

Pennsylvania Q3 gas production growth rate lowest in two years: state IFO

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Published on - Wed, 04 Dec 2019 17:14:53 EST

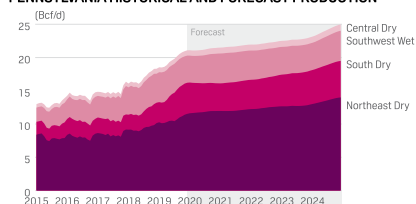
Natural **gas** production in the Keystone State grew to 1.7 Tcf (18.48 Bcf/d) in third-quarter 2019, but the rate of growth slowed to 9.1%, the slowest in two years, according to a **Pennsylvania** Independent Fiscal Office report.

Based on state Department of Environmental Resources data, the report, released this week, projects that **gas** production for full-year 2019 will grow at 12.5% compared with last year. While still impressive, this rate of growth is less than half of the growth rate seen in full-year 2018, when **gas** output climbed 30.7% from the previous year.

IFO attributed the robust run-up in production in 2018 to the dramatic increase of pipeline takeaway capacity that came online during the year, as well as an increase in **gas** prices, while the slowdown in 2019 projected growth "is likely the result of lower natural **gas** prices and the diminishing gain from last year's increased pipeline capacity."

The report also finds a marked slowdown in the production growth on a well-by-well basis. After recording per-well production gains in 2018 of about 34% for the year, average per-well production growth moderated to about 7% year to date in 2019.

PENNSYLVANIA HISTORICAL AND FORECAST PRODUCTION



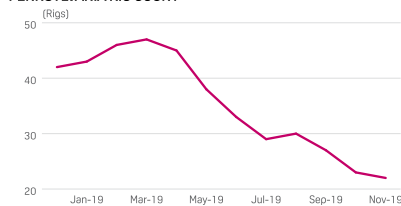
Source: S&P Global Platts Analytics

This slowdown in production growth in **Pennsylvania** reflects a larger trend across the **Appalachian Basin**, as producers in the region are expected to reduce capital spending in 2020 to focus on achieving positive free cash flow in an environment of continued lower **gas** prices, according to S&P Global Platts Analytics.

Drilling activity in the basin had already begun to decline by last spring, with the number of operating rigs dropping by more than one-third since April 2019. The most significant drop this year has come from the **Utica Shale**, which has seen the rig count decrease by nearly 40%, while the Marcellus has dropped just over 30% throughout 2019 year to date, Platts Analytics finds.

As the rig count has continued to decline, operators have begun to turn to their inventory of drilled, but uncompleted, wells. Since mid-year, completions have outpaced the number of drilled wells and this, in turn, has caused the DUC inventory to fall.

PENNSYLVANIA RIG COUNT



Source: S&P Global Platts Analytics

Since June, Appalachian DUC inventory has fallen by about 16%, dropping the total number of DUCs in the basin to below 600, according to Platts Analytics data.

Growth from wells drilled last year

The IFO report finds that all of the production growth seen in Q3 comes from wells drilled in 2018, with wells spud that year accounting for more than 23% of the growth in the quarter.

Virtually all of the Q3 **gas** production in the state came from horizontal wells, which have seen a quarter-on-quarter increase in horizontal production for 13 straight quarters, the report states.

There were 9,590 producing wells in Q3 2019, an increase of 7.5% compared with the number of wells in full-year 2018.

Year to date, four **Pennsylvania** counties — Susquehanna and Bradford in the northeastern corner of the state, and **Washington** and Greene in the southwest — comprise more than two-thirds of statewide production, with the number-one producing county, Susquehanna, accounting for almost a quarter of **Pennsylvania** production. Among the top 10 producing counties, all but **Wyoming** registered production gains compared with the same period of 2018, IFO finds.

Using data that the **US Energy Information Administration** collected through August, the IFO forecasts that **Pennsylvania gas** production will grow at an annual rate of about 14% in 2019, placing the state second behind **Texas**, where **gas** output is expected to grow 16% compared with 2018.

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