Transco Pipeline Outlook for Summer 2017
The battle between Gulf and Marcellus gas on the mainline.

Morningstar Commodities Research
Jan. 23, 2017

Jordan Grimes
Director, Power and Gas
+1 312-244-7046
jordan.grimes@morningstar.com

Trey Dott
Associate Analyst, Power and Gas
+1 312-696-6046
trey.dott@morningstar.com

Data Sources Used in this Publication

- Argus
- EOX Live
- EPA
- PointLogic Energy

To discover more about the data sources used, **Click Here**

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.

To continue reading the full 9 page report, please contact: commodity-research@morningstar.com

About Morningstar® Commodities Research

Morningstar Commodities Research provides independent, fundamental research differentiated by a consistent focus on the competitive dynamics in worldwide commodities markets. This joint effort between Morningstar's Research and Commodities & Energy groups leverages the expertise of Morningstar's 23 energy, utilities, basic materials, and commodities analysts as well as Morningstar's extensive data platform. Morningstar Commodities Research initially will focus on North American power and natural gas markets with plans to expand coverage of other markets worldwide.

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individuals, financial advisors, and institutions. Morningstar's Commodities & Energy group provides superior quality market data and analytical products for energy data management systems, financial and agricultural data management, historical analysis, trading, risk management, and forecasting.

For More Information
+1 800 546-9646 North America
+44 20 3194 1455 Europe
commoditydata-sales@morningstar.com

MORNINGSTAR®

22 West Washington Street
Chicago, IL 60602 USA