MIDSTREAM Monitor

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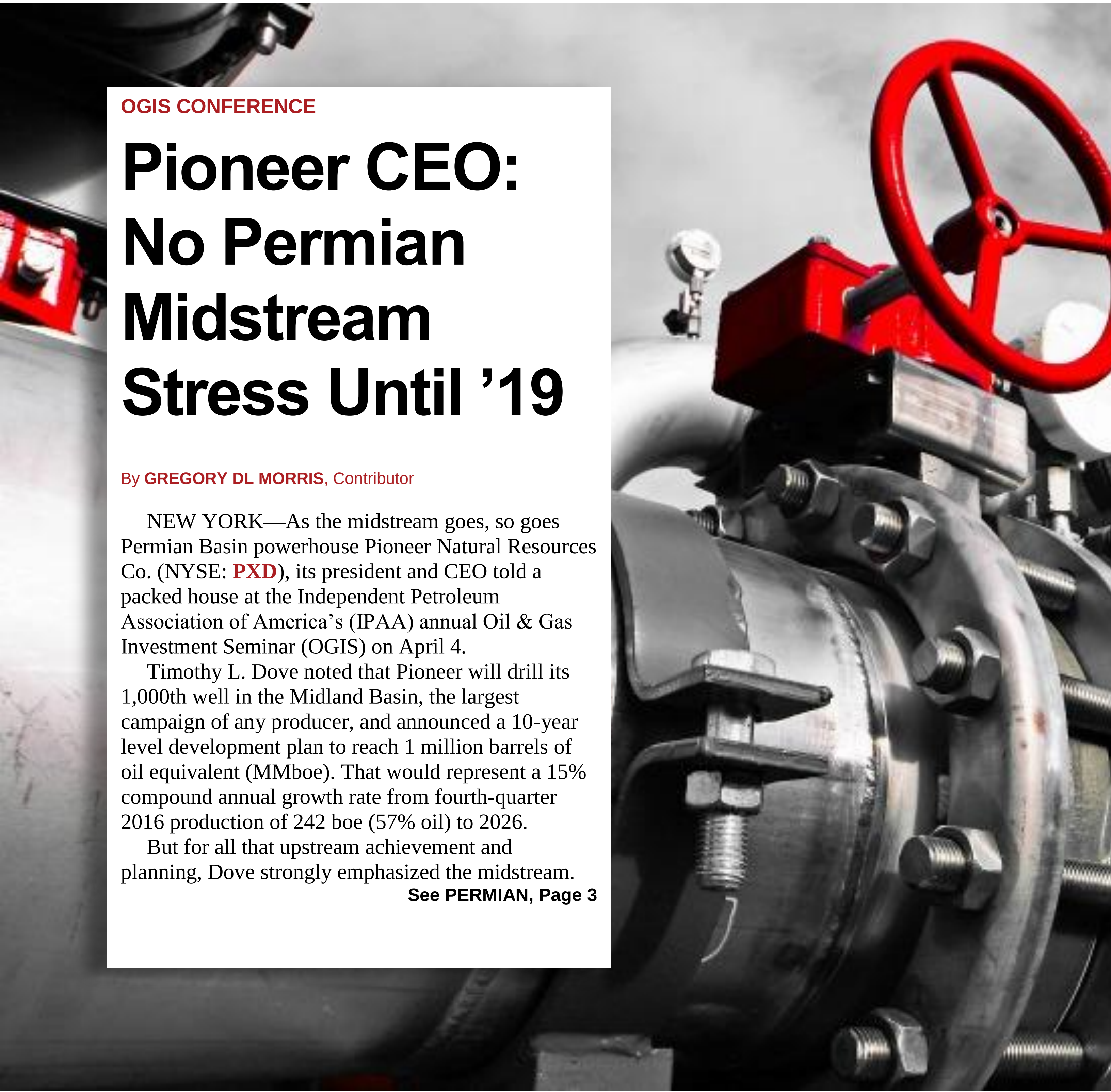

OGIS CONFERENCE

Pioneer CEO: No Permian Midstream Stress Until '19

By **GREGORY DL MORRIS**, Contributor

NEW YORK—As the midstream goes, so goes Permian Basin powerhouse Pioneer Natural Resources Co. (NYSE: **PXD**), its president and CEO told a packed house at the Independent Petroleum Association of America's (IPAA) annual Oil & Gas Investment Seminar (OGIS) on April 4.

Timothy L. Dove noted that Pioneer will drill its 1,000th well in the Midland Basin, the largest campaign of any producer, and announced a 10-year level development plan to reach 1 million barrels of oil equivalent (MMboe). That would represent a 15% compound annual growth rate from fourth-quarter 2016 production of 242 boe (57% oil) to 2026.

But for all that upstream achievement and planning, Dove strongly emphasized the midstream.

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PERMIAN from Page 1

"In production in the Permian, and especially for our growth plans, it is essential for us to stay ahead of the bottlenecks," he said. "Essentially we have to add a new gas-processing plant every year in the Permian. We already have a massive water system. In this play you had better control your own water."

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In the breakout session, the midstream emphasis continued, with four of the first six questions concerning transportation and processing.

"Midstream operators in the Permian have done a good job of staving off the bottlenecks," Dove said. "In crude we don't see any rough spots until 2019. That said, it's at least two years from the dream to flow, so we are looking at the next phase already. The MLPs are knocking our door down for firm transport deals already. That is good because at 560,000 barrels of incremental oil, we had better have pipes plus tanks and export facilities."

Putting a fine point on the issue, Dove noted, "Our Permian crude is 41-43 API gravity, which is ideal for the worldwide market. But the pipeline spec is 45. So our goal is to segregate our crude in batches down the line. We have the premium oil."

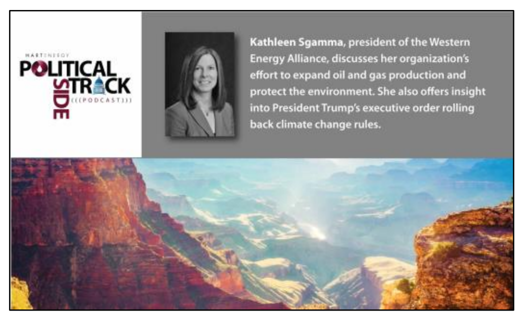
On the gas side, Dove does not see any midstream issues until 2019 either.

"In the Permian, 10% of our molecules are gas" that needs to be moved, he said. "The proposed Kinder Morgan Gulf Coast Express line to Agua Dulce line will take gas close to Corpus Christi, Texas, and from there it can get to Mexico, or the Gulf Coast LNG terminals, or to the Henry Hub."

PODCAST

Regulation Overreach, Environmental Impact, Industry Growth

President Donald Trump invoked his campaign mantra of jobs and unleashing the economy on March 28 as he signed an executive order rolling back six executive orders and presidential memorandums guiding the Obama administration's climate change policies. The oil and gas industry embraced the action that undid the Clean Power Act. But there are many more regulations, including many that that industry leaders consider overreach, impacting industry growth.



In this episode of *Political Sidetrack*, Kathleen Sgamma, president of the Western Energy Alliance, which represents over 300 energy companies in 13 Western states, discusses the impact of regulations such as BLM methane rules, NEPA reviews, fracking regulations and more, on the growth of oil and gas production and economic growth. She also discusses the industry environmental record and initiatives it has already self-imposed to contribute to a decline in greenhouse gases.

Barton: See The Difference In Energy Vs. Health Care

DALLAS—The nation can starkly see the benefits of a free market by comparing two businesses—energy and health care—according to a long-time Texas congressman.

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Rep. Joe Barton, a Republican who has represented Texas' 6th district since the 1980s, said in a closing keynote to the INGAA Foundation's Spring Meeting on March 31 that the diverging trends of the unrelated industries are instructive in which system, free market vs. socialism, works best.

The comparatively free-market energy business has provided the U.S. with abundant reserves and lower prices. Meanwhile, health care costs have skyrocketed and coverage plans have become confusing and bureaucratic as the federal government has increased its power over medicine. — **PAUL HART,** Hart Energy

FRAC SPREAD

Glut(tony) Can Be Hard To Stomach

By **JOSEPH MARKMAN**, Hart Energy

While we're on the subject of OPEC (we've never really drifted far from that topic since 1973)), the cartel will decide on May 25 in Vienna whether to extend its production cut agreement when it expires in June.

Conventional wisdom leans toward a global crude oil glut and lower prices if the agreement is not extended. Goldman Sachs Group Inc. (NYSE: **GS**) has a different take.

CURRENT FRAC SPREAD (CENTS/GAL)

APRIL 7, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	19.18		23.44	
Shrink	19.98		20.29	
Margin	-0.80	-46.56%	3.15	143.97%
Propane	56.30		61.45	
Shrink	27.61		28.03	
Margin	28.69	3.83%	33.42	9.05%
Normal Butane	71.15		70.65	
Shrink	31.26		31.73	
Margin	39.89	-3.39%	38.92	5.43%
Isobutane	80.20		74.78	
Shrink	30.02		30.48	
Margin	50.18	5.06%	44.30	0.59%
Pentane+	113.05		115.46	
Shrink	33.43		33.93	
Margin	79.62	3.29%	81.53	6.30%
NGL $/Bbl	23.40	4.59%	24.47	5.21%
Shrink	11.01		11.18	
Margin	12.39	3.51%	13.29	8.65%
Gas ($/mmBtu)	3.01	5.83%	3.06	1.40%
Gross Bbl Margin (in cents/gal)	27.80	3.53%	30.54	8.89%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.06	10.36%	1.29	10.05%
Propane	1.95	4.80%	2.13	5.42%
Normal Butane	0.77	0.45%	0.76	3.58%
Isobutane	0.50	5.35%	0.47	0.92%
Pentane+	1.46	4.03%	1.49	4.81%
Total Barrel Value in $/mmbtu	5.74	5.02%	6.14	5.61%
Margin	2.72	4.13%	3.08	10.17%

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.

In a research note, the global investment banking giant said it believed that the oil market was managing to rebalance on its own, despite record U.S. inventories.

Goldman inferred that OPEC's goal is to accelerate oil stockpile withdrawals in member countries of **The Organisation for Economic Co-operation and Development** (OECD), but not allow those inventories to descend to levels that are too low.

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If that were to happen, Goldman projects that oil prices would approach $65 per barrel, which might sound pretty good to U.S. producers but not to the bankers.

At $65 (West Texas Intermediate was in the lower $50s last week) "activity levels will ramp up in most regions, making the extended cuts self-defeating," the Goldman report said.

Global crude output and prices may ultimately remain static, but the resulting volatility would not be good for anybody's ulcer.

Nor would a near-month comparison of NGL prices. The hypothetical NGL barrel's average price at Mont Belvieu, Texas, for March fell 19.1% from February's price. The tumble was 18.2% at Conway, Kan.

Taking a step back, the first-quarter 2017 Mont Belvieu barrel was 9.5% below fourth-quarter 2016. At Conway, the decrease was 13.7%.

Survey Shows More Optimism Regarding Spring Redeterminations

NEW YORK—The Haynes and Boone LLP law firm's **spring survey**, released April 4, showed a slight uptick in optimism, though participants who responded after the mid-March oil price dip were less hopeful than those replying while oil was still above $50 a barrel.

The fifth semi-annual bank-lending redetermination survey was the first since a New York appellate court upheld on March 10 the controversial ruling by a bankruptcy court that midstream contracts were simple service contracts and as such subject to modification or rejection in bankruptcy. The midstream company argued, and many in the industry upstream and mid have agreed, that midstream contracts for volumes and prices are real property rights that **run with the land**.

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"The original 'Sabine' ruling was a real shock to the industry," said Ian Peck, a partner with Haynes and Boone. "The day after stocks of midstream companies fell something like 10% because operators [and their shareholders] thought their contacts were immune from bankruptcy courts."

With the decision upheld, Peck suggested that producers and their service providers must continue to collaborate to reach agreements that give both parties comfort.

"In almost every situation there is only one midstream company for a field," he noted. "If a contract is rejected it's not like the producer can just go to a competing carrier or processor."

— GREGORY DL MORRIS, Contributor

TOP STORIES

Will Wave of Protectionism Make International Trade Great Again?

Unquestionably, international trade flows have exploded throughout the century. Countries have been using the global transaction of goods as a main source to obtain foreign exchange. A main objective for countries is to maintain a favorable trade balance.

To achieve this objective, most countries take the position to export as much as possible and import as little as possible, unless the lower priced imports are directly consumed for the exported products. To achieve such an objective, governments often subsidize their manufacturers and exporters, but as a consequence this approach can lead to inefficiencies by distorting domestic production (World Trade Organization [WTO] rules generally prohibit export subsidies and permit importing countries to impose countervailing duties in response). **— MARCOS PIACITELLI,** Thomson Reuters

Contact Information:

JOSEPH MARKMAN Senior Editor
jmarkman@hartenergy.com

Contributing Editors: Velda Addison, Darren Barbee, Nissa Darbonne, Rhonda Duey, Brandy Fidler, Annie Gallay, Leslie Haines, Paul Hart, Richard Mason, Emily Patsy, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Steve Toon, Len Vermillion, Brian Walzel, Peggy Williams

HARTENERGY
1616 S. Voss, Suite 1000 • Houston TX 77057-2627 • USA