Northeast gas prices unlikely to incentivize new pipeline build-out in near term

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Market price signals may be insufficient to encourage a new wave of **natural gas pipeline** infrastructure in the **US** Northeast, even if regulatory hurdles can be overcome in the traditionally constrained region, commodity trading strategists said June 12.

The outlook reflects supplies having outpaced demand of late, and that is expected to continue for the foreseeable future. Spreads between zones, too, have been impacted by an abundance of projects that have come online over the last 18 months.

While the trend could flip during the early to middle part of next decade, depending on **production** levels and other factors, midstream project developers would need to start advancing plans now to prevent an imbalance. That raises questions about whether there will be further capacity added in the near- to medium-term beyond current projects such as PennEast **Pipeline** , Mountain Valley **Pipeline** and **Atlantic** Coast **Pipeline** , a panel of Bank of America Merrill Lynch experts said during the final day of an LDC **Gas** Forums industry conference in **Boston**.

"**We** 'll see if and when those get completed," said Clifton White, a director and commodity strategist at the firm. "But our view is that's going to be the end of it."

The recent **crop** of **pipelines** that have entered service in the Northeast were all proposed at around the same time between late 2013 and mid-2014. Back then, when initial open seasons were being held, the forward curve for **Dominion South** basis for calendar-years 2020-2022 was trading at a roughly $1 discount to benchmark **Henry Hub** . This meant that a capacity proposal to move **gas** out of the constrained Northeast region offered at 70 cents/Dth per day had not only the extrinsic value of supporting **production** growth, but also the intrinsic value of being in the money by about 30 cents.

Today, things look a lot different. Somewhat ironically, the huge buildout of capacity in the region has boosted basis **prices** enough that future development is in many cases uneconomical.

The forward curve for **Dominion South** remains firmly in the mid-minus 50 cents range for the next few years, with calendar year basis from 2023 through 2027 **priced** at an average of minus 55 cents, S&P Global Platts Analytics data show.

But any new project, or even an expansion of one of the recently built projects, would cost more than 55 cents, and producers have shown little appetite for signing up for more long-term capacity contracts. Recent greenfield projects like Energy Transfer's Rover **Pipeline** and Enbridge's **Nexus Gas** Transmission can carry daily reservations charges in excess of $1/MMBtu.

White said a consistent question he hears from **gas** producers is how to get **gas prices** to sustain above $3/MMBtu.

"Too much supply relative to demand," he said.

Over the last decade, the bulk of **gas** transport capacity growth has come from the **Appalachian Basin** 's Marcellus and **Utica shale** plays, White said.

"Looking ahead, **we** see a transition from the Northeast dominating that growth trajectory, to associated **gas** plays," he said.