

Pipeline build-out helped state avoid economic disaster in 2008, but future is uncertain



Workers construct a pipeline in the Jonah gas field south of Pinedale in this 2006 file photo. (Mark Gocke, Star-Tribune correspondent)

By DUSTIN BLEIZEFFER
Star-Tribune energy reporter
Wednesday, January 7, 2009 7:19 PM MST

A six-year, \$9 billion natural gas pipeline build-out helped Wyoming avoid economic disaster in 2008. But lagging pipeline construction and a recession present a confused outlook for an industry that has provided some \$1.5 billion in annual state revenues in recent years.

"I've been through three downturns, but this has just been an unbelievably rapid change from \$150 per barrel in July to \$50 per barrel," said Don Likwartz, outgoing supervisor of the Wyoming Oil and Gas Conservation Commission.

Several "small producers" have gone under in recent weeks in the Powder River Basin coal-bed methane industry, along with another company with a pair of oil mining ventures in the state. So far, those properties are being picked up by other producers.

"But I think we'll see a lot more bankruptcies, especially if the recession goes another six or seven months," Likwartz said.

Pipeline outlook

In favor of Wyoming's oil and natural gas outlook is the cold weather so far this winter across the nation, and several ongoing efforts to expand pipelines to export natural gas out of the Rockies.

For more than five years, the trend has been that natural gas production growth in the Rockies outpaced export capacity, which has driven regional wholesale prices below the national average. As a result, state revenues from natural gas have also dipped.

Just a \$1 plus or minus change in the price of natural gas can translate into \$200 million plus or minus to state government in annual revenue.

Although there are about nine new pipeline projects planned to expand the region's natural gas export capacity, none is on schedule to help avoid a production overrun and regional price collapse in the 2009-10 time frame.

That is, if the past trends continue.

In response to lower regional wholesale prices, several producers, including Questar Corp. and EnCana Corp., announced plans to address the production/export balance the only way they can: temporarily cut back on new drilling.

The idea is that the companies would have less exposure to depressed prices, but some industry officials say these kinds of cutbacks on the production side might not be enough to avoid an oversupply at the pipeline inlet.

"It's not just supply and demand. It's infrastructure. So access to markets through these pipelines is critical," said Wyoming Infrastructure Authority Chairman Mark Doelger.

Cold weather and the recession, if both continue, should temper the imbalance between natural gas production and available infrastructure to take it to market.

In the meantime, industry officials can count on this fundamental of the natural gas market: Rockies gas is still in demand in the eastern and western United States. So far, only the growth in production is being whittled, which means new pipelines are still needed.

Wyo rides on gas

Wyoming's natural gas production has grown from 4 billion cubic feet per day in 2002 to 6.5 Bcf today -- enough to serve about 65,000 homes for a year. During the same period, taxes and royalties from production have gone from contributing about \$250 million annually to state coffers to contributing \$1.5 billion to \$2 billion annually.

On one hand, it's a great success that also comes with thousands of jobs in the Pinedale Anticline, Jonah, Wamsutter and Powder River Basin gas fields.

But it also puts Wyoming in a precarious situation of being reliant on natural gas. Expanding the state's natural gas industry has pulled work force resources from other industries, which means Wyoming has a lot of eggs in the natural gas basket.

Rockies Express to the rescue

The phased-in completion of the Rockies Express pipeline significantly increased the region's export capacity early in 2008, and helped bring local trading prices upward toward the national average.

The timing of Rockies Express was critical because natural gas prices skyrocketed across the nation early in the year and continued into the summer, topping out at more than \$12 per thousand cubic feet of gas in July. Yet even with the Rockies Express expansion, prices in Wyoming seemed to hit a ceiling in March, then trailed the rest of the nation.

"Rockies Express is unfinished business," Doelger said.

The Rockies Express expansions so far have reached the edge of the Midwest market, where other pipelines were already full, essentially moving the Rockies "bottleneck" a little farther eastward. Not until August or September 2009 will the Rockies Express finally provide a "single-shot" route from the Rockies to the Upper Midwest market and make regional wholesale prices here more competitive with the rest of the nation.

However, Doelger noted, without the incremental expansion of Rockies Express, Wyoming's natural gas-reliant economy could have been much worse in 2008. Wyoming's economy didn't crash, and tens of thousands of Wyoming jobs didn't disappear.

Sensitive to infrastructure

When natural gas production approaches or overruns pipeline export capacity, it drives the wholesale price down, reducing revenue to producers and states alike.

The "price differential" phenomenon sapped an estimated \$340 million in potential local and state revenues in 2007, according to information provided by the state's economic analysis division.

The sensitivity of natural gas pricing to pipeline infrastructure was illustrated in September, when 800 million cubic feet of daily capacity was taken off-line for hydrostatic testing on Rockies Express. Wyoming's wholesale price for gas sank to \$1.78 per thousand cubic feet, while the NYMEX price was \$8.39.

Wyoming gas had been within \$2.25 before the interruption.

Wyoming, Colorado and Utah together produce about 9 billion cubic feet of natural gas per day -- enough to serve about 90,000 homes for a year. But the region consumes only 1 Bcf per day during mild weather and 2.5 Bcf per day when it gets really cold.

Wyoming's portion of regional production is about 75 percent, which means no other state in the Rocky Mountains has as much to lose or gain economically when it comes to natural gas.

Contact energy reporter Dustin Bleizeffer at (307) 577-6069 or dustin.bleizeffer@trib.com.