MIDSTREAM Monitor

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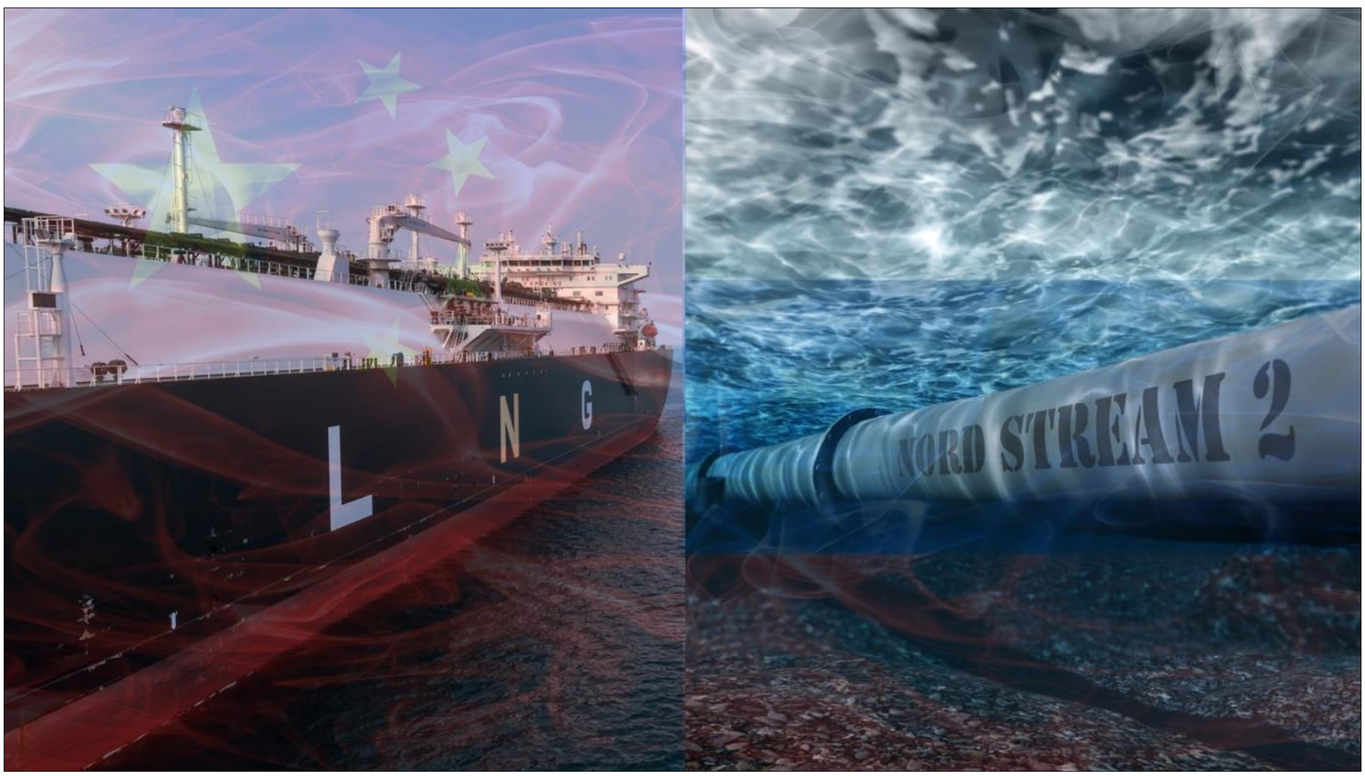
FEATURES

Trade Troubles Solved



JOSEPH MARKMAN
HART ENERGY

Will trade wars and geopolitics wreak havoc with the U.S. oil and gas industry? While trade groups like the American Petroleum Institute have expressed alarm about the impact of escalating tensions between the U.S. and China, experts told Hart Energy that the situation is not as dire as feared.

In fact, the tense situation could ultimately breed opportunity.

Among the trade complications that have recently developed:

- China announced on Aug. 3 that it is considering a **25% tariff on imports of U.S. LNG**;
- European allies seem to be moving closer to allowing construction of Russia's Nord Stream 2 natural gas

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pipeline; and

- Exemption requests by energy companies to tariffs on imported steel have been denied.

George Popps, Singapore-based director for LNG research at Stratas Advisors, agreed that the tariffs would only have a negative effect on the competitiveness of U.S. LNG in China. It would not, however, mean Gulf Coast export terminals would need to close shop.

"In 2017, [Cheniere Energy Inc.'s] Sabine Pass's 30 cargoes destined for China averaged $4.17/MMBtu at export," he told Hart Energy in an email. "A 25% tariff put the price at $5.21/MMBtu, plus shipping. Stratas Advisors believes that cargoes delivered into China below $7/MMBtu can remain competitive."

That scenario assumes that China, with growing demand for LNG, will follow through with implementing the tariff and keeping it in place. Popps said that is far from a certainty.

What is certain, he said, is that a wave of new demand from emerging markets in Asia could very well overwhelm export capacity in the next five to eight years.

"There is a significant gap between what is needed and what is actually under construction," he said. "Looking beyond current construction and positive FIDs [final investment decisions], we can reasonably expect as much as 75 mtpa [million tonnes per year] of liquefaction capacity that will need to be added to the global portfolio by 2025-2026."

In Europe, the Nord Stream 2 pipeline, which would deliver natural gas from Russia's Yamal Peninsula in Siberia to Germany, where it would link with existing infrastructure to supply Western Europe, raised the ire of President Donald Trump. The president scolded Germany in early July for pursuing completion of the $11 billion project instead of relying on imports of U.S. LNG.

To Gabriel Collins of the Baker Institute Center for Energy Studies at Rice University, Nord Stream 2 would not be a security threat with implementation of a policy known as "gas geoeconomics" that would define the pipeline as just one source of fuel among many.

Collins co-authored a study with colleague Anna Mikulska that examined strategic choices available to the U.S. in countering Nord Stream 2. The two argue in favor of gas-on-gas competition resulting in a market that benefits all.

Apache, Kayne Anderson Form Midstream Company

Apache Corp. (NYSE, NASDAQ: **APA**) and midstream investor Kayne Anderson Acquisition Corp. (NASDAQ: **KAAC**) on Aug. 8 created a partnership and new company that will make them an even bigger force in the Permian and Delaware Basins.

In the agreement, Apache will give up some of its oil and gas pipeline at Alpine High to join forces with Kayne Anderson to form Altus Midstream LP. Apache will own 71.1% of the new company.

"It brings us together with a world class midstream investor," Apache CEO and president John Christmann said during a conference call on Aug. 8. "It utilizes a c-corp structure that will bring clarity to shareholder reward and a corporate governance, and it brings access to the largest pool of future available capital."

Altus Midstream will have a market value of $3.5 billion, and the new company expects to have in excess of $900 million in cash and no debt when the deal closes.

Kayne Anderson will contribute $952 million in the deal.

"I must say we never dreamed we would find as good a target as Alpine High or as good a partner as we have with Apache," said Kevin McCarthy, chairman of the board of Kayne Anderson. "We are excited to be a part of creating a brand new midstream company that will be focused on Alpine High, which we truly believe is a world-class resource play.

—**TERRANCE HARRIS** | HART ENERGY

FRAC SPREAD

It's Ethane's World; We Just Live In It

JOSEPH MARKMAN | HART ENERGY

Ethane reached another high for the year at Mont Belvieu, Texas, last week as it lurched toward 37 cents per gallon (gal) into its loftiest territory since February 2014, or 227 weeks.

The 15.3% weekly jump erased the declines of the past three weeks and widened the margin by 34.2% to about 18 cents/gal. The rest of the NGL at both Mont Belvieu and Conway, Kan., slipped in price, with the hypothetical barrel taking a 1.5% hit at Mont Belvieu and Conway's remaining static.

CURRENT FRAC SPREAD (CENTS/GAL)

AUGUST 10, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	13.03		36.78	
Shrink	18.95		18.81	
Margin	-5.92	0.06%	17.97	34.18%
Propane	74.75		96.01	
Shrink	26.18		25.99	
Margin	48.57	-4.66%	70.02	-1.92%
Normal Butane	80.65		107.05	
Shrink	29.64		29.42	
Margin	51.01	-5.47%	77.63	-17.66%
Isobutane	96.50		112.13	
Shrink	28.47		28.25	
Margin	68.03	-5.00%	83.88	-11.05%
Pentane+	124.70		152.41	
Shrink	31.70		31.46	
Margin	93.00	-5.56%	120.95	-1.54%
NGL $/Bbl	26.31	-0.96%	36.05	-1.55%
Shrink	10.44		10.36	
Margin	15.87	-5.32%	25.68	-2.78%
Gas ($/mmBtu)	2.86	6.48%	2.84	1.63%
Gross Bbl Margin (in cents/gal)	36.52	-5.42%	60.02	-2.51%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.72	9.68%	2.02	15.30%
Propane	2.60	-1.03%	3.33	-0.98%
Normal Butane	0.87	-1.41%	1.16	-13.13%
Isobutane	0.60	-1.88%	0.70	-8.17%
Pentane+	1.61	-2.77%	1.97	-0.90%
Total Barrel Value in $/mmbtu	6.39	-0.52%	9.18	-0.21%
Margin	3.53	-5.55%	6.34	-1.01%

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 Mont Belvieu barrel was still 33.2% higher than it was a year ago, and the price of ethane was 44.5% above the average of the same week in 2017.

The industry could be forgiven for a case of nerves recently, with China's threat of imposing a 25% tariff on U.S. LNG and Sinopec citing trade tensions for its decision to cut off U.S. crude oil imports.

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"One knee-jerk reaction that is almost certainly wrong is that China's rejection of U.S. imports poses a significant challenge to U.S. exports," Citigroup analysts wrote in a report. "Whether in the long- or short-run, China's potential imposition of tariffs or quotas on U.S. exports is a tax on Chinese consumers rather than an obstacle to U.S exports."

Short-term implications of the loss of a market that had diminished 70% from April to June are fairly limited. It's the long-term prospect of losing a foothold in the world's fastest-growing economy that is of concern, but shouldn't be.

China has long maintained that it will not be beholden to any single source of energy, so the celebratory smirks emanating from Australia following the recent Chinese tariff threat can be discounted.

Study: Little Consensus On EV's Impact On Oil

While there seems to be a belief that electric vehicles (EV) will soon take over highways and road ways globally, a recent study cautions against this theory.

Yes, there are some distinct advantages to widespread EVs such as cleaner air, faster acceleration, avoidance of gas stations, lack of noise and government incentives. But there are some major concerns about a complete shift from internal combustion vehicles such as battery life, battery expense, range and lack of infrastructure. Maybe the biggest misconception is about how much oil consumption will go down around the world when EVs take over.

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A study by Marianne Kah, an adjunct senior research scholar and advisory board member at Columbia University Center on Global Energy Policy, attempts to shed light on the impact electric vehicles will have on oil demand. The conclusion of her report, even after narrowing it down to the projections of 15 unidentified forecasters, is there is no clear path to knowing what impact EVs will have globally in the future.

The only real consensus in the report, "**Electric Vehicles and Their Impact on Oil Demand: Why Forecasts Differ**," is we won't really see any major movement in the EV industry until 2030 at the earliest.

—TERRANCE HARRIS | HART ENERGY

Oil Sands Promising, Despite Pipeline Constraints

Will nervous investors back away from infrastructure projects in western Canada, spooked by volatile global crude oil prices?

In a recent report, IHS Markit acknowledged the headwinds of insufficient pipeline capacity that challenge producers in the region, but the firm remains confident that crude production in western Canada will continue to grow. It pointed to recent growth, even as crude prices slumped, as a number of important infrastructure projects came online in the past few years.

"Constrained pipelines have driven deep discounts for western Canadian heavy oil beyond what would normally be expected based on quality and pipeline transportation costs," IHS Markit said. **—FRANK NIETO** | CONTRIBUTOR

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