

# [***-Meridian Energy Group Inc - Analysis Permian producers face diverging outlook for oil, gas in 2019***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5VHM-XHR1-JD3Y-Y50F-00000-00&context=1516831)

ENP Newswire

February 27, 2019 Wednesday

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**Length:** 754 words

**Body**

New York - Producers in the Permian Basin are getting mixed signals from midstream markets in 2019, as increasingly unconstrained crude oil production continues to lift associated gas output to record highs, testing the limits of available takeaway capacity for the fuel.

The startup of Plains All American Pipeline's 350,000 b/d Sunrise expansion at the end of 2018 marked the start of a period that should bring higher prices and more takeaway capacity for Permian crude.

As oil production bottlenecks are eliminated, though, associated gas output is growing. According to SP Global Platts Analytics, production averaging nearly 8.9 Bcf/d over the past month is now just below the capacity of available pipelines and local demand to absorb it.

As Permian producers respond to market signals that should drive increased crude production in 2019, prices for oil and gas are likely to continue diverging, at least through the summer months.

CRUDE

Already this year, crude producers are seeing stronger prices and more capacity on the horizon. With the startup of projects like Plains' Sunrise expansion, the discount held by WTI locked in at the Midland Permian hub compared with barrels at the Magellan East Houston hub has narrowed to $ 7.82/b in the first quarter from $ 12.71/b in the fourth quarter, SP Global Platts data shows.

Crude oil takeaway pipeline capacity from the Permian to the US Gulf Coast is growing too.

According to Platts Analytics, about 3 million b/d is expected online in the next 18 months, bringing total takeaway capacity to about 6 million b/d by 2020.

Based on announced projects, forecasts by Platts Analytics show takeaway-pipeline capacity exceeding Permian production by 1 million b/d by 2020, which has some project stakeholders fearing overbuild and considering merging projects. At risk is the Permian Gulf Coast pipeline, announced by ***Energy*** Transfer Partners, Magellan, MPLX and Delek, which could be joined with the 1 million b/d ExxonMobil, Plains, and Lotus Midstream project.

GAS

The contrasting outlook for gas could not be more stark. Earlier this month, gas prices at Waha settled at a record-low 7 cents/MMBtu, as Permian gas production surged to its highest ever 9.2 Bcf/d, SP Global Platts data shows. According to Platts Analytics, Permian gas production becomes fully constrained around 9.4 Bcf/d, considering that effective takeaway capacity on pipelines exiting the basin is about 8.7 Bcf/d, with local demand capable of absorbing another 700 MMcf/d.

Until Kinder Morgan's 2 Bcf/d Gulf Coast Express expansion comes online in October, price volatility is likely to increase as available capacity for production growth remains limited.

In the meantime, one potential outlet for Permian gas production could come from the Wahalajara pipeline system in Mexico. While the project has been subject to previous delays, it is expected to bring online up to 400 MMcf/d in incremental demand by May, allowing more supply to move from the Permian Basin to existing capacity at the Texas border.

OUTLOOK

As Permian producers target new markets for future crude production growth, they'll need to keep a close eye on near-term prices, production and capacity in the gas market. Many US Gulf Coast refiners are now reaching maximum light, sweet capacity, meaning that much of the crude production increases from the Permian will be destined for the export market, which averaged 2.3 million b/d in November 2018, data from the US ***Energy*** Information Administration shows.

Fears that export facilities will not be able to keep up are reflected in the wider price spread between ICE WTI MEH barrels and its global benchmark Brent to $ 3.55/b a year from now, from the current front-month $ 2.33/b spread.

In the gas market, volatile prices and constraints could be on the horizon during the approaching shoulder season. For April and May, forward prices at Waha are now trading in the upper 90 cents/MMBtu range, which is down from prices in the low $ 1.20s/MMBtu, about six months ago, SP Global Platts data shows.

Beyond October, though, forward markets are pricing Permian gas higher with the peak-winter demand month of January now priced at $ 2.40/MMBtu.

Next year, Permian producers can look forward to more capacity growth for gas, which should come from Kinder's second expansion project, the Permian Highway Pipeline, which will add another 2.1 Bcf/d in takeaway capacity for the basin.

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**Load-Date:** February 27, 2019

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