MIDSTREAM Monitor

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**FEATURES**

# ECA Parts With Marcellus Assets

**DARREN BARBEE**
HART ENERGY

In an almost effortless pirouette, Energy Corp. of America's (ECA) management and staff are now Greylock Energy LLC employees following a deal to buy ECA's massive Marcellus upstream and midstream assets late last month.

Greylock, backed by ArcLight Capital Partners, closed on a deal for ECA on Nov. 28. The price was not disclosed. Kyle Mork, the former CEO of ECA who now leads Greylock, said that ArcLight is backing the company

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## ECA

with a $400 million equity commitment and that the transaction price "is embedded in that number."

"What I can tell you is within the $400 million, even including the transaction price, we really feel like we are really positioned to grow both the upstream and midstream businesses," Mork said in an interview with Hart Energy.

ECA, founded in 1963, is focused on the Appalachia Basin where it holds acreage in West Virginia and Pennsylvania totaling about 713,000 net acres and 4,400 operated wells, most of which are conventional wells. The company also has 2,600 miles of gathering assets and other midstream infrastructure.

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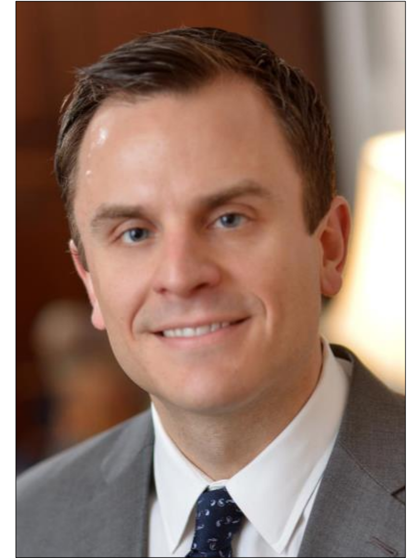
Mork said the company has about 100 producing Marcellus wells.

"In future development, I expect we'll be primarily focused on Marcellus in the near term," he said, adding that Greylock also has good exposure to the Utica in northern West Virginia and central Pennsylvania.

"So we're excited [but] I don't think we'll be drilling a Utica well next month," he added.

Mork said the company is monitoring the progress of Utica development and tests and will begin exploring "sooner rather than later."



***Kyle Mork, new head of Greylock Energy LLC: "We really feel like we are really positioned to grow both the upstream and midstream businesses."***

### How it developed

The ECA transaction was set in motion after ArcLight approached the company several months ago about a possible deal.

"This is ArcLight partnering with our team to create Greylock and buy the asset from ECA to really jumpstart Greylock," Mork said. "We've got substantial upstream assets, midstream assets and we're well positioned with the commitment from ArcLight to grow both sides of the business."

Mork said that, in a sense, he was on both sides of the transaction—transitioning to Greylock while also knowing ahead of time about the assets he will develop.

"The neat thing is all employees moved across to Greylock as well. Our team, and the broader employee base that's been managing that," he said.

The staff includes a team that builds and manages the company's midstream operations. Greylock's acquisition includes outright ownership of First ECA Midstream—a joint venture (JV) between ECA and private-equity firm First Reserve Corp. The JV was formed in 2011 with a $100 million commitment from First Reserve.

### Pieces of the puzzle

Mork said the ECA midstream assets and First ECA will move gas to Greylock and third-party producers.

"One piece of the midstream business is building out for Greylock's upstream development," he said. "But then the other piece is we've really had developed experience and had good success at building midstream for third parties. That could be, in the future, other producers and it could also be industrial users, power plants, those sorts of things."

Dan Revers, managing partner and founder of ArcLight, said the experience of Greylock's team is the key to creating wealth out of the assets.

"The Marcellus is a world-class shale resource and this investment serves as an ideal platform for additional upstream and midstream growth opportunities in this important region," Revers said.

# Securing Pipeline Permits Becomes Tall Order

The British Columbia government says the Trans Mountain Expansion pipeline needs 1,200 permits before construction can begin; only 66 have been issued thus far and Kinder Morgan has already pushed back its schedule by nine months.

The Canadian government is supporting the National Energy Board's idea to create a "standing panel" to speed up permit approval. And on that prosaic point a war of words has erupted between the West Coast and Ottawa.

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"The federal government should get its nose out of British Columbia's business unless we're … violating federal laws. We are not," George Heyman, BC environment and climate change strategy minister, told the *Canadian Press* last week. He was responding to a **statement released** by Canadian Natural Resources Minister Jim Carr about the standing panel: "The government is supportive of establishing a process that would assist in resolving any conflicts over the issuance of municipal or provincial permits and avoid unnecessary delays to project construction or regulatory compliance."

The BC NDP, a provincial arm of the Canadian democratic socialist party, formed a minority government this summer after campaigning against the 525,000 barrel per day pipeline that would twin the existing system from Edmonton, Alberta to Burnaby, BC in metro Vancouver. Heyman is the former executive director of the BC Sierra Club and is vehemently opposed to the controversial project, which is being fought by a coalition of coastal indigenous communities, local municipalities like the City of Burnaby (where Kinder Morgan's marine terminal resides), and a collection of powerful environmental groups. **—MARKHAM HISLOP** | CONTRIBUTOR

# FERC Rejects Magellan's Marketing Petition

Can a marketing affiliate of an oil pipeline purchase transportation at the filed tariff rate and then re-sell this capacity at a lower, non-public rate without running afoul of the Interstate Commerce Act's prohibition on rebates? On Nov. 22, the Federal Energy Regulatory Commission (FERC) issued an order that addressed this very issue.

One year ago, Magellan Midstream Partners LP (NYSE: **MMP**) filed a petition for declaratory order at FERC seeking FERC's opinion on several structures involving a to-be-created marketing affiliate. This marketing affiliate would facilitate movements on Magellan's system by purchasing capacity on Magellan's system and transporting product (including third-party product) at price differentials between origin and destination markets that may be different from Magellan's filed tariff rates.

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Magellan suggested that a marketing affiliate could increase utilization of the system, provide flexibility for producers and markets, and increase access to the pipeline, while improving the revenues of the pipeline's integrated corporate system. Such benefits could accrue even though the marketing affiliate would lose money on a given transaction by paying Magellan the filed tariff rate, but charging the marketing affiliate's counterparty a lesser rate. Magellan's petition drew significant industry attention.

FERC generally denied the petition, but at the outset it confirmed that an oil pipeline may create a marketing affiliate without FERC authorization, that a marketing affiliate may ship on the affiliated pipeline, and that FERC's ICA jurisdiction does not extend to the sales of petroleum products.

However, FERC found that Magellan's proposed transactions would run afoul of the ICA's prohibition on giving special rates or rebates to any particular shipper.

FERC explained that it has not been previously faced with the contemplated structure as described by Magellan. It concluded that such transactions would violate the prohibition on rebates where the pipeline would subsidize its marketing affiliate's losses in the transactions because the ICA prohibits any and all means or devices that result directly or indirectly in a rebate from the filed tariff rate. **—BRACEWELL LLP** | HART ENERGY

FRAC SPREAD

# More Questions About EIA Data?

JOSEPH MARKMAN | HART ENERGY

The weather forecast of colder conditions in certain regions will result in more holiday spending.

| CURRENT FRAC SPREAD (CENTS/GAL) | | | | |
|---|---|---|---|---|
| DECEMBER 8, 2017 | Conway | Change from Start of Week | Mont Belvieu | Last Week |
| Ethane | 14.70 | | 22.53 | |
| Shrink | 18.70 | | 19.26 | |
| **Margin** | -4.00 | 228.44% | 3.27 | -39.62% |
| Propane | 92.60 | | 98.30 | |
| Shrink | 25.84 | | 26.61 | |
| **Margin** | 66.76 | -3.28% | 71.69 | -1.69% |
| Normal Butane | 101.65 | | 101.98 | |
| Shrink | 29.25 | | 30.13 | |
| **Margin** | 72.40 | 2.61% | 71.85 | -1.48% |
| Isobutane | 103.70 | | 103.20 | |
| Shrink | 28.09 | | 28.94 | |
| **Margin** | 75.61 | -0.24% | 74.26 | -1.64% |
| Pentane+ | 128.75 | | 133.83 | |
| Shrink | 31.28 | | 32.22 | |
| **Margin** | 97.47 | 0.47% | 101.61 | -1.51% |
| NGL $/Bbl | 30.27 | -3.40% | 32.36 | -2.34% |
| Shrink | 10.30 | | 10.61 | |
| **Margin** | 19.97 | -2.98% | 21.74 | -3.00% |
| | | | | |
| Gas ($/mmBtu) | 2.82 | -4.19% | 2.91 | -0.95% |
| Gross Bbl Margin (in cents/gal) | 46.51 | -3.07% | 51.17 | -3.03% |
| **NGL Value in $/mmBtu (Basket Value)** | | | | |
| 1.04 | 0.81 | -19.67% | 1.24 | -9.37% |
| 3.12 | 3.21 | -3.53% | 3.41 | -1.49% |
| 1.16 | 1.10 | 0.55% | 1.10 | -1.33% |
| 0.69 | 0.65 | -1.34% | 0.64 | -1.45% |
| 1.53 | 1.66 | -0.70% | 1.73 | -1.38% |
| 7.54 | 7.43 | -4.26% | 8.12 | -2.73% |
| **4.61** | 4.61 | -4.30% | 5.22 | -3.70% |

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.

Really. Cold weather and "mood" snow (it's a thing) get folks in the holiday spirit and bolster buying, says AccuWeather, which has a more optimistic forecast for the season's sales than the National Retail Federation and also expects below-normal temperatures in the Midwest and Northeast.

So if you find yourself inspired by the chill to visit the mall, toddle into Nordstrom and see if the retailer has a special on ethane.

Ethane tumbled to its lowest point in nine months at Mont Belvieu, Texas, and 16 months at Conway, Kan., last week as NGL prices in general took a breather from their rally.

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Ethane's volatility of late has bedeviled analysts. En*Vantage suggests that a petrochemical company might be dumping ethane after experiencing an outage. Or, the setting of a next-month contract price. Or, possible delays for crackers expected to be online by the end of the year.

Then again, it might just be a question of oversupply.

Baird Equity Research hosted a recent call with BTU Analytics in which BTU's analyst Erika Coombs discussed how her well-level model showed ethane production that was substantially higher than the U.S. Energy Information Administration's (EIA) estimates.

BTU's research showed ethane output of 1.83 million barrels per day (bbl/d), or 300,000 bbl/d higher than the figure reported by the EIA. That indicates higher demand for crackers and export infrastructure over the next decade.

Coombs also believes that production from the Permian Basin will be sufficient to meet Gulf Coast demand, meaning that Northeast crackers and the Marcus Hook export terminal will not have to compete for Marcellus natural gas.

## TOP STORIES

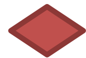
# Chevron Sets $18.3B Budget For 2018

Chevron Corp. (NYSE: **CVX**), the second largest U.S.-based oil producer, is budgeting $18.3 billion for capital projects next year, the company said Dec. 6, about 4% less than this year and lower for the fourth year in a row.

International energy company capital budgets, closely watched for indications of future oil and gas production, broadly have been shrinking after 2014's oil-price collapse slashed earnings and left many with high debt loads.

In Chevron's case, the sharp declines coincide with its spending winding down on several long-term and costly projects in Australia and elsewhere. Capital and exploratory spending in the first nine months of this year was about half that of three years ago, a company spokeswoman said.

—REUTERS



# Jasper Ventures: Meeting the Gas Processing Needs of the Modern Midstream

As natural gas and NGLs continue to gain market share in the energy market, the Jasper Ventures (JV) family of companies is well positioned to continue to serve the needs of the midstream industry. Our 25+ year track record of delivering cost effective, on-time, efficient solutions as Engineering, Procurement and Construction Inc. (EPC) speaks for itself.

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We recently restructured EPC into the JV family of businesses and are an end-to-end turnkey provider who engineers, designs, constructs, installs, operates and leases state-of-the-art modular gas processing plants and mechanical refrigeration units (MRUs). —Sponsored content by **JASPER VENTURES**

## Andeavor Undeterred By Washington's Snub

HOUSTON—Independent U.S. refiner Andeavor said on Dec. 5 it will not abandon a push to build a Pacific Coast rail-to-marine terminal despite a Washington state panel's recommendation against the project.

The Washington Energy Facility Site Evaluation Council last week voted unanimously to recommend against building the $210 million project, citing the likelihood of increased accidents and deaths from greater train traffic. Its vote is advisory and the recommendation will be sent within weeks to Gov. Jay Inslee, who will make the final decision.

Andeavor and partner Savage Cos five years ago had proposed a rail-to-marine terminal that would transfer 11 million barrels of oil a month from trains to tankers at the Port of Vancouver, Wash.

Brendan Smith, a spokesman for Andeavor, formerly Tesoro, said on Dec. 5 the San Antonio-based company was not giving up on the project.

"The value of the Vancouver Energy project continues to exist, and our intention at this time is to move forward in the process and await Gov. Inslee's decision," he said. —REUTERS

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