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The day has arrived: the Marcellus is overpiped

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Roughly three years ago, at a major oil and gas conference centered on the Appalachian Basin, the word “overpiped” was uttered by a speaker, in addressing the pipeline situation in the basin.

In the previous seven years, there was one phrase used when industry types spoke of development in the Marcellus and Utica Shale plays: “full speed ahead.” There was no doubt the Marcellus/Utica would take over the country, pushing all pipelines bringing natural gas into the region back to wherever they originated. All that was impeding the massive push out of the Marcellus/Utica was sufficient pipeline capacity. No doubt.

Big bets made

But wishes ain’t reality – excuse my coarseness. A lot of companies up and down the natural gas supply chain made serious financial bets on the viability of the Marcellus/Utica to continue growing its production and expanding its demand base.

“A lot of companies are making big bets on big demands for Marcellus gas, and that all will go smoothly in the process – and it won’t, warns Justin Carlson, managing director of Research for energy asset research firm East Daley Capital.

“The Marcellus is overpiped today,” Carlson tells Kallanish Energy. “The growth curve for the play is wrong.”

For years, limited natural gas pipeline takeaway capacity constrained gas production growth in the Marcellus/Utica, writes Sheetal Nasta, for RBN Energy. A number of pipeline projects were planned to relieve the constraints as regional supply began outstripping demand starting in 2014.

Unconstrained

“Now, the region is on the verge of being unconstrained for the first time since the Shale Revolution hit Appalachia,” Nasta wrote. “Many of those projects have come online since then, and another 19 expansions totaling 15.5 billion cubic feet per day (Bcf/d) are planned for completion by late 2019."

In 2014, more gas was moving into the region than out, and net inflows averaged 1.4 Bcf/d. By 2015, those volumes flipped to an average of nearly 0.8 Bcf/d in net outflows, which then jumped to more than 3.0 Bcf/d in in 2016. This year-to-date, net volumes are averaging about 6.5 Bcf/d outbound and in April alone outflows were nearly 8.0 Bcf/d, Nasta wrote.

"If all goes as expected, this next round of projects should turn the Northeast market on its head again, as the capacity additions should start to outpace production growth," according to Nasta. "The problem, though, is that several projects have faced significant challenges in recent months, resulting in either cancellation or major delays. At the same time, Marcellus/Utica production growth has slowed dramatically in the past 18 months or so."

Permian wasn't counted on

What the Marcellus producers, pipeline companies midstreamers did not count on was that little ol' play in West Texas/southeast New Mexico, the Permian, according to Carlson.

"No one counted on the Permian being economic at $45 a barrel, or $40 a barrel, or whatever number you want to use," Carlson told Kallanish Energy. "It's very possible you will see 5 Bs (Bcf/d of gas) out of the Permian (as associated gas)."

Given limited financing available to the industry as a whole, coupled with demand, while growing, certainly not at the rate of supply, and "everyone wanting to go to the Gulf (of Mexico) with their natural gas (for export)," something must give.

Carlson hints Marcellus producers, which control roughly 4.7 Bcf/d of pipeline capacity in the play to move their product away from the wellsite and to generate cash flow, must be sound financially, or bankruptcies, restructurings, asset sales, etc. could quickly return.

"The companies with the most foresight will be the winners," according to Carlson.