**Gas Marketing in the Piceance Basin**

John Harpole  
Mercator Energy LLC  
Littleton, CO

**ABSTRACT**

Piceance Basin producers have a number of outlets for their gas including four interstate pipelines and several distribution pipelines. Approximately ninety percent of the gas that is bought and sold in the basin is traded on a First of Month Index Price. The three index pricing points most applicable to the basin are the most volatile in North America due to large residential demand swings coupled with low industrial demand. Marketers estimate that ninety-five percent of the gas produced in the basin is exported; however, Piceance producers have more choices for export capacity than other Rocky Mountain basins. The recent Kern River Natural Gas pipeline expansion and TransColorado’s announced 40,000 MMBtu expansion should provide price relief for the extreme negative basis differential that has existed in the Rockies. While “forward strip prices” are at record highs, the unwillingness of producers to commit to pipeline expansion and the recent demise of the national gas marketer is a cause for concern.

**Introduction**

Marketing natural gas in the Piceance Basin has just become much easier. Actually, producing gas in a positive economic environment has become much easier. At the time this article was written (June, 2003), the one-year, two-year, and five-year forward prices for gas delivered into a Piceance Basin area interstate pipeline were approximately $5.20, $4.70, and $4.30 respectively (One MMBtu is roughly equivalent to one MCF). In June, July, and August of 2002, producers received index prices of $1.60, $1.26, and $1.59 per MMBtu respectively for delivery in the same area.

Unlike most producing basins in the Rocky Mountains, the Piceance Basin has a number of pipeline trails through the tall grass. Producers, depending upon their specific location within the Piceance, can choose to connect their gas to one or more of the following interstate pipelines: (1)TransColorado, (2) Colorado Interstate Gas, (3) Williams Gas Pipeline Northwest, and (4) Questar Pipeline, as shown in **Figure 1**. Additionally, distribution pipelines such as Public Service Company and Kinder Morgan’s Rocky Mountain Natural Gas may be considered downstream market interconnect options for some producers.

Relative to pipeline export capacity, Piceance Basin producers find themselves in a good position. There was a time less than two years ago when TransColorado was moving less than 20,000 MMBtu/day. TransColorado was definitely built before production volumes justified its existence. In fact, the Piceance may be one of the few basins in the Rockies where pipeline export capacity (thanks to TransColorado) was ahead of productive capacity.

**Pricing: Past, Present, and Future**

According to a number of Piceance Basin producer marketers, approximately 90% of the gas that is bought and sold in the Piceance Basin is traded on a First of the Month Index Price. That price is derived by tying sales contracts to index prices published in industry trade publications such as McGraw Hill’s *Inside FERC’s Gas Market Report*.

The three index pricing points that are most applicable to the Piceance Basin are also three of the most volatile trading points in North America. That is, the coefficient correlation (the predictability of the price) has perhaps the worst correlation to the Nymex/Henry Hub-Louisiana futures contract price in North America.

**Table 1** shows the average index price for Colorado Interstate Gas: Rockies Index, Northwest Pipeline: Rocky Mountains, and Questar Pipeline: Rocky Mountains (June 2000 to May 2003 from *Inside FERC’s Gas Market Report*).

To understand the reasons for the price volatility, one needs only to spend a winter in the Rocky Mountains to experience the mean daily temperature swing of the wild, wild, west. Denver has one of the larger mean daily temperature swing (the difference between the high and low temperature