US LNG exports to increase domestic-market price volatility

- **Low storage utilization adding to seasonal price spikes**
- **Production growth offers supply, but not deliverability**
- **Incentives to utilize, develop storage not there yet**

Price volatility in domestic natural gas markets will continue rising in the years ahead, driven by growing interconnectivity between the US and global LNG markets. That wisdom was the consensus of a group of industry experts that convened Tuesday at the LDC Gas Forum in Atlanta.

Debate took aim at the impact that the recent growth in LNG feedgas demand is having on domestic markets across the Southeast and the Gulf Coast, where a growing hub for the export industry is developing.

Last winter, cash prices at key Southeast hubs such as Florida Gas Zone 3, Transco Zone 4 and Henry Hub climbed into the $4/MMBtu area for much of November and December. Even on the NYMEX, winter futures contracts briefly surged to multiyear high settlement prices around $4.90/MMBtu, S&P Global Platts data shows.

Record-low storage levels played a big role in market jitters.

In the South Central region, the early November storage carryout level climbed to just 974 Bcf, about 225 Bcf below the prior five-year average and its lowest level in decades. Even at the US level, November carryout reached a high at just over 3.2 Tcf, also its lowest since the early 2000s.

Last winter, though, year-over-year gas production grew by more than 8 Bcf/d, giving the market confidence that LNG export demand growth and low storage levels wouldn't be an issue — that winter prices would still remain low.

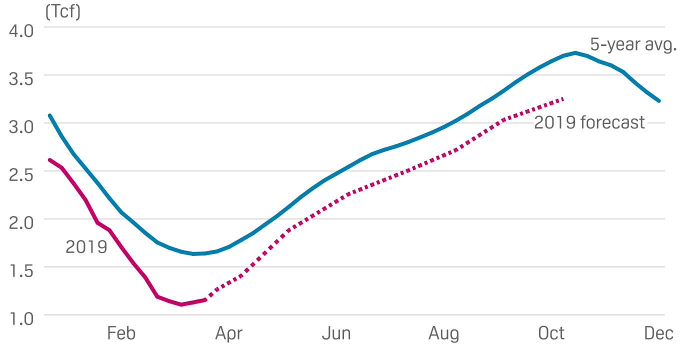
From June to August, the January 2019 forward contract at Henry Hub traded at just $3.10/MMBtu.

"The summer-to-winter spread was too low," said Catherine Payne, natural gas supply manager for CF Industries, which is engaged in nitrogen fertilizer manufacturing and distribution.

Storage deliverability

A key driver of last winter's price volatility wasn't inadequate supply, but lack of deliverability.

US GAS STORAGE INVENTORY HISTORY AND FORECAST



Source: S&P Global Platts

For the Southeast, the key question is whether "storage infrastructure [and] pipeline infrastructure [can] balance the global LNG market, seasonally," said Clifton White, director of global commodities research at Bank of America Merrill Lynch.

White's comments highlight the fact that LNG feedgas demand growth is driving higher utilization rates on pipeline across the southeast — a recent change that becomes a bigger issue during the colder months.

Particularly in winter, storage is extremely helpful in managing supply deliverability, according to Jim McClay, director of trading at Duke Energy. For power generator Duke, though, coal, hydropower and renewables are part of the equation, meaning that gas storage isn't an absolute necessity.

For CF Industries, meanwhile, the bigger issue is winter basis-price volatility, particularly at the company's fertilizer plants in the upper-Midwest and Eastern Canada, where cash price can diverge sharply from Henry Hub during the coldest days of the year.

Even in the midstream sector, there isn't really an ongoing conversation about storage investments or development, according to Dennis Coleman, managing director for MLP/midstream equity research at Bank of America Merrill Lynch.

Winter-summer spreads

While higher storage utilization levels could help to tamp down winter price volatility, serious doubts remain about whether adequate incentives exist to build new capacity, or even increase existing utilization.

On Monday, the January 2020 forward contract, priced at $3.06/MMBtu, currently stands at less than a 40 cent/MMBtu premium to average shoulder- and summer-season prices from May through October.

If higher benchmark gas prices in the upper-$4 to $5/MMBtu range endured throughout the winter months, though, that might be enough to change the market's emerging low-storage trend.

According to Platts Analytics, US storage is currently on track to reach the end of injection season at levels similar to those seen last year.

"Storage levels where they are today do mean more volatility," BP Chief Operating Officer Jared Kaiser said.

"I don't know if it's the new normal, it just depends on where we end up. If we're doing LNG exports and the arb closes and all the sudden we are the marginal molecule, then it won't be the new normal."

— J. Robinson

CORRECTION

The story titled "Gulf Run project linking Haynesville Shale to USGC enters early review at FERC," published April 15, 2019, should have stated that total LNG exports for the US Southeast will average 3.9 Bcf/d in 2019, and will average 6.3 Bcf/d in 2022, according to S&P Global Platts Analytics.