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October 7, 2016

What Does Duke Energy’s Buyout of Piedmont Natural Gas Mean for Energy Markets?

By: Ken Silverstein

It was not really a surprise. It’s really more of a sign. Now that Duke Energy has received its final approval from North Carolina’s utility regulators to merge with Piedmont Natural Gas, it will help facilitate the national move from coal to natural gas.

“I think we’ll still be operating coal in 2030,” said Lynn Good, Duke’s chief executive officer, in an interview with Bloomberg. “Whether we will be in 2040 I think is a question, or in 2050.”

It’s a $4.9 billion deal that brings together two neighbors that operate in both North and South Carolina. The synergies are natural, as is the relationship between the two.

But Piedmont will give Duke access to natural gas infrastructure, which is necessary to help it make this energy transition: coal-fired electricity is down from 50 percent of America’s portfolio in 2007 to about 33 percent today, and headed for 30 percent in the near term. Natural gas, by contrast, is up from about 20 percent in 2007 to 34 percent today. And it’s likely to head even higher, given the abundance of unconventional shale gas.

In 2008, Duke generated 70 percent of its electricity from coal. Now that figure is 42 percent, and falling. Over the next 15 years, the company will likely retire even more coal plants. Natural gas, in most cases, will be used instead.

Beside the buyout of Piedmont, Duke is also investing $2.3 billion in the Sabal Trail pipeline and the Atlantic Coast Pipeline. The former would run 500 miles and traverse through Alabama, Georgia and Florida while the latter would go through North Carolina, Virginia and West Virginia, and be part of a consortium that also includes Dominion Resources and AGL Resources, which is getting bought by Southern Co.

“We will need to decrease our carbon footprint over the long-term and we will need to work with our stakeholders to have this happen,” says Steve Young, chief financial officer for Duke, in an earlier interview with this writer. “In our regulated business, our returns are about 10 percent.

Regulations will drive you to these types of numbers and the gas business is driving us in this direction. There are more investment opportunities here."

If the projected demands for natural gas are to be met, the United States and Canada will require an investment of $26 billion a year to 2035, says a study by ICF International for the INGAA Foundation. It also projects $24 billion in capital spending for incremental integrity management and emissions in the natural gas midstream space over the next 20 years.

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