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Henry Hub could reach $12-$14 this winter as capital discipline limits supply growth: Platts Analytics

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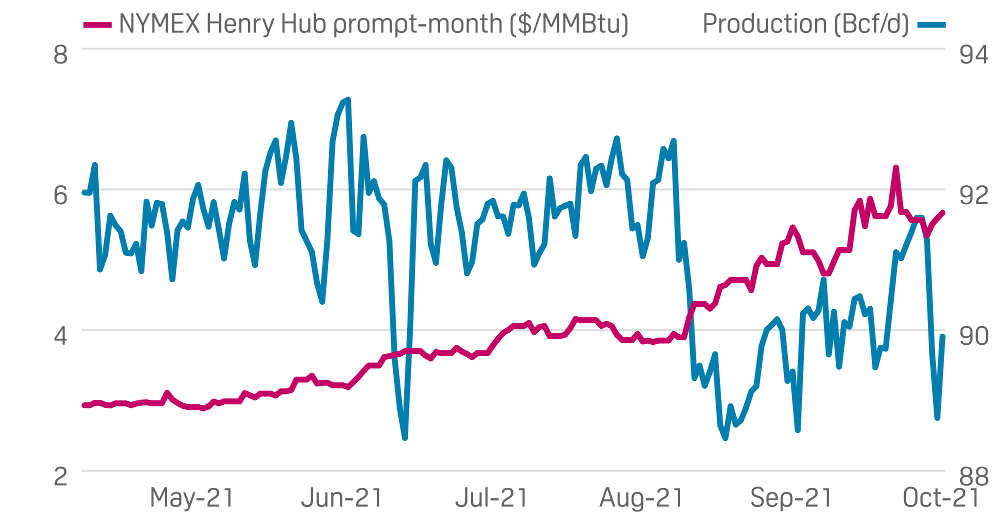
Capital discipline from US gas producers is expected to continue to blunt support from high prices on production levels, which could lead to dramatically higher US gas prices this winter, according to S&P Global Platts Analytics leaders in an Oct. 14 call with reporters.

"If this capital discipline remains, you are talking about $12/MMBtu, $14/MMBtu gas to incentivize either curtailing LNG exports or curtailing exports to Mexico," Simon Thorne, head of generating fuel and power analytics at Platts Analytics, said.

Supply concerns

Even as the NYMEX Henry Hub prompt-month contract climbed above $5/MMBtu into heights last sustained in 2009, US gas supply has not been ramped up in tandem.

HIGHER PRICES HAVE NOT BROUGHT ABOUT STRONGER US GAS PRODUCTION



Source: S&P Global Platts

Platts Analytics data shows that US dry gas production has averaged 90.3 Bcf/d over the last 30 days, more than 6 Bcf/d below record highs observed in late 2019.

Part of the supply weakness this autumn can be attributed to Hurricane Ida, which made landfall Aug. 29 and took more than 90% of offshore Gulf of Mexico production offline in its wake. Offshore production was slow to recover to its pre-Ida levels, but even in the months prior to Hurricane Ida, US gas production rarely surpassed 93 Bcf/d.

Capital discipline

The focus for many US gas producers has shifted from increasing volumes to paying down debt and maximizing shareholder returns, driven in part by a tougher financial landscape. Some investors have shied away from sinking money into oil & gas exploration and production, influenced by mounting pressure to divest from fossil fuels and uncertain returns on investment.

"While shale used to be the solution for quick capital response to shortage of supply, the larger players are becoming less attracted to shale as a long-term play," S&P Global Platts Analytics' Global Director of Analytics Chris Midgley told reporters.

"What we see is that all the rig count increases are coming from the small players, but they don't have anywhere near the same sort of productivity of the larger players," Midgley said.

Capital discipline could be the new normal for US producers, Thorne said, adding, "about the question of 'when does capital discipline end?', I think 'if' is an important question before we get to 'when,' Thorne said.

"Does it end? And if it doesn't, that is a key risk for the US going into the winter," Thorne added.

Looking ahead

Takeaway capacity constraints also pose a threat to production growth, especially in the prolific Appalachia gas basins.

Pipeline infrastructure projects in the Northeast have had difficulty making it through the permitting process in recent years, with expensive delays and environmental opposition leading to the cancellation of several major projects, such as Atlantic Coast Pipeline and PennEast Pipeline.

The 303-mile, 2 Bcf/d Mountain Valley Pipeline still remains on the table — its completion could brighten the supply outlook.

If MVP comes online next year, Platts Analytics expects Appalachia gas production to see a 1 Bcf/d increase in 2022.