

# Transco Pipeline Outlook for Summer 2017

## The battle between Gulf and Marcellus gas on the mainline.

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### Morningstar Commodities Research

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### Data Sources Used in this Publication

- ▶ Argus
- ▶ EOX Live
- ▶ EPA
- ▶ PointLogic Energy

To discover more about the data sources used, [Click Here](#)

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### What's the Impact of the Dalton Expansion on Transco Zones 5 and 6?

A tug of war is developing between Marcellus and Gulf Coast gas along the Transco mainline this summer as completed Marcellus pipeline projects fight for market share. In 2015, when Marcellus gas began flooding New Jersey, Transco Zone 6 Non-NY no longer needed Gulf gas to solve summer demand, and prices collapsed versus Henry Hub. But downstream pipeline expansions are gradually finding a home for Marcellus gas, soaking up excess supply and tightening regional price spreads. The Dalton Expansion is one such project that will provide a home for Transco-Leidy gas from Marcellus, delivered via a lateral from Transco Zone 4 in Dalton, Georgia. The project is scheduled to be completed in May 2017 and will affect Transco flows and prices from New Jersey to Georgia. For the time being, we expect Transco Zone 5 prices to remain in line with Henry Hub pricing, as the marginal molecule will still come from the Gulf Coast in summer to solve Carolina gas demand. Also, power demand from Panda Stonewall, CPV St. Charles and LNG demand from Cove Point will help keep Transco Zone 5 prices bid up until larger pipelines come on line in 2018 and 2019. Transco Zone 6 Non-NY, on the other hand, should see an uplift in prices with convergence to Transco Zone 5 this summer from where it is currently trading. As explained below, the Dalton Expansion Project is a direct pull on Transco Zone 6 Non-NY pricing in Maryland and New Jersey equal to 448 million cubic feet per day that should be fully utilized given the discount pricing and firm commitments from power and local distribution company demand in Georgia.

The Transco Zone 6 Non-NY summer strip (April-October 2017) currently trades at a steep discount of negative \$0.48 per million British thermal units to Henry Hub, while Transco Zone 5 is at a premium to Henry Hub (Exhibit 1). It made sense in 2015 and 2016 for Transco Zone 6 Non-NY to trade at a large discount to Transco Zone 5 because of Leidy gas trapped in the zone during summer months without much LDC demand, but we believe that price convergence is warranted in the short term (2017-18) until Atlantic Sunrise, NJR PennEast, and WB Xpress pipeline expansions are complete.

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