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Permian bottleneck to boost Waha gas supply

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San Antonio, 12 November (Argus) – Growing natural gas output from the Permian basin is expected to boost supply at the Waha hub in west Texas as production outpaces pipeline infrastructure.

Drilling activity in the Permian basin, located in west Texas and southeastern New Mexico, has surged in recent years as producers have strived to take advantage of recovering crude oil prices. As a result, associated gas volumes have grown significantly.

Multiple natural gas pipeline projects have been proposed out of the Permian, but only two have reached a final investment decision (FID). Those pipelines are the 2 Bcf/d (57mn m³/d) Gulf Coast Express and the 2 Bcf/d Permian Highway Project.

Proposing and building pipelines from the Permian basin to the Gulf coast was more practical than attempting to transport the gas elsewhere because of demand prospects and fewer competing sources of gas, said Anupam Das, manager of market analytics at NextEra Energy Resources.

Speaking during a panel discussion today at the US-Mexico Natural Gas Forum in San Antonio, Texas, Das told attendees that in his study of various consultant forecasts, "all of them" had the Waha index trending lower.

"Supply in the basin is expected to grow ahead of takeaway capacity, at least in the foreseeable future," he said.

Waha prices fell 38pc in the year ended 1 November, reflecting the gas bottleneck in the region caused by pipeline constraints, according to an Argus analysis.

Das said Houston Ship Channel index prices are expected to rise, bolstered by growing global liquefied natural gas (LNG) demand.

Mexico is the largest market for US LNG exports. Pipeline construction delays in Mexico have forced Mexico's gas buyers to resort to LNG, but that demand is expected to decline in the long term as more pipeline capacity comes online.

Despite the anticipated decline in Mexico LNG demand, some global long-term LNG contracts are starting to end, and by 2029 will have mostly expired, Das noted. This could offer the US an opportunity to secure new LNG supply contracts, possible up to 25 Bcf/d.

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