

MIDSTREAM

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FEATURES

LNG Markets Demand Wave Of Diverse Approaches

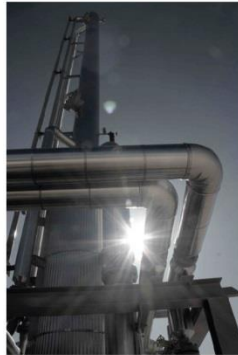
By **JOSEPH MARKMAN**, Hart Energy

A slew of fresh geopolitical challenges will force LNG players to become market-finders and market-makers, adapting innovative business models to compete, KPMG said in a **new report**.

“Cost-competitiveness is more crucial than ever as expiring Qatari contracts become available at cash-sustainment cost and [Qatar Petroleum] promises to bring new supply,” KPMG’s Mary Hemmingsen and Divya Reddy wrote in “Choppy waters for global LNG.” “Diverse portfolios—whether as seller, trader or buyer—are needed to manage the risks of price and geopolitics. Companies will want to staff up their political risk and economic forecasting departments as they venture beyond traditional LNG markets.”

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LNG from Page 1

Hemmingsen, KPMG's global head of LNG, and Reddy, practice head for Global Energy & Natural Resources at Eurasia Group, see fundamental market changes taking place driven by a series of events:

- Despite isolation by six Arab neighbors, **Qatar has moved aggressively** by doubling the size of its planned North Field project to 23 mtpa in the next five to seven years;
 - Iran announced plans to continue development of the South Pars field in its first deal with a multinational oil company (Total) since international sanctions were lifted;
 - New U.S. Energy Secretary Rick Perry declared LNG to be a major driver in the Trump administration's new "energy dominance" initiative, including replacement of Russia-supplied natural gas to central and eastern Europe; and
- The difficulties that Western Canadian greenfield projects have faced have convinced partners like Malaysia-based Petronas to pull out.

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The U.S. shale-to-LNG ramp-up will bring 66 mtpa to the global market by 2019. ■

Sanctions On Qatar: What To Know

The diplomatic crisis in Qatar is a case study on just how diplomacy and trade are interconnected.

In June, six gulf states abruptly cut off all diplomatic ties with Qatar, the small, oil-rich nation on the northeastern coast of the Arabian Peninsula, accusing the state of financing terrorism. Qatar formally denied the allegation.

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This disruption hit Qatar Airways, the state-owned airline that provides an essential link to more than 150 destinations across virtually all of the rest of the world, substantially hard. The airline had to cancel and reroute flights to the nations that issued the sanctions, including Saudi Arabia, Bahrain and the United Arab Emirates.

Buying panic in supermarkets ensued, as consumers anticipated shortages, according to the publication of the Chartered Institute of Procurement and Supply (CIPS). "The disruption from the closure of neighboring airspace and cessation of carrier services to Qatar has ensured the shockwaves of the sanctions are being felt immediately," Duncan Brock, director of customer relationships at CIPS, said.

A month after the sanctions began the two sides were still refusing to talk to each other, prompting U.S. Secretary of State Rex Tillerson to say the dispute may last "quite a while," according to Bloomberg. This would drive Qatar to eventually seek assistance from other countries, most notably Iran and Turkey, for enhanced trade ties. Over time, a bond could take shape. —MARY BREEDE, Thomson Reuters

VIDEO

Pennsylvania's Next Era Of Energy

In Pennsylvania, we will likely always be well-known for our coal, manufacturing, and steel—throughout history these industries have provided the necessary framework to support the advanced industries of today and tomorrow.

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The Department of Community and Economic Development and the Team Pennsylvania Foundation released a comprehensive study by IHS Markit outlining Pennsylvania's exciting opportunities in the petrochemical and plastics industries. The report forecasts \$2.7 to \$3.7 billion in investments in natural gas liquid (NGL) assets and petrochemical and plastics manufacturing, as well as the opportunity to attract up to four additional cracker plants. **(Sponsored Content)**

FRAC SPREAD

Priciest NGL Since Valentine's Day

By **JOSEPH MARKMAN**, Hart Energy

The hypothetical NGL barrel, fueled by a continuing rally in the price of propane, reached its highest level in almost six months in the past week.

The barrel cracked \$27 for the first time since February at Mont Belvieu, Texas, and continued to rise at Conway, Kan., as well. Mont Belvieu's price was 42.7% higher than the price at this time in 2016 and Conway's price was 52.4% higher.

CURRENT FRAC SPREAD (CENTS/GAL)				
AUGUST 11, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	21.58		25.46	
Shrink	18.05		18.36	
Margin	3.53	-11.12%	7.10	3.04%
Propane	70.93		73.99	
Shrink	24.93		25.37	
Margin	46.00	4.72%	48.62	3.83%
Normal Butane	83.93		84.20	
Shrink	28.23		28.72	
Margin	55.70	0.92%	55.48	-0.54%
Isobutane	92.08		89.25	
Shrink	27.11		27.59	
Margin	64.97	2.31%	61.66	1.43%
Pentane+	110.25		111.20	
Shrink	30.19		30.71	
Margin	80.06	1.07%	80.49	2.11%
NGL \$/Bbl	26.33	0.37%	27.07	0.37%
Shrink	9.94		10.12	
Margin	16.38	1.82%	16.96	2.20%
Gas (\$/mmBtu)	2.72	-1.95%	2.77	-2.54%
Gross Bbl Margin (in cents/gal)	37.63	2.08%	39.60	2.34%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	1.19	-3.57%	1.40	-1.05%
Propane	2.46	2.28%	2.57	1.55%
Normal Butane	0.91	-0.06%	0.91	-1.23%
Isobutane	0.57	1.02%	0.56	0.17%
Pentane+	1.42	0.23%	1.43	0.78%
Total Barrel Value in \$/mmbtu	6.55	0.30%	6.87	0.37%
Margin	3.83	1.95%	4.10	2.43%

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.

appear likely at this point, however.

"Above-normal temperatures are favored across all of the forecast domain for the [August-September-October] outlook, as well as outlooks for [September-October-November] 2017 through [November-December-January] 2017-2018," the National Weather Service **forecast** on July 20. ■

Ranging further back, Mont Belvieu's price was 50.3% higher than it was during the first week of August 2015, but 31.6% below the mark in August 2014 prior to the start of the commodity price slump. For those truly nostalgic, the price at this time in 2011 was \$60.23 per barrel (bbl) or 122% higher (not accounting for inflation) than it was this past week.

Probably best to not dwell on that.

The buoyancy in propane prices is tied to increasing exports as inventories continue to lag below five-year averages. At Mont Belvieu, propane was up 28.7% since late June. At Conway, the increase was 30.4% in that time period.

"Gulf Coast propane prices will have to stay high to curtail propane exports in August, but propane prices in Asia and Europe are starting to increase and it looks like cancellations in August will be on the light side if they do occur," wrote **En*Vantage Inc.** analysts.

En*Vantage projects increased exports to Asian and European customers, which, in combination with early winter weather in the U.S., could create a propane price spike in the second half of this year.

Unseasonably low temperatures do not

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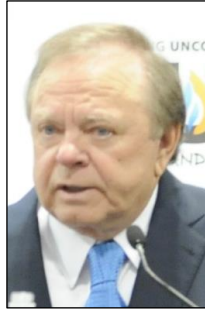
Harold Hamm Steps Up Bets On Demand For Gas

Harold Hamm, one of the pioneers of the U.S. shale oil boom, is stepping up his investment in gas in an attempt to benefit from an expected surge in U.S. exports of LNG.

Hamm, a close ally of and adviser to President Donald Trump, is also positioning himself as an advocate of efforts to curb greenhouse gas emissions, highlighting the advantages of substituting gas for coal in power generation in reducing the threat of global warming.

Continental Resources Inc. (NYSE: **CLR**), the U.S. exploration and production company where Hamm is CEO and 76% shareholder, last month added an extra rig to drill for gas in the Cana-Woodford shale formation in Oklahoma, taking its total to six. It is operating a joint venture with SK Group of South Korea in the region, and said in June it was looking at expanding the alliance into further projects for developing shale gas production and exporting LNG from the U.S.

Although Hamm hit big as an oil producer, particularly in the Bakken formation of North Dakota, the share of gas in Continental's output has been rising, from 37% in first-quarter 2016 to 44% in the equivalent period of this year. Continental is running nine rigs drilling wells primarily for gas production, and has about 10 primarily for oil. —**ED CROOKS**, *Financial Times*



TOP STORY

Tribes Ask Court To Shut DAPL

Two Native American tribes have asked a federal court to immediately shut the Dakota Access Pipeline, contending that the Army Corps of Engineers did not conduct a proper environmental review of the project and demanding a new environmental impact statement.

The Standing Rock Sioux and Cheyenne River Sioux tribes, represented by **EarthJustice**, filed a brief on Aug. 7 in the U.S. District Court for the District of Columbia arguing that the Corps did not adequately address critiques of the pipeline's oil spill analysis.

The brief reiterated how the court had already ruled that the Corps failed to take into account the impact of a spill on the tribes' hunting and fishing, in violation of treaties, and that its assessment of the environmental impact of the pipeline's Lake Oahe crossing site was skewed.

"The question before the Court now is whether the pipeline should continue operating, exposing the Tribes to the very risks that the Corps will be examining, while this remand is underway," the tribes said in the brief. "Under both the law of this Circuit as well as the history of this action, the answer is no." —**HART ENERGY STAFF**

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