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Production, Pipeline Gains Not Providing Much Relief to Northeast Market

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Amid pipeline infrastructure additions and record natural gas and oil production in the U.S., the Northeast part of the U.S. gas market is not seeing much relief in terms of market prices, as gas prices in the region reflect highs and lows in demand.

That was among the conclusions of panelists at the Northeast LDC Gas Forum in Boston June 11. Speakers also commented on the challenges for LNG export project developers and a trend for local distribution companies in the Northeast to seek non-pipeline options to meet their natural gas supply needs.

The non-pipeline solutions include LNG peak shaving storage options and truck deliveries of LNG, noted Jonathan Carroll, director of business development for the U.S. at Energir, formerly known as Gaz Metro. The company has expanded its business besides being an LDC in Quebec to include renewable power projects, electric utility assets in the U.S., peak shaving LNG options and a liquefaction plant with truck loading facilities in Montreal to deliver LNG to a growing list of customers, Carroll said.

Utilities Consolidated Edison of New York and New York State Electric & Gas are holding requests for proposals (RFPs) for non-pipeline solutions, effectively throwing up their hands that with state regulators trying to block new pipelines, they are seeking other supply options, Carroll said.

Consolidated Edison has received 28 responses, and it will be interesting to see how that process plays out later this year, he said. Peak shaving LNG storage options can be a perfect fit for entities seeking winter gas supplies without signing up for year-round pipeline capacity, and Carroll expects RFPs for non-pipeline solutions to become more of a trend in the Northeast.

Nationwide, oil production has reached 10.8 million barrels/day and gas production is reaching 80 Bcf/d, with growth in numerous basins, and natural gas liquids production has reached 4.2 million b/d, roughly double what it was a few years ago, said David Braziel, director of finance and fundamental analysis at RBN Energy. Gas production in the Permian basin is up to about 8 Bcf/d and is leveling off due to pipeline takeaway constraints, Braziel said.

"The U.S. has too much gas," and exports through pipelines to Mexico and LNG facilities have increased, Braziel said. With burgeoning supplies, gas prices at the Henry Hub are having a hard time staying above $3/MMBtu, yet the pipeline constraints in the Northeast result in spot prices above $80/MMBtu in New England during peak demand periods such as the "bomb cyclone" in January of 2018, he said.

Production in the Marcellus and Utica shale plays account for a bigger portion of U.S. supplies, moving from about 4% of U.S. production in 2010 to 35% in 2018, noted Luke Jackson, senior energy analyst at S&P Global Platts. The beginning of service on Rover Pipeline has lessened pipeline capacity constraints in the Marcellus and Utica region somewhat, but limitations remain, Jackson said.

"There is a lot of extra gas to deal with in the Northeast," added Jack Weixel, vice president of analysis at OPIS PointLogic. The supply push in the market has been strong and the demand pull has been inching up, but not quite keeping pace to balance the market, Weixel told the conference. Gas-fired generation, stronger industrial use of gas due to stable gas commodity prices and exports are helping raise demand, with storage injections also picking up to reduce a storage capacity deficit, Weixel said.

But given the difficulties encountered in adding infrastructure over the past few years, "New England sounds like a lost cause for adding demand and pipeline capacity," Weixel said.

The speakers all referred to Rover increasing deliveries to the Midwest, into Canada through the Vector Pipeline connection and other pipeline expansions moving more Appalachian gas supplies in the coming months and years. Many of those deliveries are aimed for markets in the Southern portion of the U.S., but they may not reach the sweet spot for LNG export deliveries into Louisiana and East Texas, said Jackson. He sees a mismatch between Northeast supplies and Gulf Coast demand, along with pipelines out of the Permian basin running at full capacity to move Permian gas to the Gulf Coast demand centers.

However, anyone counting on LNG export projects to boost demand should build in flexibility such that not all projects proposed for the Gulf Coast region are built, said Meera Bagati, manager of market analysis at NextEra Energy Resources. Final investment decisions (FIDs) for LNG export projects will be "few and far between in the next two years," she said in a brief interview after her remarks. There are a lot of LNG export projects on the drawing board, but only about one-third of the proposed projects will get to the finish line, Bagati said.

The winners could be those with "brownfield" expansions of LNG facilities or converting LNG import projects to export facilities, since competing with global LNG suppliers and a move toward more short-term contracts in the LNG market will make it difficult to reach FIDs for "greenfield" LNG projects, she said.

Gas-fired generation also will see limitations in boosting gas demand as electricity demand is expected to be flat in the coming years in most states, Bagati asserted. Energy efficiency gains are offsetting population growth and housing trends are hindering residential electricity demand. "This all paints a picture that keeps electricity demand limited," she said.

Other speakers emphasized the need for participants in the gas and power markets to become more familiar with the operations and needs of both markets, which have different scheduling, nomination and settlement schedules for pipelines and generation facilities. The standards developed by the North

American Energy Standards Board have improved things for both industries, but "we're a long way from a seamless interaction," said Mark Christie, vice president of marketing and trading at Emera Energy.

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