MIDSTREAM Monitor

AUGUST 18, 2017 | VOLUME 35 | ISSUE 33

FEATURES

Will E&Ps Fund Outspend With Midstream Divestitures?

SUSAN KLANN | CONTRIBUTOR

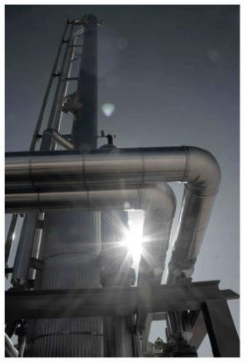
Still laboring under the yoke of lower crude prices, E&Ps may look to divest midstream assets to fund growth, according to a recent report from Cowen & Co. Refiners are likely buyers, as they are currently stronger financially thanks to lower priced feedstocks.

"The E&P group is facing a cash shortfall at $50 while the refining group has an expanded operating platform, free cash flow and a desire to grow a higher multiple business," the Cowen Energy Team, led by Sam Margolin, noted in a research report in late July.

Investors and financiers are watching E&Ps closely to gauge whether they will return to their outspending habits of days gone by rather than paring back operations to remain within cash flow. Yet, there is little E&Ps dislike as much as cutting production, and with commodity prices not expected to rise significantly for some time—and service cost reductions already factored in—they have few options.

See E&Ps on 3

ENERGY:



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E&Ps

One way to raise some money to maintain growth is via asset sales, whether noncore assets, or, as Cowen analysts suggest, midstream holdings.

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And refiners have the wherewithal and motivation to step up.

"The refining peer groups' expanded operating platforms following mergers, incentive to return third-party costs or transfer them to owned subsidiaries, and continued push to expand higher multiple midstream earnings make them natural buyers of E&P midstream assets," the Cowen group said.

As an early sighting of this trend, Cowen pointed to the announcement by Laredo Petroleum Inc. in late July that it is exploring the sale of its 49% interest in Medallion Gathering & Processing LLC's Medallion-Midland Basin system. Wholly owned subsidiary Laredo Midstream Services LLC owns the interest.

Industry Cheers Trump's Infrastructure Order

President Donald Trump's executive order on Aug. 15 to streamline the permitting process for infrastructure projects was hailed in the oil and gas industry before it was even signed.

"We applaud [the president's] efforts, the efforts on the part of the administration to create jobs and to help continue the [energy] renaissance," Jack Gerard, president and CEO of the American Petroleum Institute, told reporters during a conference call prior to the White House announcement. "There's over $1 trillion expected to be invested just in building energy infrastructure—that's separate and apart from building highways, bridges, etc. When you combine that private capital investment, coupled with some public-private partnerships, you begin to see what a big difference this can make."

SOURCE: WHITE HOUSE VIDEO

President Donald Trump and Transportation Secretary Elaine Chao hold a flow chart depicting the nine-year federal permitting process for construction of a highway.

Trump said that the approval process would boil down to a two-year time frame on major infrastructure projects during which all permitting must be completed. A single federal decision protocol would be established which the president said would give one agency leadership for a particular project.

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In his announcement at Trump Tower in New York, which was overshadowed by his remarks about the weekend's events in Charlottesville, Va., the president said the current process involves numerous federal agencies and "one agency alone can stall a project many years."

"Not only does this cost our economy billions of dollars," he said, "but it also denies our citizens the safe and modern infrastructure they deserve. This overregulated permitting process is a massive, self-inflicted wound on our country. It's disgraceful."

In response to a reporter's question, Trump appeared unconcerned that infrastructure legislation would have difficulty gaining congressional approval.

Pipeline construction alone is a major job creator, Sean McGarvey, president of North America's Building Trades Unions, told reporters earlier in the day. McGarvey cited the Institute for Construction Economic Research's recently released study pointing to an average of 69,500 construction jobs per year that are generated by pipeline construction.

"And we're talking about real middle-class jobs," he said. "We're talking about average weekly earnings of almost $1,200 a week to put folks and keep folks squarely in the middle class." —**JOSEPH MARKMAN** | HART ENERGY

FRAC SPREAD

Ethane's Price Keeps Climbing

JOSEPH MARKMAN | HART ENERGY

The price of ethane at Mont Belvieu, Texas, continued its upward trudge for the sixth time in the last seven weeks, reaching not just the second-highest level for the year but the third-highest point since July 2014.

Only 1.22 cents per gallon (gal) separated last week's ethane price from the late-December 2016 peak, which dipped only slightly during the first week of 2017. At Conway, Kan., last week's price was third-best of the year behind a two-week surge above 23 cents/gal in early February.

CURRENT FRAC SPREAD (CENTS/GAL)

AUGUST 18, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	22.45		26.43	
Shrink	18.76		19.08	
Margin	3.69	4.36%	7.35	3.59%
Propane	73.58		76.09	
Shrink	25.92		26.36	
Margin	47.66	3.61%	49.73	2.29%
Normal Butane	86.55		86.14	
Shrink	29.35		29.84	
Margin	57.20	2.69%	56.30	1.48%
Isobutane	94.83		92.63	
Shrink	28.19		28.66	
Margin	66.64	2.58%	63.97	3.74%
Pentane+	109.02		109.21	
Shrink	31.38		31.91	
Margin	77.64	-3.03%	77.30	-3.96%
NGL $/Bbl	26.91	2.22%	27.53	1.68%
Shrink	10.34		10.51	
Margin	16.57	1.16%	17.02	0.36%
Gas ($/mmBtu)	2.83	3.97%	2.88	3.90%
Gross Bbl Margin (in cents/gal)	38.14	1.35%	39.82	0.57%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.24	4.03%	1.46	3.81%
Propane	2.55	3.74%	2.64	2.84%
Normal Butane	0.93	3.12%	0.93	2.30%
Isobutane	0.59	2.99%	0.58	3.79%
Pentane+	1.41	-1.12%	1.41	-1.79%
Total Barrel Value in $/mmbtu	6.72	2.59%	7.01	2.08%
Margin	3.89	1.60%	4.13	0.85%

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.

Why such good grades as kids in many parts of the country head back to school? Especially as crude oil lags in the $40s per barrel and natural gas sticks in the nothing-special sub-$3 million Btu range.

En*Vantage suspects stronger demand and firm naphtha prices in Asia could be influencing the U.S. market. The presence of Dow Chemical's $6 billion Freeport, Texas, cracker—now in the process of starting up—is probably not hurting, either.

Ethane is the most economical feedstock for crackers and the result of this upward trend is higher cracking margins, En*Vantage said. Mont Belvieu's estimated ethane margin was 7.35 cents/gal last week, a 3.59% increase over the previous week; at Conway, the margin widened by 4.36%.

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Crude oil's price woes are tied to fears of increased OPEC production, especially from Nigeria and Libya, En*Vantage said. That and the previously mentioned return of kids to school, i.e., the summer driving season is ending and gasoline demand will ease.

However, the U.S. Energy Information Administration (EIA) reported on Aug. 16 that crude inventories had declined for the seventh straight week with a drawdown of 8.95 million barrels (MMbbl). It was the steepest decline in almost a year and more than three times the analyst consensus of 3.1 MMbbl.

En*Vantage expects lower U.S. crude imports during the final third of the year, with Saudi Arabia cutting production and Venezuela in chaos.

Ethane was not alone in upward mobility. Propane set highs since mid-February at Mont Belvieu and early February at Conway. The rally since late June has propelled propane by 32.3% at Mont Belvieu and 35.3% at Conway. The price is 73.7% higher than at this time last year at Mont Belvieu, and a mighty 98.1% higher at Conway.

Propane inventories are well below five-year average levels, with En*Vantage expecting a peak in October at 11 MMbbl below that average. The canceled cargoes that plagued propane earlier in the year appear to no longer be an issue and the analysts expect exports to pick up again in September and October.

MIDSTREAM CONNECT

Texas-Sized Export Challenge

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Prodigious production in the Permian Basin spurred plenty of discussion at the Midstream Texas Conference and Exhibition in Midland, Texas. How to move it and where it should go are the primary challenges for midstream operators in the region. As always, those challenges offer numerous opportunities.

This video features portions of selected presentations from the conference.

HARTENERGY IndustryVoice®

Essential Requirements for HSE Safety Management in Oil and Gas

Compliance with a plethora of regulations and the need to manage risk are still the primary drivers when it comes to health, safety and environment. Recent research conducted by Aberdeen Group reveals the top two business pressures today are ensuring compliance with HSE regulations (67%) and concern over the risk of an adverse event (42%). **(SPONSORED CONTENT)**

TOP STORY

Gibson Energy Shareholder Calls For Strategic Review

CALGARY, Alberta—M&G Investment Management Ltd., the largest shareholder in Canada's Gibson Energy, on Aug. 14 urged the Calgary-based oil and gas infrastructure company to launch a strategic review process to cut costs and boost returns.

London-based M&G, which owns 19.4% of Gibson's outstanding shares, released an open letter laying out its views of the company and the steps it could take to maximize value, including being sold.

Gibson Energy, which provides storage and transportation services to energy companies across North America, has been hard hit by the prolonged slump in global crude prices. Its share price has slumped more than 55% since late 2014.

The Aug. 14, signed by M&G's Global Dividend Fund manager Stuart Rhodes, said the fund had been trying to apply "significant pressure" on Gibson's management for more than two years to spur change but it was disappointed by the pace of progress.

—REUTERS

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