New England Power and Gas 2015-19 Term Outlook
Lower prices on horizon with more oil, LNG, and pipeline expansions.

Executive Summary
Although we expect gas pipelines into New England to remain constrained and short of the capacity needed to meet winter demand for the foreseeable future, other fuel programs and deliveries should help satisfy winter demand. Slumping global liquefied natural gas prices have made New England the most attractive spot market for LNG cargoes coming from Trinidad and Tobago, Qatar (Canaport), and Yemen. We forecast lower Algonquin prices in upcoming winters but higher volumes of LNG deliveries because of relatively attractive New England landed prices. The robust Winter Reliability Program of the independent system operator in New England, or ISO-NE, which helped prevent electric generators from going on forced outages and bidding up prices along the pipelines, is set to expand this year with another 750 megawatts of dual-fuel capability and another 1,000 MW in 2016. Fuel oil prices should be lower when generators fill up their onsite tanks in November versus last year, lowering the gas-to-oil burn switching price.

Pipeline expansion projects, notably Spectra’s Algonquin Incremental Market and Kinder Morgan’s Connecticut Expansion, will increase gas flows from the cheaper Marcellus market and solve gas deliverability issues. Incremental pipeline expansions will help ISO-NE deal with the looming retirement of Brayton Point, allowing large combined-cycle plants Footprint Power and CPV Towantic to source Marcellus gas. ISO-NE Pay-for-Performance capacity market combined with WRP should help relieve many of the forced outages that cause spark spread blowouts in winters.

Our forecast calls for lower Algonquin gas prices as well as lower Massachusetts Hub fixed prices and spark spreads in winter months. We see some upside to peak summer months at Mass Hub because of the Brayton Point retirement, but the large influx of solar photovoltaic installations and energy efficiency improvements should keep demand in check until new generation comes on line in 2017 and 2018.

Key Takeaways
► Bullish: Brayton Point retirement (1,525 MW) could constrain ISO-NE in summer 2017, but Footprint Power (675 MW) should provide some relief in June 2017.
► Bearish: Pipeline expansions along Algonquin and Tennessee Gas Pipeline should help relieve scarcity pricing in winter months and give local distribution companies more firm supply for peak days.
► Bearish: ISO-NE WRP program grows more robust every year, and we expect even higher participation in subsequent winters. The oil subsidy could be higher, in percentage terms, year over year, but a rebound in oil prices would increase the gas-to-oil switching price and bid up Algonquin winter gas prices.
► Bearish: We expect winter LNG shipments by sea and by truck to increase as the global LNG market becomes more oversupplied.
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For More Information
+1 312-244-7173
Commodity-research@morningstar.com

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