

BOOK REVIEW

NATURAL GAS INDUSTRY ANALYSIS FOR GAS YEAR 2000-2001, A NEW ANNUAL SERIES (Robert Willett, Ed., Financial Communications Company, 2000).

Reviewed by
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Robert Willett's *Natural Gas Industry Analysis For Gas Year 2000-2001*, the first volume in a new series, represents an ambitious effort in an industry experiencing rapid and significant change. The Preface expresses the modest goal of attempting, "within space limitations," "to provide the reader with some idea of the state of affairs and direction of important, wellhead to burnertip industry areas." At nearly 400 pages, however, the book has both the size and the effect of providing a very broad and in-depth look at today's changing industry. Necessarily, the work does not discuss all areas of the industry, nor does it address them with equal detail and vigor. For an industry in which old specialties are merging and new business practices demand attention, this volume should provide insights for both newcomers and experienced hands.

The book consists of twenty-four individual chapters organized under six major topics: (1) "the new relationship with electric industry;" (2) "marketers and markets;" (3) "international;" (4) "antitrust and FERC regulation;" (5) "state regulation;" and (6) "the way to 30 TCF." Each chapter is prepared by authors, or more usually, two or more authors, active in the industry. The list of authors includes many names familiar in industry publications, and they are drawn primarily from consulting firms, academics, law firms, and energy companies. In style, focus, and viewpoint, the thirty-four authors provide a varied and occasionally uneven approach.

Perhaps the most topical subject, in light of post-publication developments, is the discussion in Part 1 of the relationship between the gas and electric industries. Two of these articles address in parallel, but very different perspectives, the merger aspect of "convergence." In one piece, Michael Waller and Rodger Kershner discuss the factors that have driven upward the number of gas-electric mergers in recent years. In the next chapter, Gerald Kenner and Marko Schulz analyze the mergers in some depth and ask why many of these mergers do not appear to have increased shareholder value; they also offer suggestions as to why some mergers, but not others, are successful. In contrast, Rae McQuade provides a quick update on the prospects for the Gas Industry Standards Board to address retail (and electric industry) standards. The next annual edition will undoubtedly have much more to add on gas and electric issues.

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In Part 2, "Marketers and Markets," the four articles analyze the new business role of marketers in a changing industry structure (Schlesinger, Ch. 6), and address changing contract trends (Tvrdik) and the growing role of risk management tools, particularly gas futures and options. (Moreno and MacDonald). The chapter on futures and options discusses not only the growing role of these instruments in the business, but provides a useful introduction and primer on the nature and use of these financial tools.

Under the "International" heading of Part 3, a detailed look at Canadian resources (Coad) and the evolution of the Mexican energy industry (Contratto and Hasbun) are necessary and expected elements for understanding a North American gas industry. The additional piece on East Asian supply and demand (Tussing and Tichotsky) may be of greater interest to the domestic industry observer than first meets the eye, given the recent re-certification of existing Liquefied Natural Gas (LNG) import facilities and announcements of revived interest in new import facilities.

The chapters addressing antitrust and regulatory issues, Part 4, encompass a wide range of topics. Some authors review the basics of federal natural gas rate regulation, its history, and recent broad trends (Norris, Ch. 13 and Smead, Ch. 14), while others provide straightforward updates on significant decisions (Morgan, Myers-Kerbal, and Blanc) and general antitrust principles (Fallon and Carpentier). Although these chapters are aimed at the nonspecialist, even experienced FERC watchers will find interesting points, particularly regarding the recent phenomenon of LDCs' asset optimization deals (Crowley) and the possible future contours of the industry (Swanson).

The direction and status of state regulation is a particularly difficult topic to capture, as states struggle to implement unbundled retail markets in light of still-unanswered questions of risk and cost responsibility. Part 5 is perhaps the least illuminating portion of the book, despite the presence of a provocative discussion of the decline in state regulation over production (Davis). State regulation may present too complex a picture for comprehensive review in less than eighty pages. As Karl McDermott discusses (Ch. 21), a long list of difficult questions facing state regulators "barely scratches the surface of what awaits the commissions," and the answers are far from being resolved.¹

The final Part and chapter, "30-Trillion-Cubic-Foot Gas Market Can Be Supplied" (Kendell), touches on a subject that has become even more controversial since publication: will gas supply increase to meet projected demands, particularly by the growing electric generation sector? Accurate projections of future deliverability have always been notoriously difficult and Mr. Kendell's optimistic outlook—premised on the EIA's *Annual Energy Outlook 2000*—will be a sharply debated conclusion for the foreseeable future. I look forward to the 2001-2002 volume's treatment of this topic.

1. Natural Gas Industry Analysis For Gas Year 2000-2001, A New Annual Series 326 (Robert Willett, Ed., Financial Communications Company 2000).

The placement of individual chapters is occasionally surprising. Michael German's brief but interesting "case study" of unbundling at New York State Electric and Gas (NYSEG) might fit better under the rubric "state regulation" (Part 5) rather than "relationship with electric market" (Part 1). Similarly, the interesting chapter on "spark spread fundamentals" (Meyers, Bopp, and Poats) (Part 2) might seem more closely allied to the electric industry discussion (Part 1). On the whole, however, the Parts successfully corral chapters of common interest to the industry reader.

Readers of the Energy Law Journal are unlikely to need all of the information in this book, but even the keenest industry watcher will find it a source of many interesting and useful chapters.

