MIDSTREAM Monitor

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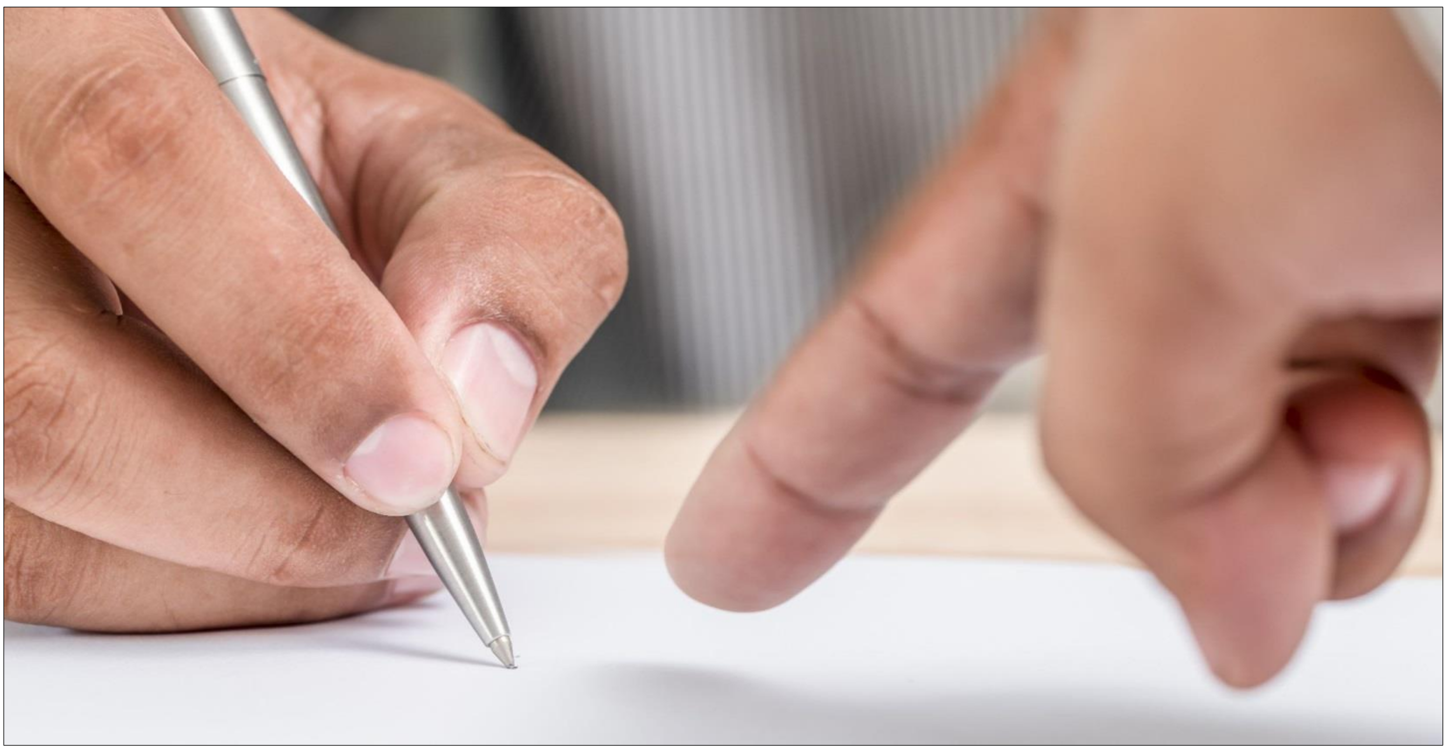
FEATURES

Utility To EDF: Cease And Desist



JOSEPH MARKMAN
HART ENERGY

Eversource Energy, a New England utility and supplier of natural gas, has threatened legal action against the Environmental Defense Fund (EDF) if the organization does not back away from citing a study that accuses the company of artificially limiting gas supplies to the region to benefit from price spikes.

Eversource (NYSE: **ES**) fired off a cease-and-desist letter on Dec. 11, saying EDF has "repeatedly published assertions drawn from the so-called study ... that are unsupported by fact. In particular, your repeated public assertions that Eversource has intentionally withheld gas pipeline capacity from the wholesale power market in order to profit from higher electricity prices are patently false."

See **CEASE** on Page 2.

CEASE

In an e-mail responding to a request for comment from Hart Energy, EDF spokesman Jon Coifman acknowledged that the organization had received the letter and referred it to counsel for review.

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"We stand by the analysis and reject this obvious attempt to intimidate and chill legitimate public inquiry," Coifman wrote in the e-mail.

Among the assertions that Eversource objected to was a Nov. 16 op-ed by Fred Krupp, president of EDF, in the **Wall Street Journal** and comments made by N. Jonathan Peress, the organization's senior director of energy market policy, during a panel discussion at the S&P Global Platts Pipeline Development and Expansion conference in mid-November in Houston.

In the letter from Gregory B. Butler, Eversource's executive vice president and general counsel, the company maintained that it adheres to state regulatory mandates that ensure customers in Massachusetts and Connecticut have uninterrupted sufficient natural gas even on the coldest days.

"The statements in the EDF Report that you have repeated ignore the most elementary principles of utility regulation and the regulation of utility fuel supply," Butler wrote.

Pipeline Shutdown Jolts UK Energy Prices

A shutdown of the UK North Sea's main pipeline system for emergency repairs has helped to send the oil price above $65 a barrel for the first time in more than two years.

The Forties Pipeline System (FPS), which billionaire Jim Ratcliffe's Ineos bought from BP just six weeks ago, delivers almost 40% of UK North Sea oil and gas production. Its shutdown for several weeks, announced on Dec. 11, will have an immediate knock-on effect on operators in the region that rely on its capacity.

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Brent crude, the international crude oil benchmark, rose on Dec. 12—reaching a day-high of $65.70 a barrel, up 1.6%—before slipping back to $65.33, a rally of 0.9% leaving it at a peak not seen since the summer of 2015.

Wholesale natural gas prices for same-day delivery in the UK surged almost 30% on Dec. 11 to the highest since 2013, with traders scrambling to secure imports at a time that much of the country is experiencing snow and sub-zero temperatures.

The jump in wholesale oil and gas prices, which may filter through to consumers over the winter, is likely to reignite questions about the UK's aging energy infrastructure, with the country increasingly dependent on fuel imports to meet its needs.

Falling storage capacity for natural gas has left UK supplies increasingly susceptible to short-term outages, with Centrica shutting the Rough storage site, the country's largest facility, making imports from Norway increasingly important. **—DAVID SHEPPARD and NATHALIE THOMAS** | FINANCIAL TIMES

Eclipse Acquires New Utica Core For $93.7 Million

Eclipse Resources Corp. (NYSE: **ECR**) entered an agreement on Dec. 11 to acquire about 44,500 highly contiguous net acres in north-central Pennsylvania, which analysts said will add another core area to the company's Utica Shale portfolio for "cheap."

The State College, Pa.-based company and its subsidiary, Eclipse Resources-PA LP, agreed to acquire the Utica assets from EnCap-backed Travis Peak Resources LLC in an all-stock transaction valued at $93.7 million.

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ECLIPSE

Eclipse stands to gain oil and gas leases, wells and other oil and gas rights and interests in Tioga and Potter counties, Pa., plus a single, proved developed producing well with average production of 6.5 net MMcf/d.

Eclipse is pegging the deal cost at $1,900 per acre. At that price, the company's implied value for Travis Peak's single producing well is $9.15 million, estimated Mike Kelly, senior analyst with Seaport Global Securities LLC.

At less than $2,000 per acre, Kelly said the Eclipse deal is "cheap." Still, the position offers 52% to 77% internal rates of return and boosts the company's surface acreage by a "substantial" 45% or more.

Eclipse will call its newly-acquired position the Flat Castle project area, which will add about 87 net drilling locations (based on a 16,000 ft lateral length).The deal boosts its identified dry-gas acreage in the play by about 85%, according to a company release.

"We like the transaction as it adds more acreage and inventory than incremental shares and doesn't stress the balance sheet," Kelly said in a Dec. 11 report.

Eclipse said it expects the area will support extensive development of its "super-lateral" drilling and completion technique.

Benjamin W. Hulburt, chairman, president and CEO of Eclipse, said the acquisition not only increases its inventory of drilling locations but allows the company to continue leveraging "innovative drilling and completions techniques while remaining Appalachian Basin focused."

"We believe the Flat Castle project area is located in one of the best underdeveloped areas of the Appalachian Basin and will nicely complement our existing asset base, with the potential returns on these wells competing with those in our core Utica dry gas acreage," Hulburt said in a statement.

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Eclipse said the acreage is delineated by 22 industry wells, including Travis Peak's well. Initial "type well" estimates of the acreage indicate EUR's of between 2 and 2.3 Bcf per 1,000 ft of lateral at a cost of about $1,025 per lateral foot, which are consistent with or better than the company's current southeast Ohio's Utica dry gas core, according to the company release.

The company plans to spud its first well in the Flat Castle position in first-quarter 2018 with full-scale development planned for the fourth quarter, Hulburt said.

Hulburt added that the location of the Flat Castle project area is significantly west of Eclipse's "more currently [pipeline] constrained Northeastern Pennsylvania peers" and will support the company's ability to reliably move gas out of the area for the foreseeable future.

"The company anticipates that the gas it produces in the Flat Castle project area will be transported through the Dominion and Tennessee gathering systems, which are exposed to improving Appalachian price differentials," he said

In addition, Eclipse said Dec. 11 its midstream subsidiary, Eclipse Resources Midstream LP, agreed to purchase all of the outstanding equity interests of Cardinal NE Holdings LLC for $18.3 million cash from Cardinal Midstream II LLC. Cardinal NE Holdings owns midstream infrastructure with associated gathering rights on the Flat Castle acreage.

—EMILY PATSY | HART ENERGY

FRAC SPREAD

Baby, It's Not Cold Enough Outside

JOSEPH MARKMAN | HART ENERGY

'Twas two weeks before Christmas, when all were upset
They had bet on cold weather and were filled with regret;
Projections had claimed that the climes would be brisk
Surely Q1 gas futures seemed a reasonable risk;
Oh, the exports were loaded all snug in their tankers
But domestic demand showed no pleasers, no thankers;
For natgas had fallen from its perch oh so high
And few had a need, whether wet gas or dry;
On ethane, on propane, on butane, on iso!
You can't let us down just 'cause New Yorkers don't have snow!
This slump is a fluke and we hope it can't laster
"It's an inexact science," shrugged the weather forecaster.

CURRENT FRAC SPREAD (CENTS/GAL)				
DECEMBER 15, 2017	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	13.00		19.80	
Shrink	18.22		18.54	
Margin	-5.22	30.46%	1.26	-61.44%
Propane	89.90		96.13	
Shrink	25.17		25.61	
Margin	64.73	-3.05%	70.52	-1.64%
Normal Butane	102.48		101.70	
Shrink	28.50		29.00	
Margin	73.98	2.19%	72.70	1.18%
Isobutane	103.75		102.93	
Shrink	27.37		27.85	
Margin	76.38	1.02%	75.08	1.10%
Pentane+	127.00		133.84	
Shrink	30.48		31.01	
Margin	96.52	-0.97%	102.83	1.20%
NGL $/Bbl	29.60	-2.23%	31.66	-2.16%
Shrink	10.04		10.22	
Margin	19.56	-2.05%	21.44	-1.39%
Gas ($/mmBtu)	2.75	-2.57%	2.80	-3.75%
Gross Bbl Margin (in cents/gal)	45.50	-2.15%	50.39	-1.54%
NGL Value in $/mmBtu (Basket Value)				
1.04	0.72	-11.56%	1.09	-12.12%
3.12	3.12	-2.92%	3.34	-2.21%
1.16	1.11	0.82%	1.10	-0.27%
0.69	0.65	0.05%	0.64	-0.26%
1.53	1.64	-1.36%	1.73	0.01%
7.54	7.23	-2.70%	7.89	-2.83%
4.61	4.48	-2.78%	5.10	-2.33%

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.

Natural gas futures for first-half 2018 took a dive in the past week as the **latest winter forecasts** convinced market bulls to retreat.

In the short term, the Northeast braced for arctic air from an Alberta clipper from Canada racing from Michigan to New York. Fast-moving storms like this can be counted on for flight delays but not necessarily for a sustainable bump in natural gas prices.

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Other news from Europe—the **shutdown of the Forties Pipeline System** in the North Sea and an **explosion at Austria's main gas pipeline hub**—are unlikely to move the U.S. market much.

"It looks like the disruption in Austria has been short-lived and is going to be back online," Jeff Quigley, director of energy markets for **Stratas Advisors**, told Hart Energy. "Forties disruption is the bigger issue and it seems like U.K. gas prices have pulled back quickly, despite the potential for a three-week outage. You might have an increase in a few shipments but nothing substantial and not enough to make a big impact on Henry Hub."

With a more liquid global LNG spot market, U.S. exporters could theoretically fill a shortfall, Quigley said, but long travel times make it difficult to take advantage of the arbitrage window. There is the opportunity for backfill storage, he said, but that would require a sustained higher price spread.

Midstream No Longer Seen As An Annuity

NEW YORK—With a little time and distance from the pain of the last downcycle, some perspective emerges.

"The shocks of the last few years have done some good for the industry," said Nazar Massouh, CEO of private lender Orion Energy Partners. "The shocks took the midstream from being thought of as an annuity and has allowed smarter risk takers to have a larger role."

Massouh spoke at the S&P Global Platts annual Global Energy Outlook Forum Dec. 7.

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At a macro-economic energy conference addressing oil, gas, nuclear, renewables and even coal, it might seem that the midstream might get lost in the shuffle. But from the opening speakers and panel, the pipes were calling.

Detailing that smarter risk taking, Massouh cited new midstream contracts. "Pricing risk for the midstream in the new environment of oil and gas prices means some risk management needs to be done by midstream companies to protect their downsides. They need a floor. That has to be done by the operators themselves, not just the financial managers."

Orion, he said, does old-fashioned project finance, making small to mid-sized loans of $25 million to $150 million.

—GREGORY DL MORRIS | CONTRIBUTOR

TOP STORIES

Vessel Heads To Cove Point To Drop Off LNG Cargo

An LNG tanker heading for Dominion Energy Inc.'s Cove Point LNG facility in Maryland on Dec. 14 was bringing fuel to the plant, ahead of the start-up of the terminal's export unit, according to a *Reuters* interactive map and sources familiar with the cargo.

Cove Point has long been an import facility but Dominion has spent $4 billion to add export facilities, which the Virginia-based energy company expects to enter service before the end of the year.

The cargo expected to arrive on Dec. 14 is on the *Maran Gas Delphi* tanker arriving from Nigeria.

Once it enters service, Cove Point will be the second-largest LNG export terminal in the lower 48 U.S. states, after Cheniere Energy Inc.'s Sabine Pass terminal in Louisiana, which exported its first cargo in February 2016. —REUTERS

North Sea Oil Deliveries Halted

LONDON—Deliveries of crude oil through the Forties pipeline in the North Sea are under force majeure for the first time in decades and operator INEOS said on Dec. 14 there was no timeline yet for repair work that could last several weeks.

The 169-km pipeline, which carries around a quarter of all North Sea crude output and around one-third of Britain's total offshore gas production, has been closed since Dec. 11, following the discovery of a small crack in part of the system onshore in Scotland.

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