
New England Winter Outlook

Recent oil rally brings upside, but bearish fundamentals persist.

Morningstar Commodities Research

December 7 2016

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Data Sources for this Publication

- ▶ Argus
- ▶ EOX Live
- ▶ Pointlogic

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The upcoming 2016-17 winter will be the second in the FERC-approved three-year winter reliability program, which incentivizes onsite oil storage and liquefied natural gas, or LNG, import contracting (there were two prior WRPs, but they were approved separately by FERC). After winter 2017-18, the compensation mechanism will move from the out-of-market WRP into the pay-for-performance capacity market. Because of this program, New England January-February is now correlated with NY Harbor fuel oil prices and West Texas Intermediate, or WTI, crude. Following the OPEC meeting and with the emergence of winter weather, fuel oil prices have rallied and put a bid on January-February Algonquin prices. Given increased Marcellus gas flows into New England via the Algonquin Incremental Market, or AIM, expansion, are prices too high? Possibly. In winter months, Algonquin monthly index prices are typically set by a small number of very cold days, when local distribution companies, or LDCs, bid up gas prices beyond the gas-to-oil switching price. How many days is the market pricing in Algonquin gas over fuel oil? Assuming a "baseload" Algonquin price of \$6, or about \$3.50 over current value for winter Tennessee Gas Pipeline, or TGP, Zone 4 and Millennium, the market is still pricing in the equivalent of 25 days in January-February out of a total of 59 days (Exhibit 1). In January-February 2015, Algonquin printed above fuel oil (New York plus \$2 New England delivery) on only 16 days without the additional gas capacity from AIM. Also, the most liquidly traded cash product, Algonquin Citygates (non-G) will not include deliveries along the G lateral (Southeast Massachusetts) or J lateral (Boston), this limits upside for this product.

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