Examining the Effect of Secondary Markets for Pipeline Capacity on Natural Gas Spot Price Basis Differentials

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Motivation

- Natural Gas public policy since late 1970s: deregulation
- implicit assumption: arbitrage → desirable outcomes
  - rationalization of spot prices at various trading hubs
- but what happens with frictions?

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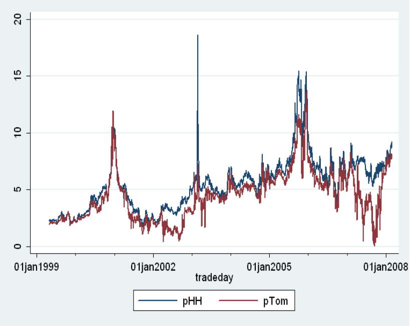

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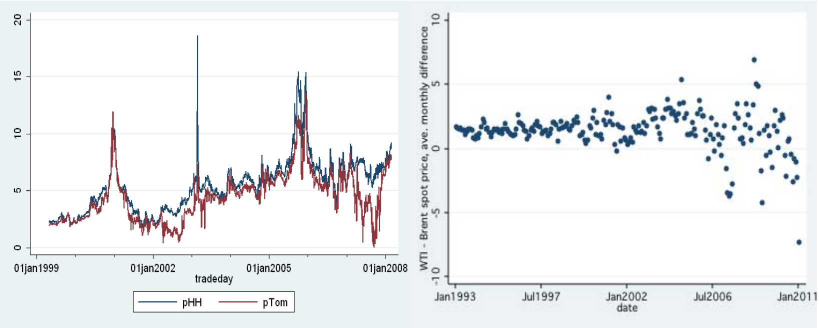

Case Study: Wyoming NG trading hubs

- analyzing spot price differences on National level unwieldy
- alternative: focus on case with fewer moving parts
  - compare spot prices at two major trading hubs in Wyoming
  - geographically close
  - small number of pipelines linking system
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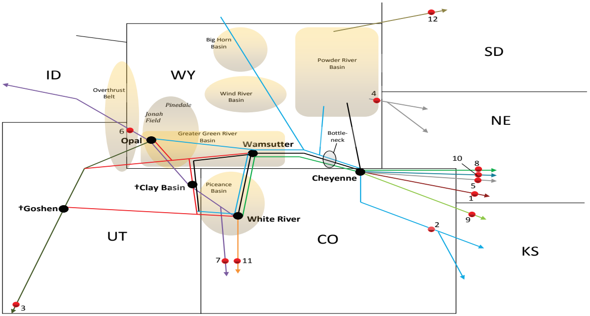
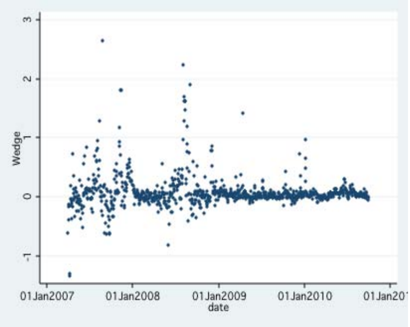


WY spot price diffs and capacity utilization



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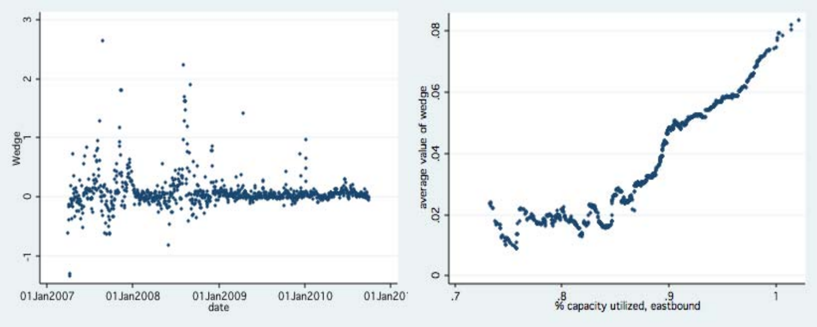

- as capacity constraints start to bind, spot prices diverge
  - implication for resource allocation?
  - why don't pipelines expand sooner, more frequently?
  - what role does regulation of pipeline tariffs play?