News : US gas producers embrace well deferrals to manage 2024 supply

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- Prompt futures fall to $1.65/MMBtu
- 2025 provides better pricing

A number of US gas producers are electing to drill but hold back a portion of their new wells this year as they work to simultaneously ease current oversupply conditions while setting themselves up for an expected rebound in prices in 2025.

With near-term pricing firmly below $2/MMBtu and continuing to weaken, several operators have decided to defer completions and turn-in-lines or otherwise float the prospect, looking forward to a better market in which to bring those wells to sales.

Most recently, Appalachian producer CNX Resources announced March 12 it will delay completion of 11 wells within the Marcellus Shale in 2024.

The deferrals are expected to reduce the company's full-year production by 30 Bcfe to 550 Bcfe total at the midpoint, but its announcement emphasized CNX "maintains the flexibility to return to its previously stated long term production volume target of approximately 580 Bcfe in 2025."

Before CNX amended its guidance, Haynesville and Marcellus Shale operator Chesapeake Energy detailed plans to build up its inventory of drilled but uncompleted wells while deferring turn-in-lines. TILs in 2024 will be limited to 30-40, with the majority having already taken place in January and February, CEO Nick Dell'Osso said Feb. 21.

The change of pace is sizeable: In 2023, Chesapeake turned 40 Marcellus wells to sales in Q4 alone, plus an additional 12 wells in the Haynesville during the quarter.

In all, Chesapeake expects the deferrals to provide up to 1 Bcf/d of incremental production capacity by Q4 2024.

Unlike Chesapeake, peer producer Range Resources guided toward flat production in 2024 but will have "flexibility to basically adjust timing for turn-in-lines based upon what the macro is telling us," CEO Dennis Degner said Feb. 22 during Range's Q4 2023 earnings call.

EQT, which recently announced a 1 Bcf/d gross production curtailment lasting at least through the end of March, may similarly choose to move timing of TILs in 2024, executives have said.

Motivation, market impact

US dry gas production is averaging roughly 101.7 Bcf/d month to date, down from December's record of close to 106 Bcf/d, but market fundamentals are still loose, according to data from S&P Global Commodity Insights.

Prompt-month NYMEX Henry Hub gas futures settled lower at $1.65/MMBtu March 13 as the market anticipates additional widening of the surplus to the five-year natural gas storage average.

The balance of the 2024 curve remains under pressure, holding below $3/MMBtu through November, data from CME Group showed.

Thereafter, prices improve considerably, with December 2024 and January 2025 gas futures priced at $3.44 and $3.73 respectively on March 13. At current NYMEX futures settlement prices, 2025's low of $3/MMBtu is still nearly 82% higher than prompt April 2024 futures, making next year's market much more favorable, as operators have observed.

"We're looking in 2025, where you see a $1 higher pricing ... that's going to be further incentive for us to pinch back and deliver those molecules into a higher-priced market," EQT CEO Toby Rice said Feb. 14.

Forecasts of rising LNG feedgas demand lay behind the contango market. LNG export demand, which averaged about 13 Bcf/d in 2023, is forecast to rise modestly in 2024 before reaching more than 17 Bcf/d on average in 2025, S&P Global data showed.

Singling out Chesapeake, commodities analysts with Goldman Sachs observed in a March 10 note that the operator's TIL deferral strategy "effectively reduces the lag between the ramp-up in [LNG] demand and new production coming to market."