Natural gas industry calls for more infrastructure

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Savannah, 12 April (Argus) — The US will neednew natural gas pipelines and additional capacity on existing lines to meet demand to heat homes, generate power and feed growing demand for LNG exports, according to speakers today at the Southeast LDC Gas Forum in Savannah, Georgia.

The challenges of delivering natural gas to end-users has moved into the spotlight as supply bottlenecks develop in key producing areas such as Appalachia, home to the prolific Marcellus and Utica shales, and in the Permian basin in west Texas and southeastern New Mexico. Those capacity constraints have cut prices received by producers.

Natural gas prices at Waha in west Texas, a key indicator of the price of Permian gas output, have dropped sharply in the past year, averaging $1.15/mmBtu so far this month, down from an average of $5.46/mmBtu a year earlier. The discount there to the Henry Hub has also expanded to an average of about $1/mmmBtu, from 61¢/mmBtu a year earlier. Prices on Transcontinental (Transco) pipeline's Leidy Line, an indicator of the price of Marcellus gas output in northeast Pennsylvania, so far this month averaged $1.68/mmBtu, compared with $5.67/mmBtu during the same period last year. The discount there to the Henry Hub has expanded to 47¢/mmBtu, from 40¢/mmBtu a year earlier. An expanding discount to that US benchmark price can indicate a growing glut of supply.

At the same time, the US has become more reliant on gas to generate power following years of low, stable gas prices and the retirement of coal-fired generation.

As a result, pipelines have filled to meet that demand growth but do not have the same flexibility to meet spikes in demand from falling temperatures or temporary declines in output from renewable generation such as wind or solar.

"Pipelines are running close to capacity every single day of the year," Tim Sherwood, vice president of gas supply for Southern Company Gas, said today during a panel discussion.

In addition, aging gas infrastructure has increased the potential for service disruptions, the panelists said.

The path forward for new pipelines has also become unclear after regulatory battles derailed some projects.

Earlier this month, a federal court ruled that the $6.6bn Mountain Valley Pipeline cannot use its water permits in West Virginia because state regulators failed to assure adequate protections for the environment. The 2 Bcf/d (57mn m3/d) pipeline, intended to provide an outlet for gas from Appalachia, was initially scheduled to start service in 2018.

The pipeline's developer, Equitrans Midstream, is continuing to work with regulators in West Virginia to finish the 300-mile project. The line would move gas from West Virginia to Virginia.

Appalachian natural gas producers will begin bumping up against pipeline capacity constraints this year that could prevent supplies from the prolific Marcellus and Utica shales from reaching the US Gulf coast, Rick Smead, managing director of advisory services for RBN Energy, told attendees today.

"We need a lot of pipeline capacity," he said. That additional capacity will be needed to meet growing demand from US LNG export projects.

The next wave of LNG export projects is scheduled to begin service in late 2024 and in 2025. The three projects now under construction will boost peak US LNG export capacity by 5.7 Bcf/d by 2025, adding to 13.9 Bcf/d at the end of last year, according to the US Energy Information Administration.
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