the online price quotation service Energysshop.com pointed out yesterday.

The closing price yesterday was \$7.33 per gigajoule. MacLellan says that would translate into an energy price from Enbridge or a gas marketer of about 31.7 cents, once you count various markups and overhead costs.

(The energy price represents about 62 per cent of the typical Enbridge bill for January. Enbridge tacks on customer and delivery charges that are the same whether you get your gas from it or from one of several direct marketers.)

It is next to impossible to predict the future direction of gas prices. The U.S. Energy Information Administration has a long history of getting it wrong, but still tries.

The government agency is predicting natural gas prices in North America will fall relative to general inflation over the next many years. Meanwhile, the Conference Board of Canada is forecasting an average annual increase of 6.7 per cent over the next four years.

Economist Todd Crawford of the Conference Board, and Greg Stringham, vice-president of the Canadian Association of Petroleum Producers, point out that gas prices have not kept pace with oil.

It takes about 6.2 gigajoules, or 5.9 million British thermal units, of gas to produce as much energy as a barrel of oil. Oil has generally fetched about eight times the price of these units of gas, but yesterday in New York, oil prices were 11.5 times higher.

So either oil is too expensive, as a result of international tensions that could dissipate over time, natural gas is selling for a bargain, or the truth is somewhere between.

Crawford and Stringham say gas prices in North America have fallen since late 2005 for a variety of reasons, including a recovery from the supply disruptions caused by hurricanes in 2005, a build-up of gas inventories, the arrival of liquid natural gas from Russia and the Middle East, and the relatively mild winters and cool summers. Last winter was particularly warm, and this winter in Canada has been only about 3.6 per cent colder, according to an Enbridge spokesperson.

But the relative bargain may not last. The cost of extracting gas is going up in Canada, and energy companies have reacted to falling prices and rising costs by cutting their drilling programs in half this year. They also expect to pay higher royalties to Alberta by 2009. So be prepared to pay more, too.

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