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Gas glut compounds Atlantic Coast Pipeline woes

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MONTEREY — The New York Times reported supply of natural gas is vastly outweighing demand.

A major glut is pummeling the energy sector.

The news is grim for gas infrastructure projects such as the blocked $7.8 million Atlantic Coast Pipeline because shale field capitalization cuts are leading to market collapse.

The gas spot price has tanked from $10 per million British Thermal Units in 2008, the peak of the gas boom, to about $2.30 per million BTU today.

Rigs shut, gigs cut

In a Dec. 11 article, the Times reported the number of gas rigs nationwide has dropped from 184 to 132 in a year. Chevron will write down $10 billion to $11 billion in assets involving shale gas holdings in Appalachia. Exxon Mobile has written down $2.5 billion in gas assets. Chesapeake Energy, a pioneer in fracking, saw its stock go from selling for $60 a share in 2008 to less than a dollar now. Russia and Qatar are flooding global markets with gas. S&P Global Platts warns that European prices could slide in 2020 and further depress prices.

"Nowhere are the declining fortunes of natural gas more in evidence than in Appalachia, where the Marcellus field centered in central and western Pennsylvania was once viewed as the most promising in North America," the article said. "With gas prices slashed nearly in half from a year ago, the number of drilling rigs operating in Pennsylvania has dropped to 24, from 47, over the last 12 months. EQT, one of the premier producers in the Marcellus, recently cut nearly a quarter of its work force, eliminating 196 positions.

"That is a far cry from the picture Chevron painted when it acquired Atlas Energy almost exactly 10 years ago for $3.2 billion, while assuming $1.1 billion in debt, cementing its foothold in southwestern Pennsylvania. At the time, George L. Kirkland, then Chevron's vice chairman, predicted that the 'strong growth potential of the asset base and its proximity to premier natural gas markets make this targeted acquisition a compelling investment.'

“Other energy companies have also acknowledged losses, though not to the same extent. Exxon Mobil wrote down the value of its American natural gas assets by $2.5 billion in recent years after buying the natural gas producer XTO Energy for more than $30 billion in 2010.

“Gas producers have struggled in part because New York and other Northeastern states have made it harder to build pipelines to transport the fuel. But analysts point to a far bigger problem: The industry is just producing too much gas. In some oil fields where gas bubbles to the surface with crude, it has become cheaper for producers to burn the gas than gather it and send it to market.

Gas said uneconomic

“‘Natural gas is in the tank,’ said Patrick Montalban, president of Montalban Oil and Gas Operations. ‘We’re looking at a project right now of over 200 wells in Montana that are for sale, but they are uneconomic. Not only are the wells uneconomic, the gathering of the gas is uneconomic.’

“American natural gas inventories are about 19 percent higher than a year ago, according to the Energy Department. The government estimates that the average spot price for natural gas will be $2.45 per million British thermal units in 2020, about 14 cents below this year’s average,” the Times article said.

The proposed Atlantic Coast Pipeline has been stalled since December 2018 and a case challenging its proposed Appalachian Trail crossing is scheduled to be argued before the U.S. Supreme Court in February 2020.

Financial analysts point to investor uncertainty as pipeline managing partner Dominion Energy remains sure of victory at the Supreme Court, something analysts say is highly uncertain. Estimated cost of the proposed pipeline has skyrocketed 95 percent from $4 billion on announcement in 2014 to $7.8 billion now. Originally scheduled for operation by now, completion is now expected in 2022 after multiple court cases and the work shutdown. Dominion suspended construction last December, exactly one year ago, because the U.S. Fourth District Court of Appeals vacated the U.S. Fish and Wildlife Service biological opinion and taking statement for the project. The biological opinions have been rejected twice. Other permits for the ACP have either been invalidated by court decisions or are being challenged.

Is trail not land?

Initial briefs in the Cowpasture River Preservation Association, et. al. v. Forest Service case from those defending the forest service chiefly contend “the court of appeals erred in holding that the Forest Service lacked authority under the Mineral Leasing Act to grant a pipeline right of way through National Forest lands traversed by the Appalachian Trail. That error derives from two primary sources. First, the court failed to recognize the distinction between a ‘trail’ and the ‘lands’ that the trail traverses. That oversight led the court to believe that the Secretary of the Interior’s authority to ‘administer’ the Appalachian Trail is the same as authority to administer the federal lands crossed by the Trail. On that premise, the court determined that ‘the (Trail) is land in the National Park System' for which the Mineral Leasing Act does not authorize a right of way. Second, the court extended its conflation of trails and lands into a determination that the Chief of the Forest Service is not the appropriate 'agency head' to grant a right of way."

The Southern Environmental Law Center, representing the Cowpasture River Preservation Association and other respondents in the case, is scheduled to file its response brief by Jan. 15, 2020.

Oral arguments before the Supreme Court are scheduled for Feb. 24, 2020.

The respondents in the case, all members of Allegheny Blue Ridge Alliance, are Cowpasture River Preservation Association, Highlanders for Responsible Development, Shenandoah Valley Battlefields Foundation, Shenandoah Valley Network, Sierra Club, Virginia Wilderness Committee and Wild Virginia.

According to Investing.com, analysts at Morningstar said they expect the Appalachian Trail dispute will be resolved by a favorable Supreme Court decision or an administrative or legislative solution. Morningstar said a route revision was the likely compromise for the endangered species dispute but noted that could boost the project's costs to around $8 billion.

The ACP brief can be accessed at aboutblaw.com/Ndd.

The Forest Service brief is at https:// aboutblaw.com/Nde.