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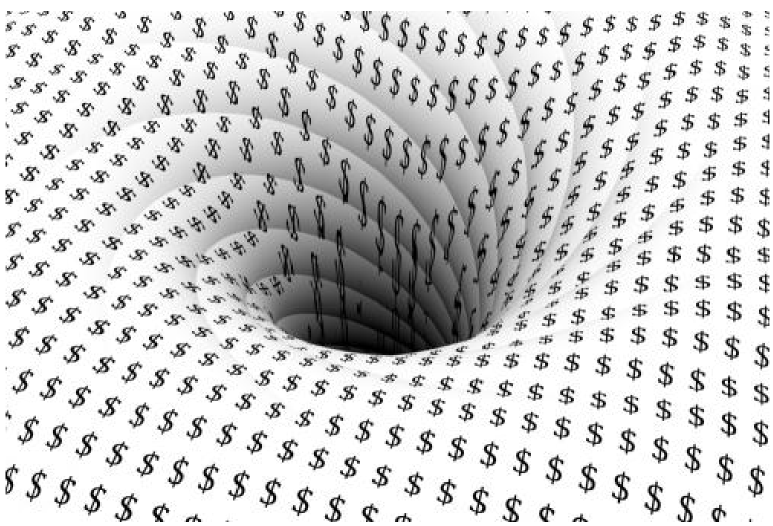
FEATURES

Kinder Morgan Raids Dividends To Fund Capex; Jumpstarts Stock



By **DARREN BARBEE**, Hart Energy

Pipeline giant Kinder Morgan Inc. (NYSE:KMI) said Dec. 8 it would slash dividends by 75% to 50 cents in a move that frees up $3.9 billion a year of cash flow and likely keeps the company away from the equity markets in 2016-17.

Kinder Morgan's decision to shrink dividends may open the door for "the entire sector to do the same," according to Tudor, Pickering, Holt & Co. (TPH) in a Dec. 9 report.

"Management teams with meaningful backlogs of growth projects will be considering a similar 'cut near-term distribution and self-fund' strategy," TPH said.

Company executives said that they were interested in maintaining investment-grade rating while funding long-term growth projects essential to the future of the company.

Credit rating changes sparked a weeklong selloff of KMI stock.

ON Dec. 8, Kinder Morgan said with dividend cuts, its discretionary cash flow (DCF) in 2016 would be slightly more than $5 billion, an 8% increase from 2015.

Rich Kinder, executive chairman of the KMI board, said at a Dec. 9 news conference that the company was also directly addressing concerns about its investment-grade rating and the need to issue additional equity.

“For over 18 year, our policy has been to fund our growth projects with externally raised debt and equity and distribute virtually all of our available cash flow,” Kinder said. “What’s changed? Primarily, what’s changed is price of common stock—a downturn that has negatively impacted the whole midstream energy field.”

Kinder said the reduced price of stock has raised the cost of our equity to the point where it is no longer an economic source of expansion capital for the company.

“Given our current capital structure these projects can no longer be solely with debt without impairing our investment grade rating,” he said.

On Dec. 1, Moody’s Investors Service changed Kinder Morgan’s outlook from stable to negative. After announcing its dividend cut, Kinder said Standard & Poor’s Ratings Service reaffirmed its stable outlook and Moody’s returned the company outlook to stable.

Kinder Morgan had $42.8 billion of debt as of Sept. 30.

Kristina Kazarian, analyst, Deutsche Bank, said credit agencies seem appeased.

“With the Moody’s Investors Service outlook downgrade catalyzing a week-long sell-off, it was comforting to see their outlook on KMI revised back to ‘stable,’” she said.

Kazarian said Kinder Morgan's 2016 will likely still include:

- About $4.4 billion in 2016 capex;
- A long-term dividend growth policy; and
- And, dept pay-down plans.

Kinder Morgan Cash Generation/ Dividends			
	2015	2016	2017
EBITDA	7,447	7,979	8,708
Interest Cost	(2,053)	(2,153)	(2,271)
Maintenance Capex	(549)	(600)	(620)
Others	(218)	(157)	(157)
Adj. DCF	4,627	5,069	5,660
Preferred Dividend Paid	0	(171)	(171)
Common Dividends Paid	(3,578)	(1,115)	(1,115)
Source: KMI Filings; Deutsche Bank			

Kinder said the company evaluated numerous options, including "significant asset sales" before deciding other options were uneconomic to investors.

"This decision was not made lightly, but we believe it is in the best interests of the company, its shareholders and employees," Kinder said. "It will allow us to continue to maintain and grow our outstanding set of midstream energy assets without being required to issue equity at valuations prevalent in today's market while maintaining a solid investment grade rating on our debt obligations."

KMI finished Dec. 9 up 6.87% or about $1. While its dividend announcement helped shore up confidence, the midstream model of distributing all cash flow and relaying on new capital to fund growth won't change permanently, TPH said.

"The market sending share prices down and yields to the moon ultimately forced this behavior," TPH said. "As the sector recovers and yields moderate expect a return to the previous status quo."

Tesoro To Acquire Bakken's Great Northern Midstream

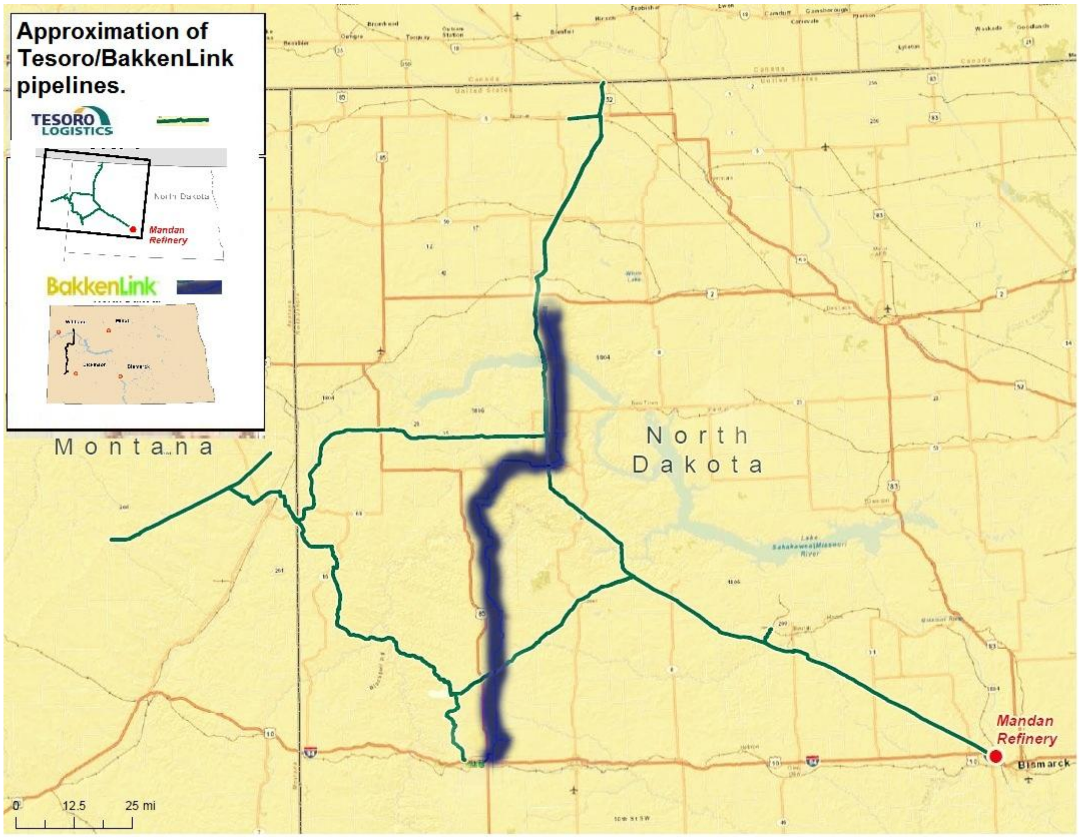
By **DARREN BARBEE,** Hart Energy

Tesoro Corp. (NYSE: TSO) has stitched together more pipeline in the Bakken with a Dec. 7 deal to acquire Great Northern Midstream LLC, which owns and operates pipe, gathering, storage and rail loading in North Dakota.

Great Northern's assets are near Tesoro High Plains Pipeline system and will be integrated to serve Bakken customers while supplying Tesoro's West Coast refineries with less expensive crude oil.

The price of the acquisition was not disclosed but analysts said Tesoro, based in San Antonio, got the assets on the cheap, likely due to sliding MLP valuations that have been hit hard recently. Tesoro said the acquisition price represents five to six times the Tesoro-estimated future EBITDA for the Great Northern Midstream business and is expected to be immediately accretive.

That price “represents a bargain in our view, given logistics assets have typically historically traded at 9-10x,” said Jeff Dietert, analyst, Simmons & Co. International.



The acquired assets include:

- The 97-mile BakkenLink crude oil pipeline;
- A proprietary 28-mile gathering system in the core of the Bakken, supported by acreage dedication;
- Rail loading capacity of 54,000 barrels per day (bbl/d); and
- Fryburg, N.D., 657,000 barrel storage facility.

The Fryburg facility can provide outbound deliveries to the west, east and Gulf coasts, Tesoro said.

“Our acquisition of Great Northern Midstream is aligned with our strategy to grow our logistics business, supply advantaged crude oil to our refineries, and make these assets available to third-party customers," said Greg Goff, chairman, president and CEO. "Combining the Great Northern Midstream assets with our Tesoro High Plains Pipeline will create a leading crude oil pipeline system in the most prolific region of the Bakken.” The transaction is subject to customary closing conditions, including regulatory approval, and is expected to close in the first quarter of 2016.

Tesoro Business Interests	
Refining Capacity (Mbbl/d)	850
Refining Complexity	11.5
Tesoro Logistics LP (%)	36
Tesoro Logistics GP (%)	100
Branded Retail Stations	2,300
Marketing Sales (2Q Mbbl/d)	287
Marketing Integration (%)	93
Employees	5,800

Source: Tesoro Corp.

Goff said the enhanced system could serve as an additional platform for growth and the business will be dropped down into its MLP Tesoro Logistics LP (TLLP) in 2016.

Tesoro, through its subsidiaries, operates six refineries in the western U.S. and owns a logistics business that includes an interest in TLLP and ownership of its general partner.

EnLink 'Stacks' Up Through Acquisition

By **FRANK NIETO**, Hart Energy

There may only be a few more weeks left before 2015 draws to a close, but there was still time for another large midstream acquisition as EnLink Midstream Partners LP reached an agreement to acquire substantially all of Tall Oak Midstream LLC's assets from Tall Oak and its equity partner EnCap Flatrock Midstream for $1.55 billion.

This acquisition follows the $100 million acquisition of LPC Crude Oil Marketing LLC, the $600 million of Coronado Midstream Holdings LLC, the $143 million acquisition of Delaware Basin assets from Matador Resources Co., and the $40 million acquisition of a 50% interest in the Deadwood gas processing plant from Apache Corp.

While speaking at Hart Energy's Marcellus-Utica Midstream conference in Pittsburgh, Pa., at the beginning of 2015, EnLink's CEO Barry Davis said that the market downturn presented strong acquisition opportunities for EnLink due to its size and strong balance sheet.

As the year ends, this strategy is still a focal point for the company, according to Davis. "Extraordinary opportunities happen in extraordinary times, and EnLink was able to take advantage of this opportunity due to our partnership with Devon Energy Corp.," he said during a conference call to discuss the deal.

"EnLink operates from a position of competitive strength because we were purposefully built to not only withstand challenging market conditions, but also to take advantage of attractive opportunities such as this."

Davis said that EnLink had been planning for growth through acquisition when the company was formed last year and that this recent acquisition was a part of this strategy more than a reaction to current market conditions.

"This is exactly the type of transaction we contemplated we would be able to do because of our unique partnership," Davis said. "We targeted certain core areas with central Oklahoma as one of these areas and targeted the Tall Oak assets once we saw the structuring of the franchise position they had."

The Tall Oak assets are located in the STACK and CNOW plays in the Cana Woodford and include the 100 million cubic feet per day (MMcf/d) Chisholm cryogenic natural gas processing plant in the STACK play, the 75 MMcf/d Battle Ridge cryogenic gas processing plant in the CNOW play, and a 42-mile, 16-inch high-pressure header pipeline currently under construction that will have a total capacity of 150 MMcf/d and connect the Chisholm and Battle Ridge plants. In addition, the Chisholm plant will be expanded to 300 MMcf/d in the third-quarter of 2016 and could be increased to a total of 700 MMcf/d depending on future volume requirements.

EnLink and Devon were able to work together to complete the Tall Oak acquisition and Devon's acquisition of Felix Energy, which will provide EnLink and Devon with a stronghold in the STACK formation. There is also room for future growth by both entities in the region.

Upon completion of Felix Energy, Devon will have the largest position in the STACK formation and will be EnLink's largest customer on the Tall Oak system. Devon will also support growth in the region with five-year minimum volume commitments for gather and processing on the dedicated Felix acreage. Expansions are also planned on the Tall Oak system to keep pace with growth in the region.

"This is an important step forward in our growth strategy and expands our asset footprint in one of the most attractive regions in North America," Davis said.

The acquisition price will be paid over two installments with the initial $1.0 billion paid at closing and the remaining $500 million paid on the first anniversary of the closing. EnLink anticipates that the acquisition will also be immediately accretive while not negatively impacting the company's investment grade rating, impact its distribution or limit its near-term additional leverage.

Pipeline Pacts: Beware The Point Of No Return

By **JOSEPH MARKMAN**, Hart Energy

Those negotiating contracts to move hydrocarbons by FERC-regulated pipelines need to keep in mind that sometimes a deal’s a deal, even when the dealmakers themselves want to make adjustments later on.

Two attorneys who guide clients through the liquids pipeline regulatory landscape discussed the impact of plunging oil prices on those who sign contracts at the Institute for Energy Law’s recent Midstream Oil & Gas Law Conference in Houston. They noted that there has been a seismic shift in the industry in the direction of long-term commitments.

“Typically if you have a contract and the two sides agree to change it, you can change it,” said Elizabeth Kohlhausen, Houston-based partner with Caldwell Boudreaux Lefler PLLC. “Here, the problem with that is that FERC [Federal Energy Regulatory Commission] would say, ‘These contracts were entered into as part of an open season where everyone was given equal opportunity. So, if you enter into them and then five years down the road, you change the rate 30% but you’re still giving people firm service on your pipeline, then there’s a whole host of people who may have entered into it five years prior if they had known that the rate was going to be 30% less.’”

The constraint is based on the interests of those who chose not to enter into the contract. Does that mean, Kohlhausen is often asked, that those who agreed to the contracts cannot agree to change them on their own? “The answer is, no, you can’t change them materially unless you go back to FERC and ask for approval,” she said. “We haven’t seen that yet, but this is what people don’t exactly appreciate—even if the pipeline and the shipper want to change it, it’s not as simple as changing it.”

Kohlhausen brought a different perspective to agreements made before pipelines are built than her co-presenter, Erica Rancilio, attorney with Edwards & Floom LLP in Washington, D.C.

“I can think of a client in 2005 that thought it needed an expansion and put a very expensive expansion in the ground,” Kohlhausen said. “Then 2008 happened and that expansion was no longer needed—they had already put everything into the ground; spent the money. Here, pipelines are getting some assurances that when you spend the money, you'll get some type of return off that. I think that's the biggest benefit."

Rancilio, whose firm represents shippers, agreed that those able to pay the contract rate are assured certainty of rates over time, along with increased access to capacity and priority rights on the lines. However, she also saw drawbacks.

"First, from a shipper perspective, these long-term contracts obviously don't take into account changing market conditions," she said. "The economics of the oil pipeline industry have been changing rapidly and we have some contracts that we've entered into as recently as 2011 that are completely non-economical because the rate that we agreed to exceeds the value to us in moving our product to market."

The other drawback Rancilio mentioned was one of fairness. A pipeline company with market power can put a shipper at a disadvantage when setting the rate.

"We've seen imbalanced bargaining here in the open season where a pipeline will offer a contract rate and call it a take-it-or-leave-it rate when a prospective shipper wants to negotiate," she said. "Shippers have no way of assuring that they are paying a fair price; they are essentially paying what the market will bear. When a pipeline has market power, it can be an excessive rate over and above competitive rates."

FRAC SPREAD

Frac Spread: Downward Spiral Continues

By FRANK NIETO, Hart Energy

OPEC's decision to continue all-out production placed further downward pressure on commodity prices as West Texas Intermediate (WTI) crude prices fell to $36.75 per barrel (/bbl) on Dec. 10. This is close to the low for the year and it is expected that this will help curtail production enough that the market could begin to rebalance by the fourth quarter of 2016, according to Barclays Capital.

The OPEC announcement resulted in the investment firm lowering their WTI and Brent price forecast for 2016 to $60/bbl for Brent and $56/bbl for WTI. "Our market balances have loosened over the past two months, and prices are ending the fourth quarter of 2015 slightly lower than our September forecast. Though starting from a lower base price level in December, we continue to expect fundamental supply drivers to tighten the market balance, bringing global supply and demand in line by the fourth quarter of 2016 and bringing Brent back to $65/bbl in the second-half of 2016," the investment firm said in a recent research report.

That price is well off the breakeven price of $100/bbl that PIRA Energy Group predicted. The group was quick to caution that breakevens are not a strong predictor of oil prices or a price floor that OPEC will support.

"Countries are more likely to adjust to the reality of low oil prices by cutting spending or drawing on reserves, just as we've seen over the past year," PIRA said in a research note.

CURRENT FRAC SPREAD (CENTS/GAL)				
DECEMBER 11, 2015	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	14.42		16.24	
Shrink	12.66		13.33	
Margin	1.76	27.44%	2.91	7.90%
Propane	36.20		42.30	
Shrink	17.50		18.41	
Margin	18.70	-1.15%	23.89	5.19%
Normal Butane	59.58		62.68	
Shrink	19.81		20.84	
Margin	39.77	0.84%	41.84	0.18%
Isobutane	64.70		63.58	
Shrink	19.02		20.02	
Margin	45.68	-7.26%	43.56	-2.89%
Pentane+	93.16		95.04	
Shrink	21.18		22.29	
Margin	71.98	-3.86%	72.75	-2.28%
NGL $/Bbl	17.85	-4.10%	18.97	-3.23%
Shrink	6.98		7.34	
Margin	10.87	-2.26%	11.63	0.20%
Gas ($/mmBtu)	1.91	-6.83%	2.01	-8.22%
Gross Bbl Margin (in cents/gal)	24.17	-2.14%	26.45	0.53%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.79	-3.67%	0.89	-5.69%
Propane	1.26	-3.98%	1.47	-1.10%
Normal Butane	0.64	-1.85%	0.68	-2.78%
Isobutane	0.40	-7.13%	0.40	-4.63%
Pentane+	1.20	-4.55%	1.23	-3.74%
Total Barrel Value in $/mmbtu	4.30	-4.08%	4.66	-3.25%
Margin	2.39	-1.75%	2.65	0.90%

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 NGPL Midcontinent zone, Mont Belvieu based on Houston Ship Channel.

Despite domestic production decreasing with the price downturn, crude inventories are swelling as crude imports have consistently increased in the past month. The one benefit to the current price situation is that low gasoline prices are encouraging more consumer demand, which will help work off some of the crude supplies.

While market dynamics may work themselves out in the next year, the first-half of 2016 is likely to continue to be a rough going for crude, gas and liquids prices.

The further downturn in crude saw both gas and NGL prices take a hit as natural gas fell 7% to $1.91 per million Btu (/MMBtu) at Conway and 8% to $2.01/MMBtu at Mont Belvieu. NGL prices didn't experience quite the same drop, but the theoretical bbl price at both hubs was among the lowest for the year as the Conway bbl fell 4% to $17.85/bbl with a 2% decrease in margin to $10.87/bbl. The Mont Belvieu price dropped 3% to $18.97/bbl with a very modest gain in margin to $11.63/bbl.

NGL PRICES						
Mont Belvieu	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Dec. 2 - 8, '15	16.24	42.30	62.68	63.58	95.04	**$18.97**
Nov. 25 - Dec. 1, '15	17.22	42.77	64.47	66.67	98.73	**$19.61**
Nov. 18 - 24, '15	17.07	41.28	60.40	60.92	96.96	**$18.92**
Nov. 11 - 17, '15	17.16	41.30	60.64	61.50	97.92	**$19.03**
November '15	17.42	42.69	62.15	62.99	99.61	**$19.47**
October '15	19.60	44.85	61.25	61.31	100.33	**$20.02**
3rd Qtr '15	18.26	40.99	54.16	55.19	100.10	**$18.80**
2nd Qtr '15	17.93	46.30	58.11	59.66	126.14	**$21.48**
1st Qtr '15	18.38	53.01	66.35	67.81	110.53	**$21.94**
4th Qtr '14	20.22	76.90	96.73	98.28	149.25	**$30.10**
Dec. 3 - 9 '14	15.62	57.76	78.40	79.22	130.58	**$24.37**
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Dec. 2 - 8, '15	14.42	36.20	59.58	64.70	93.16	**$17.85**
Nov. 25 - Dec. 1, '15	14.97	37.70	60.70	69.67	97.60	**$18.61**
Nov. 18 - 24, '15	14.52	37.76	58.22	66.10	94.26	**$18.10**
Nov. 11 - 17, '15	13.86	37.50	58.56	66.70	95.06	**$18.04**
November '15	14.46	39.04	59.60	67.26	96.71	**$18.51**
October '15	16.68	41.60	58.28	64.61	99.19	**$19.20**
3rd Qtr '15	15.47	36.28	48.59	54.34	99.10	**$17.59**
2nd Qtr '15	15.50	40.55	52.40	56.80	121.50	**$19.89**
1st Qtr '15	17.81	49.00	66.13	76.84	106.32	**$21.49**
4th Qtr '14	18.69	78.64	102.72	113.19	146.37	**$30.77**
Dec. 3 - 9 '14	15.33	56.60	88.78	95.42	129.28	**$25.23**

NGL prices tumbled, but are performing slightly better than WTI crude due to LPG exports and decreased ethane inventory levels caused by widespread rejection. The negative for ethane is that it is competing with propane and butane as an ethylene feedstock, which is putting a cap on its growth.

Ethane prices at both hubs were among their lowest levels for the year as the Mont Belvieu price fell 6% to 16 cents per gallon (/gal), its lowest level since April; and the Conway price fell 4% to 14 cents/gal, its lowest price in a month.

Propane prices had a similar path as the Conway value was down 4% to 36 cents/gal, its lowest price since late August; and the price at Mont Belvieu fell 1% to 42 cents/gal, which is a similar level it has traded for the past month.

Though prices are dropping, so are inventories for both products. The U.S. Energy Information Administration (EIA) reported that propane stocks in the first week of December hit their lowest withdrawal levels in 13 years for this period. However, they are still at record levels, so there is much work left to do to restore balance.

The most profitable NGL to make at both hubs was C5+ at 72 cents/gal at Conway and 73 cents/gal at Mont Belvieu. This was followed, in order, by isobutane at 46 cents/gal at Conway and 44 cents/gal at Mont Belvieu; butane at 40 cents/gal at Conway and 42 cents/gal at Mont Belvieu; propane at 19 cents/gal at Conway and 24 cents/gal at Mont Belvieu; and ethane at 2 cents/gal at Conway and 3 cents/gal at Mont Belvieu.

RESIN PRICES – MARKET UPDATE – DECEMBER 11, 2015					
TOTAL OFFERS: 18,993,336 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Blow Mold	4,246,464	0.505	0.61	0.505	0.545
LLDPE - Film	4,011,348	0.46	0.64	0.515	0.555
HDPE - Inj	2,737,748	0.505	0.62	0.505	0.545
LDPE - Film	2,625,496	0.515	0.635	0.535	0.575
HMWPE - Film	1,672,300	0.525	0.585	0.515	0.555
LLDPE - Inj	1,278,668	0.58	0.625	0.535	0.575
PP Homopolymer - Inj	1,054,024	0.535	0.64	0.59	0.63
LDPE - Inj	732,736	0.57	0.615	0.555	0.595
PP Copolymer - Inj	634,552	0.55	0.66	0.605	0.645

Source: Plastics Exchange – www.theplasticsexchange.com

According to the EIA, natural gas storage levels fell by 76 billion cubic feet to 3.88 trillion cubic feet (Tcf) the week of Dec. 4 from 3.956 Tcf the previous week. This was 15% greater than the 3.366 Tcf level posted last year at the same time and 7% greater than the five-year average of 3.644 Tcf.

Though storage withdrawals have improved the last few weeks, there is still limited heating demand compared to average years and this is expected to continue into the new year, according to AcccuWeather.

The weather agency is forecasting that more persistent winter weather for the Midwest and Northeast is still many weeks away. "We expect some colder air masses and perhaps opportunities for snow to pick up toward the middle of January," AccuWeather chief long range meteorologist Paul Pastelok said in a recent forecast. "February should be busy in terms of cold air, storms and the potential for snow."

MORE TOP STORIES

Genesis Energy, Tesoro Logistics To Join Alerian Energy Infrastructure Index

Alerian announced that following the close of business on Dec. 18, Genesis Energy LP (NYSE: GEL) and Tesoro Logistics LP (NYSE: TLLP) will be added to the Alerian Energy Infrastructure Index (CME: AMEI).

Genesis Energy's operations include onshore and offshore pipeline transportation, refinery services, marine transportation and supply and logistics. Tesoro Logistics is a logistics company that owns crude oil and refined products truck and marine terminals, storage tanks, natural gas processing complexes, and one fractionation facility.

Exterran Corp. (NYSE: EXTN) will be removed from the index following the close of business on Dec.18. The constituents of the index will be rebalanced in accordance with the existing index methodology. Constituent additions to and deletions from the index do not reflect an opinion by Alerian on the investment merits of the respective securities.

Energy Capital Partners Concludes Strategic Review Of Summit

Summit Midstream Partners LLC said Dec. 11 that Energy Capital Partners has concluded its strategic review process regarding Summit Investments, which the private equity firm controls.

The firm has concluded that its continued ownership in Summit Investments is the most attractive option for enhancing the value of its venture in Summit Investments and Summit Midstream Partners LP (NYSE: SMLP).

Summit Investments will provide support to SMLP to execute dropdowns in a manner that is expected to eliminate any need for equity issuance in 2016.

Summit Investments is expected to materially accelerate the timing of its previously announced plan to execute $400- to $800 million of dropdown transactions each year through 2017.

SMLP could acquire all, or a portion of, the dropdown assets as early as the first quarter of 2016, according to the release.

Summit Investments has also been authorized by Energy Capital Partners to initiate a program to acquire up to $100 million of SMLP units via open market purchases.

Summit Investments indirectly owns a 43.8% limited partner interest in SMLP and indirectly owns and controls the general partner of SMLP, which has sole responsibility for conducting the business and managing the operations of SMLP.

Summit Investments owns, operates and is developing various natural gas, crude oil and produced water-related midstream energy infrastructure assets in the Utica and Bakken shales and the Denver-Julesburg (D-J) Basin.

IEA Warns Of Worsening Oversupply, Oil Slides To New 7-Year Low

Crude oil prices hit fresh seven-year lows on Dec. 11 as the International Energy Agency (IEA) warned global oversupply could worsen in the new year.

Brent slipped below $39 per barrel for the first time since December 2008 as the IEA, which advises developed nations on energy, warned that demand growth was starting to slow.

“The technicals and the fundamentals are singing from the same hymn sheet,” said Tamas Varga, oil analyst with PVM Associates. “We will not see support until we hit the lows of 2008.”

Brent crude futures were down 50 cents at $39.23 a barrel at 1334 GMT, bouncing slightly from a session low of $38.90.

West Texas Intermediate (WTI) U.S. crude futures were at $36.41 per barrel, down 35 cents after touching $36.12, their lowest since February 2009. In 2008, Brent fell as low as $36.20 per barrel and $32.40 per barrel for WTI.

Prices have tumbled this month after OPEC failed to impose a ceiling on output. OPEC producers pumped more oil in November than in any month since late 2008, some 31.7 million barrels per day (MMbbl/d).

“Consumption is likely to have peaked in the third quarter and demand growth is expected to slow to a still-healthy 1.2 [MMbbl/d] in 2016, as support from sharply falling oil prices begins to fade,” the IEA said in its monthly report.

Should sanctions on Iran be lifted, its exports could rise, adding to the market's oversupply.

“The next quarter is going to be particularly tough as we go from a high-demand to a low-demand quarter,” said Richard Gorry, director of consultancy JBC Energy Asia.

“Can you rule out $20 per barrel? No, you can't,” he said, although adding that prices would not likely fall that far.

Banks such as Goldman Sachs have said oil prices could fall to as low as $20 per barrel as the world might run out of capacity to store unwanted oil.

The IEA said the pace of stock-building should roughly halve next year and that it was very unlikely that global storage capacity would be filled.

“Concerns about reaching storage capacity limits appear to be overblown,” it said. The IEA said it expects a decline in non-OPEC production in 2016, as U.S. light tight oil shifts into contraction, and it that further spending cuts could spur deeper output declines.

“There is evidence the Saudi-led strategy is starting to work,” the IEA said, referring to the producer group’s decision to maintain high output to safeguard market share.

U.S. shale oil production, the main driver of non-OPEC supply growth, is expected to fall for a ninth consecutive month in January, a forecast from the U.S. Energy Information Administration showed this week.

– REUTERS

WesPac Scraps California Oil Terminal On Low Prices

WesPac Energy LLC has scrapped plans to build a San Francisco-area oil terminal because too few customers were willing to commit to volumes with crude prices at seven-year lows, the project manager said on Dec. 10.

"Without the customers, the economics just weren't there," Art Diefenbach said about WesPac Midstream LLC's project in Pittsburg, California, near Tesoro Corp.'s (NYSE: TSO) 166,000 barrels per day (bbl/d) Golden Eagle refinery in Martinez.

On Dec. 10 U.S. crude futures settled at $36.76 a barrel, down 65% from mid-2014.

WesPac first proposed the project in 2011 to receive, store and transfer crude between trains, vessels and pipelines at a new $200 million terminal. The cost fell to $150 million this year when WesPac cut rail out of the project on safety concerns voiced by opponents after multiple fiery crude train crashes.

Even so, railed crude might not have worked in the current market. As prices fell in the last year and a half, discounts of North Dakota Bakken and other inland crudes to U.S. oil prices narrowed, siphoning oil-by-rail's profitability.

According to the California Energy Commission, California oil-by-rail shipments hit a high of 20,075 bbl/d in May 2014 and were down by 61% to 7,801 bbl/d in September this year.

Even after WesPac eliminated rail from the project and re-submitted permit applications earlier this year, the continued oil rout diminished customer interest.

Diefenbach said customers were not willing to make long-term commitments to WesPac's terminal, given uncertainty of where crude prices will go given global oversupply.

And California projects—WesPac's and others—have faced years-long reviews and environmental impact studies. Oil markets changed in those intervening years after OPEC declined to cut output a year ago and again last week.

WesPac had an option to buy the land and tanks for the terminal from NRG Energy Inc. (NYSE: NRG), but it would expire "at some point," Diefenbach said. WesPac could not just put the project aside to resurrect at its discretion without owning the property.

"We just decided it was time to move on," Diefenbach said.

– REUTERS

Coastal GasLink Pipeline Signs Project Agreements With First Nations in BC

TransCanada Corp. announced Dec. 10 that its Coastal GasLink Pipeline Project has signed long-term project agreements with the Burns Lake Indian Band, Blueberry River First Nations (a participant in the historic Treaty 8), and Lheidli T'enneh First Nation. These agreements outline financial and other benefits and commitments that will be provided to these communities for as long as the pipeline project is in service, according to TransCanada.

"These agreements are a reflection of the meaningful way Aboriginal groups are choosing to participate in the long-term development of B.C.'s natural gas industry," said Rick Gateman, Coastal GasLink Pipeline Project president. "Their important contributions to our project allow us to incorporate their local knowledge into our planning and pipeline design, which is a priority for us. Their participation in these agreements makes Coastal GasLink a better project, and enables them to participate in the significant benefits coming from the project."

The Coastal GasLink project now has nine project agreements with Aboriginal groups. TransCanada said it has taken a “comprehensive approach to working with Aboriginal groups on opportunities related to B.C.'s emerging liquefied natural gas (LNG) industry, including developing skills training, employment and utilizing Aboriginal businesses in local contracting opportunities.”

"The project agreement reflects that we can collaborate with companies like Coastal GasLink, and participate in the many benefits of the project," said Chief Dan George of Burns Lake Indian Band. "It's important to us to find ways to balance the economic opportunity with environmental protection."

"We believe the pipeline project will benefit our members today and for future generations, both financially and in terms of employment for our members," said Chief Marvin Yahey of Blueberry River First Nation. "The relationship we have established with TransCanada is just as important as the agreement, and we are confident that the relationship we have built will continue to the benefit of both parties for years to come."

"We welcome the opportunity to be an active partner of Coastal GasLink," said Chief Dominic Frederick of Lheidli T'enneh. "We look forward to our members further participating in skills development and environmental stewardship opportunities that form part of the comprehensive agreement."

To date, the Coastal GasLink has had almost 15,000 interactions and engagements with Aboriginal communities along the proposed pipeline route, and a quarter of the more than 333,000 hours of fieldwork on the project has been conducted by Aboriginal people, TransCanada said.

The company said an estimated 32 per cent of the more than $4.8 billion capital project will be spent locally in British Columbia. The project has already spent over $41 million in the northern part of the province, as well as more than $1.9 million in community investments along the route, the company said.

Coastal GasLink is proposing to construct and operate a 670-km natural gas pipeline from the Groundbirch area near Dawson Creek, B.C. to the proposed LNG Canada liquefied natural gas export facility near Kitimat, B.C. The project is a key component of TransCanada's capital growth plan, which includes more than $13 billion in proposed natural gas pipeline projects which support the emerging liquefied natural gas industry on the B.C. Coast.

NuTech Energy Resources Adds Wyoming Pipeline Assets

NuTech Energy Resources Inc. (OTC: NERG) said Dec. 10 it has acquired more than 400 miles of pipeline assets in Wyoming from an unnamed seller. The value of the transaction wasn't disclosed.

The acquisition includes 40 miles of pipeline designed to connect adjoining fields, four dehydration stations, four compression stations, and an expanse equipped with pipeline ranging from 4-14 inches in diameter.

The structure will enable NuTech to connect multiple fields to existing stations where gas is currently being transported, according to the release.

The company will continue to focus on adding to the current inventory of its coalbed methane wells in the Powder River Basin of Wyoming, with plans to convert them into "profitable producing assets," the release said.

NuTech is currently working on closing a deal for 7,000 wells on state and federal land in Wyoming. The company has already purchased about 2,000 wells in the region.

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