Feds Force TETCO to Reduce Flow; SW Appalachia Basis Sinks

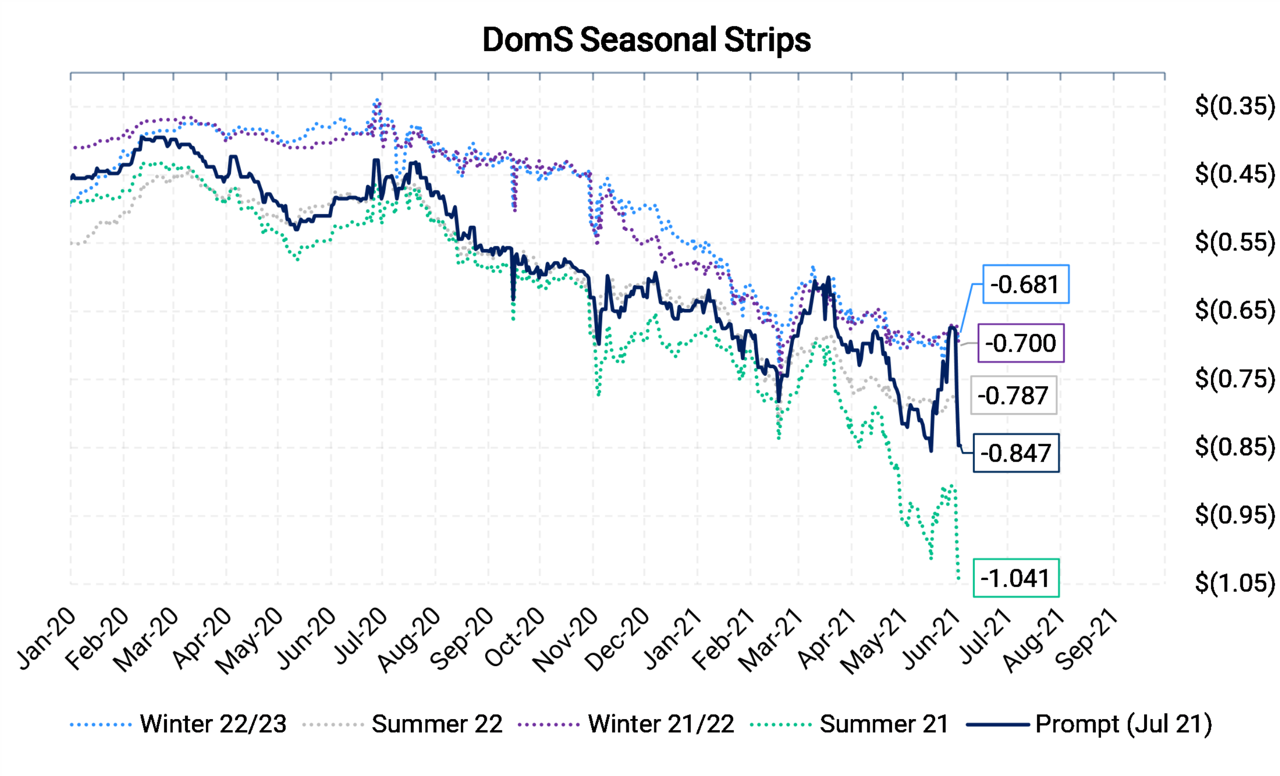
June 11, 2021 | Jay Stevens

6/11/2021 Update*

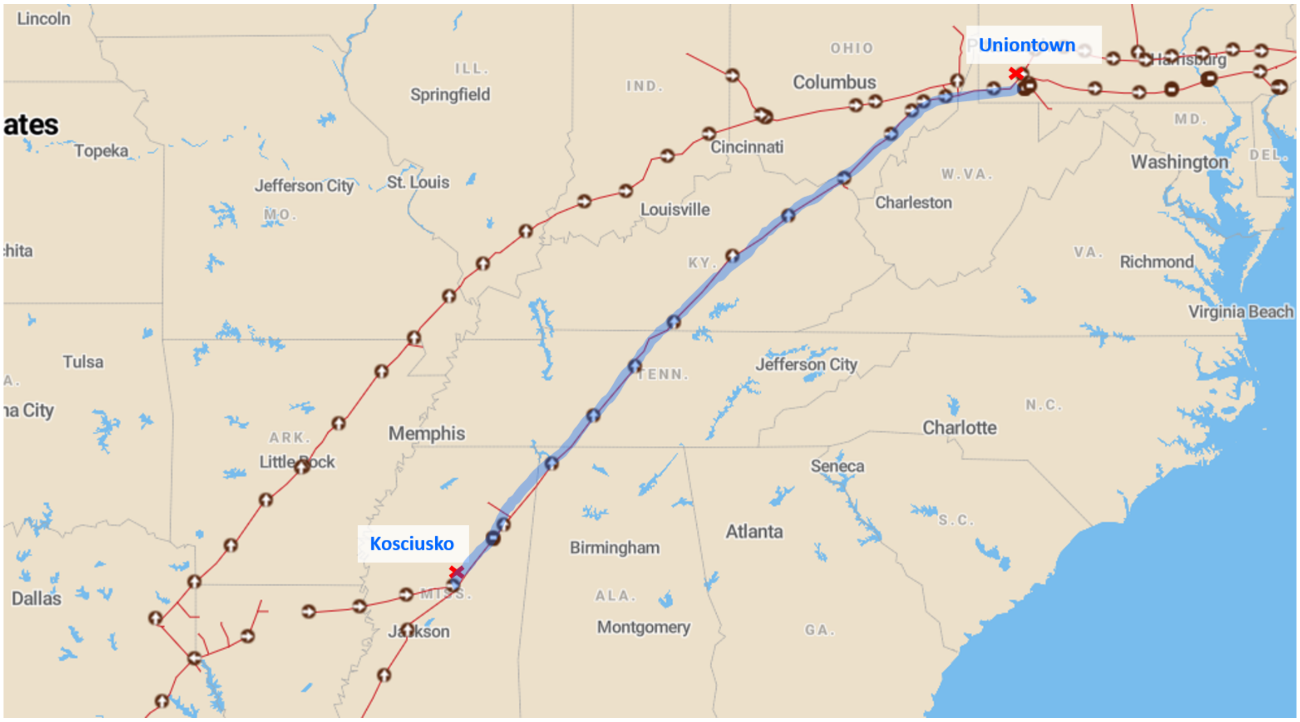
TETCO announced that the earliest the 30" line pipeline between Kosciusko and Uniontown would be returned to full rates will be late 3Q 2021. Henry Hub prices were lifted late on Thursday, June 10, in after-hours trading. The prompt month July gas contract settled Friday at $3.28, up 13.9c. The Summer 2021 strip rose 13c to $3.30. Dominion South basis was punished, falling 15c to -$1.215 on Friday for the prompt month and 19c to -$1.39 for the balance of the Summer 2021 strip.

Dominion South (Dom S) basis dropped 20c this week after a major natural gas pipeline declared *force majeure*. The U.S. Pipeline and Hazardous Materials Safety Administration (PHMSA) refused to renew a permit to allow Enbridge's Texas Eastern Transmission Company, or *TETCO,* to operate its 30" line at full pressure. Reduced pressure on TETCO's Pennsylvania to Missouri segment means about 900 MMcf/d less takeaway capacity for gas producers in Appalachia.

Both the Dom S prompt month and balance of Summer 2021 strip were affected by the reduction in southbound flows. As of Wednesday's settlement, July 2021 Dom S basis was trading at -$0.847/MMBtu, and the balance of Summer 2021 was at $-1.041/MMBtu. Appalachian basis has been under constant pressure for almost a year. Higher production rates are exhausting available egress capacity. Heading into the Memorial Day holiday weekend, TETCO declared a *force majeure* on its 30" line, making the pipeline-capacity problem worse.

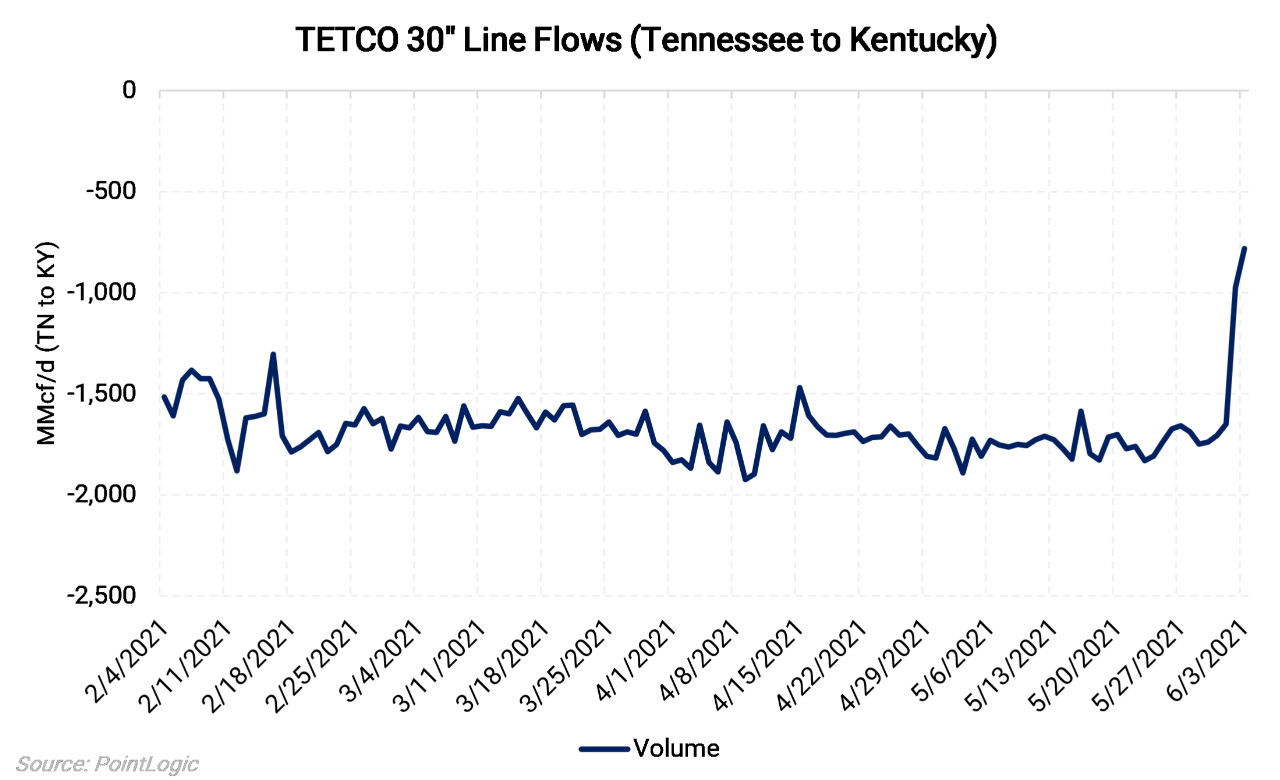


Since last summer, the PHMSA has required TETCO to renew its permit to operate at max pressure between Uniontown and Kosciusko every 90 days. Because of its problematic past, including a few recent ruptures and explosions, TETCO has been operating under multiple special permits on specific segments of its pipeline.



Source: AEGIS, PointLogic

The chart below is measuring the flows on TETCO's 30" segment at the state border of Tennessee and Kentucky. As of June 3, gas flows, shown as negative because the measurement is for northbound flows, were reduced to about 800 MMcf/d compared to 1,700 MMcf/d as of last Friday. This segment of TETCO's pipeline is known colloquially as the "30" Line"; however, there are four lines in the same right-of-way that flow bi-directionally north to south.



Conclusion

The impact of this event on Appalachian basis prices depends on its duration. The company gave an indefinite length for the outage when they first announced the multi-day ramp-down to comply with the PHMSA order. TETCO would be allowed to quickly reapply for another 90-day permit and return volumes sooner rather than later in a best-case scenario. However, if the process takes longer or there are extensive requirements to become compliant according to the PHMSA, then basis locations around SW Pennsylvania (such as Dom S and TETCO M2) will likely stay depressed and less gas will be transported south.

For Enbridge's detailed slide deck click here: TETLP Major Outages

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