MIDSTREAM Monitor

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FEATURES

Williams Stock Up As Dividend Goes Down

By **JOSEPH MARKMAN**, Hart Energy

Wall Street responded to the decision by The Williams Cos. Inc. (**WMB**) to chop its dividend by lifting the company's unit price by 13.9% over a three-day period.

Williams became the third midstream major to cut its dividend in the last eight months on Aug. 1, reflecting both the company's inner turmoil following its failed merger with Energy Transfer Equity LP (**ETE**) and the effects of enduring commodity price woes creeping into the sector from upstream.

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The dividend reduction will allow Williams to save about $1.3 billion annually, which will be pumped into Williams Partners LP (**WPZ**)

"We really think this is a great answer for bringing us the right cost of capital to go invest against all these great growth projects that we have as the natural gas market and the demand side continues to expand out," Alan Armstrong, president and CEO, told analysts during Williams' second-quarter earnings call on Aug. 2.

Just over a year ago, Regina Mayor, KPMG LLP's energy and natural resources national sector leader, told reporters in Houston that "protecting the dividend does seem to be a fairly significant strategy" as energy companies looked ahead to 2016.

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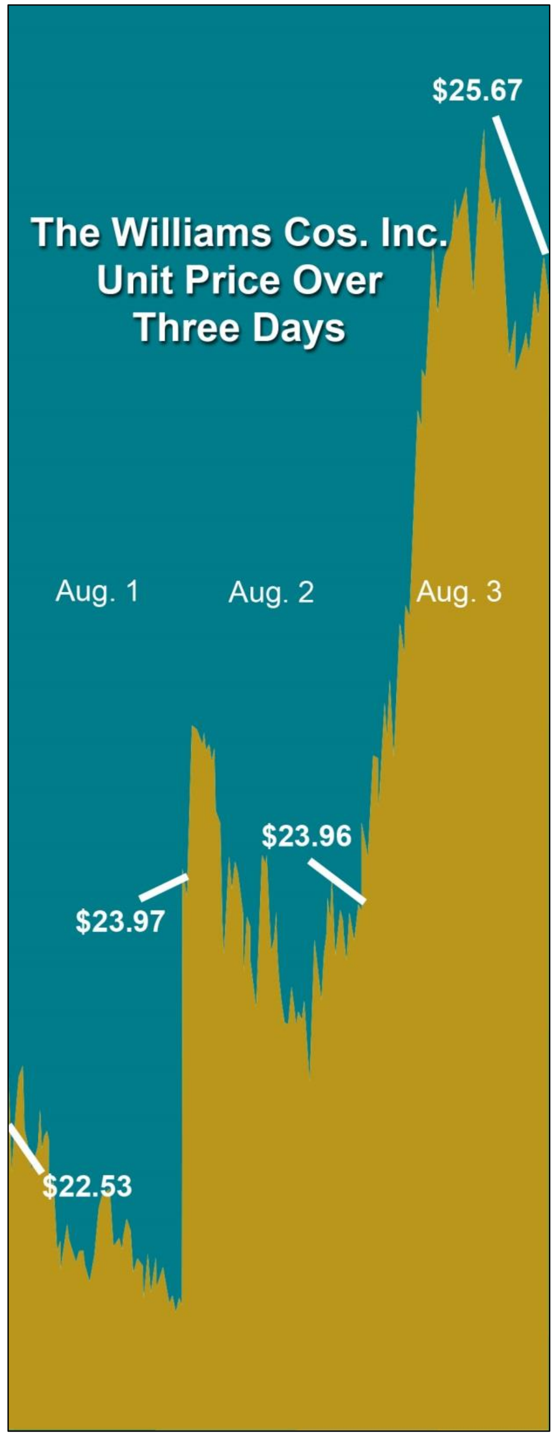

Bloomberg, Hart Energy

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But last December, Kinder Morgan Inc. (**KMI**) stunned the sector by chopping its dividend by 75.5%, from 51 cents per unit to 12.5 cents. Williams' cut this week was 68.8%, from 64 cents per unit to 20 cents. The other midstream company to reduce its dividend so far is Plains All American Pipeline LP (**PAA**), which announced its 21.4% move in July.

"We believe KMI provides a useful proxy for how investors may interpret WMB's pro forma outlook," Jefferies LLC said in a research note.

Excluding joint venture debt, Kinder Morgan is leveraged at about 5.6x and expects to reach about 5.4x by year-end, Jefferies said. The point at which dividends will be increased, Kinder has indicated, is about 5x.

By comparison, Williams has a consolidated leverage of about 5.7x. What Jefferies expects from Williams is about a 2x enterprise-wide distributed cash flow coverage, an implied 3.55% dividend yield, investments in infrastructure through year-end 2017, sales of assets and the possibility of higher dividends in 2018.

Ships Traversing Expanded Canal Sail Into Harm's Way

The happy notion of clear sailing for big LNG carriers through the expanded Panama Canal has experienced a bump—literally.

Three vessels have collided with a lock wall in the new lane of the canal since the $5.4 billion expansion project opened for business on June 26, including an LPG tanker, the *Lycaste Peace*, in late June.

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The first LNG tanker to traverse the new lane of the canal was Shell's *Maran Gas Apollonia*, which made the journey on July 25 as it moved cargo from Cheniere Inc.'s Sabine Pass facility to the Pacific Market. Hart Energy reported that no more LNG vessels are scheduled to pass through this year as U.S. producers focus on the better margins available in Europe and South America.

The *New York Times* reported that the difficulties involve a particular set of locks that lacks an approach wall designed to properly align vessels before tugboats guide them through the narrow opening. On July 21, the 90,757-ton Chinese container ship *Xin Fei Zhou* suffered small holes in its hull when it struck the lock wall.

The expanded canal can handle all carriers except Q-Max, with capacity of 266,000 cubic meters (cu. m), and Q-Flex (210,000 to 216,000 cu. m), which only operate to and from Qatar. —**JOSEPH MARKMAN**, Hart Energy

Insight From Alerian: Maturing MLPs

Before an asset class matures and stabilizes, it is labeled "emerging" and is characterized by exceptional growth and inefficiencies. For MLPs, many of the original causes of inefficiencies have been resolved by media attention and the creation of a plethora of investment products. Given that evolution, and since slowing or plateauing growth can be a characteristic of a maturing asset class, we examined distribution growth to determine whether MLPs remain an emerging class or have matured.

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We measured annual distribution growth based on MLPs that pay a traditional distribution, have been trading for two full calendar years and are not general partners (GPs). Regrettably, this unavoidably introduced survivorship bias, as in hard times an MLP often will be acquired. —**MARIA HALMO**, Special To Hart Energy

LyondellBasell To Build HDPE Plant On US Gulf Coast

LyondellBasell has made the final investment decision to build a high density polyethylene (HDPE) plant on the U.S. Gulf Coast.

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The plant will be the first to feature LyondellBasell's new proprietary "Hyperzone" PE technology and will have an annual capacity of 500,000 metric tons (mt) of HDPE. HDPE is used in various applications such as pipe, bottles, containers, toys, film, healthcare articles, plastic fuel tanks and industrial packaging.

The project is expected to create up to 1,000 jobs at the peak of construction and about 75 permanent positions, the company stated. Start-up for the plant is planned for 2019.

—**BRANDY JULES**, Hart Energy

FRAC SPREAD

O Say, Can You Seaborne, Ethane Exports?

By **JOSEPH MARKMAN**, Hart Energy

Ethane prices bounced back this week, perhaps cheered by the expectation that the first ethane export cargo would depart the U.S. Gulf Coast for customers in Europe.

It didn't happen.

The dock at Enterprise Products Partners LP's (NYSE: **EPD**) terminal on the Houston Ship Channel near Morgan's Point, Texas, is not quite ready, *TradeWinds* reported. The 27,500-cubic meter *JS Ineos Insight*, parked near the entrance to the channel since Aug. 1, departed just before midnight on Aug. 3 for Marcus Hook, Pa., according to data on the MarineTraffic website, presumably to load ethane for delivery to Rafnes, Norway.

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But that is just a bump in the sea lane. RBN Energy LLC, in a report this week, said it expects Morgan's Point to be by far the largest handler of U.S. ethane exports, even after completion of Kinder Morgan Inc.'s Utopia pipeline from Ohio to Sarnia, Ontario.

RBN attributes ethane's rally, which peaked in late June, to rumors that shippers were building up inventories in anticipation of the Morgan's Point terminal startup. When it is ready to go, however, the new facility's location further down the channel near La Porte, Texas, will allow its customers to avoid some congestion and downtime, giving it an advantage over other docks on the channel operated by Targa Resources Corp. (NYSE: **TRGP**) and Enterprise.

Jefferies analysts mused about the Morgan's Point effect on price, too, and noted that May's ethane rejection of about 272,000 barrels per day (Mbbl/d) was 20% below April's 339 Mbbl/d and 43% less than the roughly 480 Mbbl/d rejection in May 2015, according to U.S. Energy Information Administration (EIA) data.

Jefferies expects ethane rejection to increase only modestly over the next few months as excess inventory is utilized.

CURRENT FRAC SPREAD (CENTS/GAL)

AUGUST 5, 2016	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	14.25		18.50	
Shrink	18.17		18.30	
Margin	-3.92	-19.27%	0.20	-9.21%
Propane	36.45		42.35	
Shrink	25.10		25.28	
Margin	11.35	-32.10%	17.07	-23.94%
Normal Butane	53.20		54.70	
Shrink	28.41		28.62	
Margin	24.79	-14.47%	26.08	-13.41%
Isobutane	63.00		64.10	
Shrink	27.29		27.49	
Margin	35.71	-5.92%	36.61	-6.22%
Pentane+	88.05		89.64	
Shrink	30.39		30.61	
Margin	57.66	-10.26%	59.03	-9.82%
NGL $/Bbl	17.13	-5.84%	18.56	-5.41%
Shrink	10.01		10.08	
Margin	7.12	-14.52%	8.48	-13.77%
Gas ($/mmBtu)	2.74	1.48%	2.76	2.99%
Gross Bbl Margin (in cents/gal)	15.42	-15.91%	19.13	-14.47%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.78	9.20%	1.02	2.83%
Propane	1.27	-12.06%	1.47	-9.87%
Normal Butane	0.57	-6.63%	0.59	-5.54%
Isobutane	0.39	-2.85%	0.40	-2.48%
Pentane+	1.14	-6.53%	1.16	-5.82%
Total Barrel Value in $/mmbtu	4.15	-5.45%	4.63	-5.10%
Margin	1.41	-16.51%	1.87	-14.94%

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.

TOP STORIES

JV Agreements For Sandpiper Pipeline Are Scrapped

The long-planned and oft-delayed Sandpiper pipeline through the U.S. Midwest may not be dead, but it appears to be on life support, a likely casualty of the oil and gas industry's infrastructure overbuild amid a two-year global oil rout.

After years of delays, refiner Marathon Petroleum Corp. and midstream giant Enbridge Inc. on Aug. 2 announced they would scrap their joint venture agreements and transportation services for the 450,000 barrels per day (Mbbl/d) Sandpiper project, instead agreeing to acquire a portion of the rival Dakota Access Pipeline.

That $1.5 billion deal, if successful, will leave Sandpiper without Marathon as its main anchor, even though an Enbridge spokesman said plans for the line are still being evaluated. The project involves two pipeline legs stretching from North Dakota through Minnesota to Wisconsin.

Outgoing pipeline capacity from the Bakken is currently at around 641 Mbbl/d, according to Genscape. Once Dakota Access becomes operational, capacity will rise to 1.21 MMbbl/d.

That projected increase comes against the backdrop of a dramatic decline in oil prices that has weighed on production in North Dakota's Bakken play, one of the biggest beneficiaries of the boom in U.S. shale production over the last several years. **—REUTERS**

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EnLink Midstream, NGP Form JV To Expand Delaware Basin Business

EnLink Midstream Partners LP (NYSE: **ENLK**) said Aug. 1 it formed a strategic joint venture (JV) with NGP Natural Resources XI LP to grow in the Delaware Basin core.

A subsidiary of the Dallas company, EnLink Midstream LLC (NYSE: **ENLC**), entered an approximately $800 million JV agreement with a NGP affiliate to operate and expand EnLink's natural gas, NGL and crude oil midstream assets in the Delaware.

The JV is initially owned 50.1% by EnLink and 49.9% by NGP.

The expansion builds off EnLink's existing Lobo System, which was **acquired from Matador Resources Co.** (NYSE: **MTDR**) in 2015.

The new expansion, located in Loving County, Texas, and Eddy and Lea counties, N.M., is named Lobo II and includes:

Installation of a cryogenic natural gas processing facility with capacity up to 120 million cubic feet per day (MMcf/d);

- associated natural gas and liquids gathering pipeline infrastructure.
- Upon completion of Lobo II, the facility will have a total processing capacity of about 155 MMcf/d in the Delaware Basin.

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