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Maintenance cuts natural gas pipeline flows to US Southwest as strong prices persist

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HIGHLIGHTS

Force majeure cuts 111 MMcf/d on Kern River

PG&E city-gate spot remains above \$5/MMBtu

A force majeure at a compressor station on Kern River Gas Transmission looks to limit the amount of gas flowing to the US Southwest as prices at major hubs in the region continue to surge past the benchmark Henry Hub.

The force majeure occurred at its Veyo compressor station in southwestern Utah, the company announced Aug. 8. Capacity at the compressor station will be reduced by 111 MMcf/d for the duration to 2.3 Bcf/d.

"On Aug. 8, 2021, Kern River experienced an unexpected mechanical failure at one of the units at the Veyo compressor station," read the announcement. "Kern River is diligently working to make the necessary repairs and return the unit to service. Transportation service from receipt points in Wyoming and Utah, and to delivery points located downstream of the Veyo compressor station in Nevada and California may be affected by the force majeure."

The pipeline does not have an expected date for the station to return to normal service.

While 111 MMcf/d is relatively small for a force majeure, flows into the Southwest US have been at new highs as extreme heat has impacted much of the West.

The compressor station had been flowing at 99% of its 2.4 Bcf/d capacity over the past 14 days, with 1.6 Bcf/d eventually making it downstream to the Dagget compressor station in Southern California. July's demand was the strongest since 2015 and month-to-date August is trending 310 MMcf/d above 2020 despite an additional 69 MMcf/d being exported to Mexico.

This additional capacity reduction into Southern California will certainly further tighten basis in the region. So far this month PG&E city gate basis is already up 82

cents/MMBtu year on year to \$1.49/MMBtu over Henry Hub. Spot price has closed above \$5/MMBtu every day since July 11.

SoCal Gas, city-gate basis is up \$2.96/MMBtu to \$3.16/MMBtu.

The Kern River force majeure occurred just five days after Aug. 3 Southern California gas Company announced that as a result of in-line inspections, they will have to reduce pressure on Line 3000.

The section is already offline as a result of the maintenance at the Newberry Compressor Station, with nominations at Topock from El Paso falling from an average of 106 MMcf/d through the first half of July to zero by July 25, according to Platts Analytics.

Nominations at the EL Paso/Topock point have seen no sign of life since then. The maintenance at Newberry is expected to last through Sept. 10, but the lost capacity has so far been accommodated by an increase in nominations at Needles, where Transwestern has increased deliveries from roughly 250 MMcf/d to a seven-day average of 310 MMcf/d. The Northern Zone has already spent the entire summer hobbled by 720 MMcf/d due to a maintenance on Line 4000, which will last through the end of September.