MIDSTREAM Monitor
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FEATURES

1.4 Billion Good Reasons To Invest

JOSEPH MARKMAN
HART ENERGY

Unlike Canadian oil sands crude, cash is flowing quite well across the border into the U.S.

The investment of $1.438 billion by the Ontario Municipal Employees Retirement System (OMERS) for a 50% stake in the BridgeTex Pipeline Co. LLC is the third major investment in U.S. energy assets this year. Other deals include the purchase of wind power owner and operator Leeward Renewable Energy LLC in March; and the announcement earlier in August of the acquisition of a 24% stake in Puget Holdings LLC, owner of Puget Sound Energy, a large electric and natural gas provider in western Washington State.

The strategy makes sense for organizations like OMERS.

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"The risk profile of a proven U.S. pipeline asset with a likelihood of strong long-term utilization is ideally suited for retirement funds like OMERS," Greg Haas, director for integrated energy research at Stratas Advisors, told Hart Energy. "For fiduciary funds such as this, rateable cash flows are always preferred to more volatile returns of other types of investment vehicles."

The transaction, announced Aug. 21, gives OMERS a 30% interest from Plains All American Pipeline LP (NYSE: **PAA**) and 20% interest from Magellan Midstream Partners LP (NYSE: **MMP**), with the sellers receiving proportionate shares of the purchase price. That will result in OMERS owning 50% of the pipeline; Plains, 20%; and pipeline operator Magellan, 30%.

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"We're excited to enter into this joint venture with Plains All American and Magellan, consistent with our strategy to build long-term investment partnerships with leading corporations," Michael Ryder, senior managing director, Americas for OMERS Infrastructure, said in statement announcing the purchase. "The addition of BridgeTex marks our re-entry into the U.S. midstream sector and is a welcome addition to our high-quality infrastructure portfolio."

The deal is expected to close in fourth-quarter 2018. Barclays served as financial adviser for Plains, and Jefferies advised OMERS. Legal advisers included Vinson & Elkins LLP for Plains, GableGotwals for Magellan and Sidley Austin LLP for OMERS. Sidley's team included Cliff W. Vrielink, Christopher M. Barbuto, Chris Folmsbee, Cedric E. Seley III, Angela T. Richards, William A. Williams and Gregory M. Kusel.

MIDSTREAM CONNECT

OU's Joe Dancy Discusses 'Gold Standard'

Joe Dancy, executive director of the University of Oklahoma's Oil and Gas, Natural Resources, and Energy Center, sees Texas as "very energy friendly and that's a positive.

"There are a lot of opportunities in Texas, especially with the Barnett, the Haynesville, with the Permian, the Eagle Ford and with the offshore Gulf of Mexico," he told Jessica Morales during Hart Energy's Midstream Texas conference in Midland. "We're blessed with some great resources."

Dancy called Texas the gold standard for investment opportunities, but he did note some challenges.

"One of the biggest challenges—and this is a surprise for a lot of people—is the cost of steel," he said. "Every pipeline, every gathering system uses a tremendous amount of steel. The cost of steel has gone up substantially because of the tariffs…. The buildout of the midstream, the buildout of the gathering systems takes a lot of steel."

—JESSICA MORALES | HART ENERGY

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FRAC SPREAD

Strong Demand, Exports Buoy Ethane

JOSEPH MARKMAN | HART ENERGY

Ethane's average five-day price at Mont Belvieu, Texas, inched its way toward 38 cents per gallon (gal) last week, reaching another 42-month high. The daily price on Aug. 20 did, in fact, hit 40 cents/gal.

Two new fractionators at Mont Belvieu are adding 90,000 barrels per day (Mbbl/d) of ethane, but the added supply won't rain on either the price nor margin parades, Envantage Inc. believes. Mont Belvieu's ethane margin surged to 18.33 cents/gal last week, a 4.7% increase over the previous week. The price is 39.3% above where it was at the same time in 2017.

CURRENT FRAC SPREAD (CENTS/GAL)

AUGUST 24, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	12.73		37.84	
Shrink	19.11		19.51	
Margin	-6.38	-11.90%	18.33	4.68%
Propane	79.30		95.13	
Shrink	26.40		26.96	
Margin	52.90	1.88%	68.17	-0.83%
Normal Butane	67.75		105.60	
Shrink	29.89		30.52	
Margin	37.86	-6.38%	75.08	-0.58%
Isobutane	92.45		112.13	
Shrink	28.70		29.31	
Margin	63.75	-3.78%	82.82	-0.95%
Pentane+	111.60		147.71	
Shrink	31.96		32.64	
Margin	79.64	-3.27%	115.07	-1.84%
NGL $/Bbl	25.13	-1.24%	35.71	-0.41%
Shrink	10.53		10.75	
Margin	14.60	-0.89%	24.96	-0.53%
Gas ($/mmBtu)	2.88	-1.71%	2.94	-0.15%
Gross Bbl Margin (in cents/gal)	34.08	-0.60%	58.37	-0.49%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.70	4.34%	2.08	2.13%
Propane	2.75	0.66%	3.30	-0.64%
Normal Butane	0.73	-4.38%	1.14	-0.45%
Isobutane	0.58	-3.14%	0.70	-0.74%
Pentane+	1.44	-2.83%	1.90	-1.47%
Total Barrel Value in $/mmbtu	6.20	-0.75%	9.13	-0.18%
Margin	3.32	0.10%	6.19	-0.19%

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.

Envantage sees higher Gulf Coast ethane demand driven by new cracker capacity and strong exports as supporting the higher prices. In fact, demand is so high that more supplies need to flow in from other regions, including the Permian Basin, Midcontinent, Niobrara and Bakken. The industry's bugaboo—infrastructure constraints—will be an issue until projects are completed near the end of 2020.

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Envantage is also concerned about the ability of Gulf Coast storage facilities to handle the increased volumes.

"At least for the remainder of this year, it is very likely that Mont Belvieu ethane prices will show a similar pattern that we have seen over the past two months with occasional price spikes," the analysts wrote. "But, even after more pipeline and fractionation capacity is completed over the next year or so, ethane's storage and distribution system may present bottlenecks that can cause sudden spikes in ethane prices."

Mont Belvieu propane dipped for the third week in a row, but last week still registered the fifth-highest price for the year. The margin tightened by less than 1% to 68.17 cents/gal.

Envantage does not expect propane's price to descend too much more. Balances are tight with inventories even with a year ago and 10% below the five-year average.

Replacing The Technology Patchwork

The profound effect of process automation on the oil and gas industry will continue being felt as there is no sign of slowing—evidenced by many of the industry's largest firms dedicating the majority of current information technology (IT) budgets to comprehensive automation strategies that optimize performance.

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Many of today's oil and gas companies were built upon a foundation fashioned when resources were slim and speed to market was king. During these early times, demand was high and resources were hard to develop. As the complexity of the industry's organizations increased, centralized functions were regularly built on top of already aging infrastructure and eventually resulted in lagging productivity that, many times, compounded on itself.

In response to exponential growth and breakneck speed, infrastructure footprints continued to expand, compounding into a maze of processes and technological weight that drained precious time and resources in the name of functional maintenance and the occasional enhancement. This stifled technical process innovation and also added a level of complexity when business-critical decisions needed to be made. This has left organizations with little time and resources to look back critically at the very foundation upon which their business depended. —**DEANNA MURRAY** | CONTRIBUTOR

Opinion: O Canada! Just Build Those Pipelines!

Canada is blessed with abundant natural beauty and natural resources. Its people are famously nice and polite. It is therefore a surprise to many in the U.S. that the recent debate on Kinder Morgan Inc.'s Trans Mountain Pipeline expansion project took a contentious turn, with emotionally charged protests taking place in Vancouver and Kinder Morgan's management giving the Trudeau administration an ultimatum.

Heightened First Nations and environmental concerns have animated activists in British Columbia to oppose recent pipeline projects indiscriminately. Targeting pipeline projects is arguably a simple and effective strategy to put pressure on oil and gas development by pinching its outlet and forcing the cost curve up until they go out of business.

Is it really a worthy fight? True, certain First Nations bands and municipalities have to bear disproportionate burdens. But leaving aside political motivations, the case for Canada to build pipelines is very strong, especially when one considers the global environmental and humanitarian benefits. —**JEFF LEE** | CONTRIBUTOR

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Contact Information:

JOSEPH MARKMAN Senior Editor
jmarkman@hartenergy.com

Contributing Editors: Velda Addison, Darren Barbee, Nissa Darbonne, Brandy Fidler, Leslie Haines, Terrance Harris, Paul Hart, Mary Holcomb, Jessica Morales, Emily Patsy, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Steve Toon, Len Vermillion, Brian Walzel, Alexa West, Peggy Williams

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