**Gas industry playing the long game on hedging**

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| **Natural gas** producers and buyers are hedging their exposure to prices farther out into the future than in the past to protect themselves against basis differentials amid the risk of delays in projects that will move more Northeast supply to Southeast demand markets. |  |
| With overall **US** prices relatively stable, and still low compared with historical standards, the trend expressed as the LDC **Gas** Forums Northeast conference wrapped up in **Boston** is a sign that industry players looking at forward curves believe greater volatility could be on the horizon. |  |
| That concern is tied to the fact that some Northeast pipeline additions proposed to feed power generation and **LNG** exports with Marcellus and Utica **shale** supplies face regulatory hurdles that have stretched out their in-service timelines. Among them are Energy Transfer Partners' Rover pipeline, Enbridge's Nexus **Gas** Transmission project and the Atlantic Sunrise expansion on Williams' Transcontinental **Gas** Pipe Line. |  |
| Producers such as Rice Energy, Cabot Oil & **Gas** and Antero Resources have spoken about aggressive hedging strategies that are geared toward these market realities. |  |
| "**We** are seeing people recognize how **we** haven't had this low a price this long before and seeing there are a lot of risks out there," said Michael Thomas, chief operating officer, North American **gas** and power, in BP's trading unit BP Energy. |  |
| Traditionally, customers want to hedge 12-18 months out, but now there is more interest in five to seven years, Thomas said. |  |
| "**We** have seen some opportunities to manage risk for people," he said. |  |
| Competitive Energy Services, an independent energy advisory firm, also has clients that are extending their hedge position farther out into the future and hedging a higher position, said Andrew Price, president and chief operating officer. |  |
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| While there is approximately 18 Bcf/d of production-takeaway capacity from the Northeast **US** region planned to enter service by the end of 2019, there remain doubts about the feasibility that those pipeline projects can all meet their respective targeted in-service dates. Many of the delays to in-service dates have accrued among projects that had initially targeted service by the end of 2017, resulting in a large backlog of projects now targeting service by 2018. |  |
| Large greenfield projects such as Nexus, for example, have held fast to their targeted November 2017 in-service dates, but a lack of a quorum at the **US** Federal Energy Regulatory Commission has prevented the agency from doling out project approvals for the past four months. |  |
| **Longer review periods are stretching timelines** |  |
| Longer-than-anticipated regulatory reviews have likewise resulted in adjusted in-service dates for several projects that call for construction in greenfield areas, which generally take much longer to review and permit than brownfield expansions. |  |
| Atlantic Sunrise had initially targeted a late-2017 in-service date; the brownfield portions of that project are expected to remain on-schedule, but the roughly 190 miles of greenfield pipeline associated with the project -- to be constructed in **Pennsylvania** -- is now scheduled to enter service in mid-2018. |  |
| While Atlantic Sunrise has been approved by FERC, several key permits in **Pennsylvania** remain outstanding, precluding full-scale construction operations on the project. |  |
| Certain projects have faced substantially heightened pushback both from regulators and stakeholders. Projects such as the greenfield, 1.1-Bcf/d PennEast Pipeline had initially targeted service by late 2017 when they were first proposed. An extended review, which has been hampered by challenges by landowners on the path of the right to conduct right-of-way surveys, has led PennEast to revise its targeted in-service date to 2018. |  |
| Similarly, a longer-than-expected review of the 1.5-Bcf/d Atlantic Coast Pipeline project has led developers to push the targeted in-service date from late-2018 to late-2019. |  |
| **Dominion South prices have seen impact** |  |
| Rover's struggles, in particular, have impacted the **Dominion South** forward contract. On February 3, the July through December 2017 strip at **Dominion South** averaged a $1.06/MMBtu discount to **Henry Hub** as the prospect of Rover entering service in 2017 looked highly unlikely. |  |
| By May 9, the day before FERC issued a ruling halting some construction activity on the project, the same July through December strip averaged a 45 cents/MMBtu discount to **Henry Hub** , a 60-cent rally in the span of just three months. |  |
| As a result of FERC's letter halting portions of construction as well as other issues in the past month that put further pressure on Rover's July 1 in-service date, the July through December 2017 strip has once again weakened, down to a 77-cent/MMBtu discount to **Henry Hub** . |  |
| The more than 30-cent/MMBtu swing since May 9 is particularly impactful to Northeast producers whose returns are often tied directly to pricing at the **Dominion South** Hub. Platts Internal Rate of Return analysis shows that a 30-cent/MMBtu decrease in **Dominion South** pricing is enough to decrease rates of return by six percentage points. |  |
| **Gas** -fired **electricity** generators are also looking for price protection in the current environment, with seasonal storage and hedging two ways they can achieve that. |  |
| "Our view is when prices are low, this is probably the time to hedge," said Kenneth Yagelski, managing director of **gas** supply for Southern Company **Gas** . "Because, there's a better chance prices will increase in the future." |  |