MIDSTREAM Monitor

APRIL 27, 2018 | VOLUME 36 | ISSUE 17

VIDEO

MARIA HALMO OF ALERIAN: 'MLPs Are Moving Toward A Self-Funding Model'

JESSICA MORALES
HART ENERGY

Maria Halmo, director of research at **Alerian** and a **columnist** for *Midstream Business* magazine, shared her insights during the Marcellus-Utica Midstream Conference earlier this year in Pittsburgh.

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Halmo said that new money is flowing into the midstream space because investors still have confidence and want exposure to the North American infrastructure buildout. Pipeline constraints in the Northeast are a problem, she said, but one that new projects coming online in the next five years can relieve once they make it past regulatory hurdles.

The builders of that needed infrastructure in the Northeast, she emphasized, will be MLPs.

EPA's Pruitt's Favorite Rule: Eliminate Rules

When Scott Pruitt, administrator of the U.S. Environmental Protection Agency (EPA), enters the Capitol on April 26 to testify before two House subcommittees, he will do so as one of the most despised—and beloved—political figures in Washington.

Despised as the target of a series of ethics investigations and his aggressive approach to regulatory reform, Pruitt is also much admired by energy industry lobbyists for his efforts to roll back regulations in line with a key component of President Donald Trump's agenda. Fifteen months after the president's inauguration, Pruitt is said to be an Oval Office favorite because of his gung-ho approach to the mission.

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"[EPA's Reform Plan] includes a series of projects focused on improving how EPA provides services and engages customers," Pruitt says in his prepared opening statement to the environment subcommittee of the House Committee on Energy and Commerce, which was released on April 25. "Projects include streamlining EPA's permit review processes, deploying a Lean Management System, and reducing unnecessary reporting burden on the regulated community."

That streamlined approach may be what oil and gas players were seeking with the Trump administration, but there are downsides for the industry.

"The significant impact from Administrator Pruitt leading the EPA is being a staunch ally to the oil and natural gas sectors," John Kneiss, Washington-based energy analyst, told Hart Energy. "He has an open door to hear the industry's views and clearly supports regulatory reforms and changes that can benefit development of these resources, including refinery operations and transportation fuels." —**JOSEPH MARKMAN** | HART ENERGY

LNG Exports Are A Still-Developing American Story

As far as LNG Allies President and CEO Fred Hutchison is concerned, the developing $100 billion LNG export market is an American success story that is continuing to unfold.

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The U.S. jumped into the LNG export market last year and has already become a player on the world stage with just two terminals—Sabine Pass in Louisiana and Cove Point in Maryland. But with four more terminals set to open next year the U.S. is expected to export as much as 10 Bcf/d of gas by late 2020, which is triple what is leaving the country today.

That will place the U.S. among the top three exporters of natural gas in the world along with Australia and Qatar.

"It's a success story that is still developing, but one that is not just hypothetical anymore," Hutchison said. "We're in it." —**TERRANCE HARRIS** | HART ENERGY

FRAC SPREAD

NGL 'Barrel' Up; Ethane Not Going With Flow

JOSEPH MARKMAN | HART ENERGY

Natural gasoline reached a 41-month high last week at Mont Belvieu, Texas, as the two-week run of the hypothetical NGL barrel returned to levels not seen since the start of the year.

Countering that upswing was the relatively stagnant price of ethane at just under 27 cents per gallon (gal). Ethylene prices are weak, said **En*Vantage Inc.**, but there is no indication that ethane crackers are easing up. Polyethylene production is up, which translates into higher demand for ethylene but most of it is going into storage.

CURRENT FRAC SPREAD (CENTS/GAL)

APRIL 27, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	14.15		26.94	
Shrink	18.23		18.14	
Margin	-4.08	-22.94%	8.80	-2.11%
Propane	71.55		83.45	
Shrink	25.19		25.07	
Margin	46.36	13.47%	58.38	2.76%
Normal Butane	77.90		90.76	
Shrink	28.52		28.38	
Margin	49.38	19.40%	62.38	6.32%
Isobutane	108.63		96.10	
Shrink	27.39		27.26	
Margin	81.24	4.78%	68.84	6.34%
Pentane+	153.73		153.35	
Shrink	30.50		30.35	
Margin	123.23	5.12%	123.00	0.81%
NGL $/Bbl	28.27	2.33%	31.82	1.92%
Shrink	10.05		10.00	
Margin	18.22	10.65%	21.82	2.48%
Gas ($/mmBtu)	2.75	-9.95%	2.74	0.72%
Gross Bbl Margin (in cents/gal)	41.44	11.22%	50.62	2.51%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.78	-5.35%	1.48	-0.22%
Propane	2.48	3.95%	2.90	2.14%
Normal Butane	0.84	6.67%	0.98	4.50%
Isobutane	0.68	0.63%	0.60	4.68%
Pentane+	1.98	1.74%	1.98	0.80%
Total Barrel Value in $/mmbtu	6.76	2.13%	7.94	1.82%
Margin	4.01	12.48%	5.20	2.41%

Price, Shrink of 42-gal NGL barrel based on following: Ethane, 36.5%; Propane, 31.8%; Normal Butane, 11.2%; Isobutane, 6.2%; Pentane+, 14.3%, Fuel, frac, transport costs not included. Conway gas based on Midwest region, Mont Belvieu based on Houston region. Shrink is defined as Btus that are removed from natural gas through the gathering and processing operation.

The positive spin is that a significant jump in polyethylene exports will solve this problem. More realistically, En*Vantage fears a major bottleneck in the value chain if those exports *don't* pick up as the year moves along.

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In short, ethane demand is rising but higher production is creating a downstream bottleneck in storage. That puts demand on the road to a possible slump and En*Vantage's previous forecast of 30 cents/gal at Mont Belvieu by mid-year could be at risk.

Propane, with its price up 10.2% in the past three weeks and 28.9% in the past year at Mont Belvieu, saw its margin widen by 2.76% to a bit over 58 cents/gal. The price of propane is riding along the price of crude oil and balances will not be a problem, En*Vantage's Peter Fasullo said in the company's recent presentation at the GPA Midstream conference.

That's because poor economics have brought down propane cracking demand. En*Vantage also listed:

- The shaky status of the Mariner East system means that more Northeast propane is likely to be railed to the Gulf Coast this summer;
- The market may be concerned about tariff retaliation from China over U.S. propane exports; and
- Growing supplies from gas processing.

The analysts' hunch is that these worries will not play out, that many traders will find themselves short on propane heading into the summer and that a squeeze is possible by the fourth quarter.

Will Canada Miss Out On Global Opportunities?

With the political and legal battle over the Trans Mountain Expansion battle raging in BC and Alberta, the oil and gas industry has released the second economic study that will form part of its vision for the future of the Canadian energy sector.

Canada's Role in the World's Future Energy Mix from the Canadian Association of Petroleum Producers (CAPP) focuses on growing global demand to 2040—most of it in Asia, markets the Kinder Morgan pipeline is intended to tap—the opportunities, and the impediments that could prevent Canadian producers from taking full advantage. From CAPP's point of view, overregulation and a new pipeline approval process are the primary culprits, but at least one industry insider thinks the business has created some of its own problems.

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The CAPP report uses data from the International Energy Agency's forecasts contained in the World Energy Outlook 2017, which shows global population rising to 9.2 billion, with most of the growth coming in Asia, where rising incomes and a hunger for Western-style middle class lifestyles boosts spending on consumer goods like automobiles.

"It's time to be realistic about Canada's future. We have an opportunity to be a global supplier but we are limiting our opportunity to meet global demand with policies that constrict future growth," CAPP CEO Tim McMillan said in an interview. **—MARKHAM HISLOP | CONTRIBUTOR**

TOP STORIES

Phillips 66 Partners To Build Pipeline System

Phillips 66 Partners (NYSE: **PSXP)** said April 24 it has received sufficient binding commitments on an initial open season to proceed with construction of the Gray Oak Pipeline system. The Gray Oak Pipeline will provide crude oil transportation from West Texas to destinations in the Corpus Christi and Sweeny/Freeport markets.

Origination stations will be constructed in Reeves, Loving, Winkler, and Crane counties in West Texas, as well as from locations in the Eagle Ford production area in South Texas.

The pipeline is expected to be placed in service by the end of 2019, and is backed by long-term, third-party, take-or-pay commitments with primarily investment-grade customers.

Gray Oak Pipeline, LLC, a joint venture owned 75% by Phillips 66 Partners and 25% by Andeavor (NYSE: **ANDV**), will own the pipeline system.

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