MIDSTREAM Monitor

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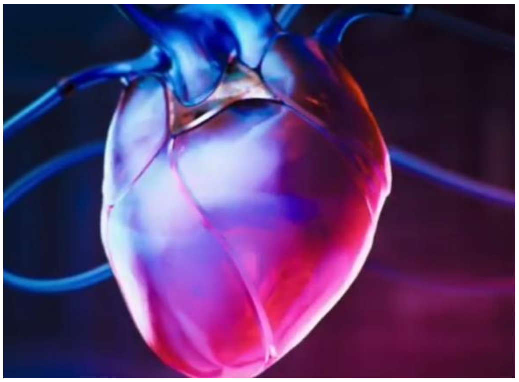
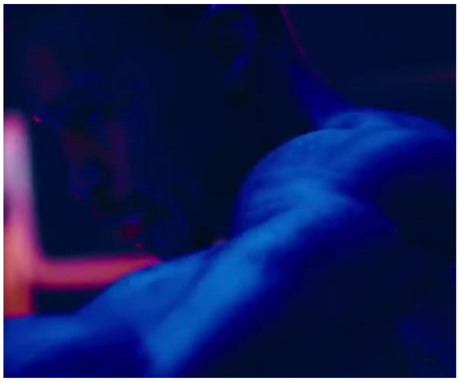
FEATURES

Power Past Implausible?

A NAPE panel agrees that the oil and gas industry is losing the messaging battle against the environmental movement and it needs a new approach.

API

Images are from the American Petroleum Institute's "Power Past Impossible" ad that ran during Super Bowl LI.

By **JOSEPH MARKMAN**, Hart Energy

The battle against a sophisticated environmental activist movement to sway the public over oil and gas policy is not over, a panel agreed at the recent NAPE business conference. To be clear, the energy industry is losing that battle.

"If you think that times have changed and we can go back to business as usual, that is simply incorrect," Brigham A. McCown, chairman of the Alliance for Innovation and Infrastructure, told the crowd of several hundred.

"While the government is back in the business of moving America forward, there are many challenges that remain, and those who are

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MESSAGE from Page 1

opposed to the oil and gas industry are not going to go quietly," he said.

The issue is more complex than simply conveying a message effectively. As Jacki Pick, COO and executive vice president of the National Center for Policy Analysis, and host of "The Jacki Daily Show" on Glenn Beck's The Blaze radio network, noted, the oil and gas sector communicates its message very well to some audiences but not to others.

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"This sector does a really good job of communicating with each other, business to business, and also with policymakers and regulators," she said. "We are not communicating well with the public."

Step No. 1 is formulating the message, Pick said. The industry's advantage is the value it gives to the everyday lives and standard of living to the U.S. and the world. The sheer volume of products tied to oil and gas and modern civilization's reliance on them should be an automatic positive.

But empirical data aren't what they used to be.

Take the American Petroleum Institute's 30-second **advertisement** broadcast during Super Bowl LI. It was a matter-of-fact listing in a staccato presentation of various products, from plastics to cosmetics, which are derived from petroleum.

The Twitter response from one viewer: "American Petroleum Institute #SuperBowl Ad was nothing but blatant lies."

Analyst: Don't Bet Against Oil Price Volatility In 2017

This will be a volatile year for oil and natural gas prices, an analyst told a recent industry forum.

"It's going to be rough," Nicole Leonard, senior energy analystin commodity consulting for S&P Global Platts, told executives at S&P Global's recent Midstream Energy and Oil and Gas Breakfast Forum. "2017 is going to be volatile and prices are going to be all over the place because prices this year probably won't be driven by fundamentals. It will be driven by people in the market trying to bet on OPEC and the U.S."

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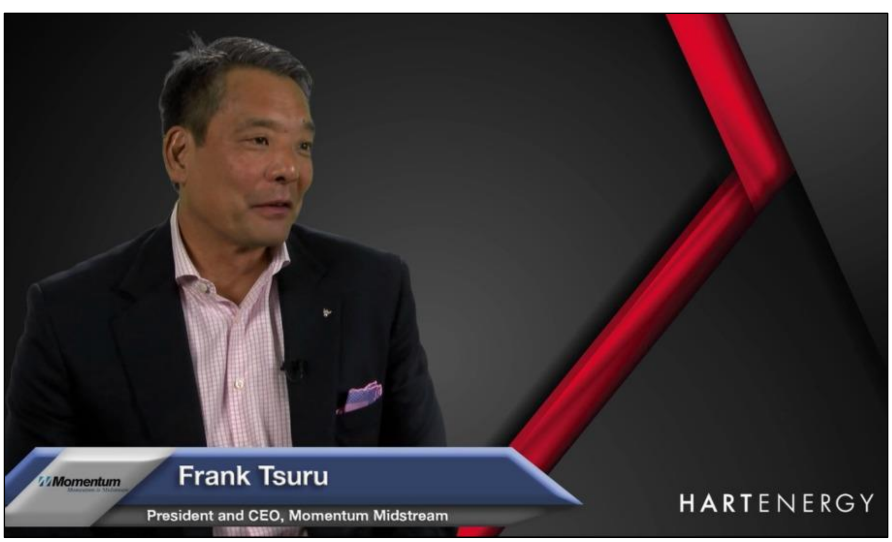
Leonard acknowledged that a sense of optimism was emerging among industry players as the price of West Texas Intermediate (WTI) crude has lingered around $55 per barrel (bbl). She just doesn't agree.

Two issues are creating uncertainty in the short term: whether OPEC members can adhere to their collective 1.2 MMbbl/d production cut commitments, and a global oversupply of both crude oil and refined products.

—JOSEPH MARKMAN, Hart Energy

VIDEO



Midstream Connect: Ethane's Price Expected To Double By 2020

Frank Tsuru, president and CEO of Momentum Midstream, believes that ethane prices will firm up in the short term and double between now and 2020. He also sees a trend toward dry gas in the Marcellus and Utica.

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FRAC SPREAD

Say What? Markets Greet News With Agony, Ecstasy

By **JOSEPH MARKMAN**, Hart Energy

It might a sign of the times that folks who follow through on what they say are triggering reactions bordering on ecstasy.

A campaign promise to allow construction of the Keystone XL Pipeline that leads to an executive order doing just that? Let's break open a Texas mickey! (Canadian slang for a three-liter bottle of alcohol.)

How about those OPEC countries sticking (by 90%) to their production cut agreement? Let's keep WTI floating in the mid-$50s!

If that last reaction seems sub-ecstatic, it might relate to the cartel's agreement-deficit disorder in previous production cuts. Then there is Julian Lee's speculation in a recent *Bloomberg* article that the Saudis might be front-loading their cutbacks ahead of a production ramp-up in April-May to satisfy domestic oil demand for electric generation during the summer.

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No matter the reason, the markets will not like a Saudi uptick, especially with U.S. crude inventories so high and a higher rig count in the shale plays.

Then there is the problem with natural gas prices, namely that the U.S. winter has been warmer than expected.

"The bottom line is that for gas bulls the winter appears to be essentially over and it is merely a matter on how bad the winter ends up," wrote **En*Vantage Inc.** analysts. "Pretty bad, huh?"

The average prices for natural gas fell by 6.5% at the Chicago Citygate hub and by 7.2% at the Houston Ship Channel in the past four-day trading week. And, frac spread margins narrowed (except for Conway, Kan., propane) at the Conway and Mont Belvieu, Texas, hubs; so yes, pretty bad.

The hypothetical NGL barrel dropped 5.6% to below $30 per barrel (bbl) at Mont Belvieu and 5.9% to below $28/bbl at Conway. It was the sharpest one-week falloff at Mont Belvieu since late October 2016. Conway's barrel has fallen 12.8% in the past two weeks to return to its range of December.

CURRENT FRAC SPREAD (CENTS/GAL)

FEBRUARY 24, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	20.56		25.08	
Shrink	18.13		17.90	
Margin	2.43	-36.20%	7.18	11.70%
Propane	65.66		75.89	
Shrink	25.05		24.73	
Margin	40.61	-5.54%	51.16	-6.12%
Normal Butane	98.10		110.86	
Shrink	28.36		28.00	
Margin	69.74	-11.71%	82.86	-8.83%
Isobutane	109.56		96.47	
Shrink	27.24		26.89	
Margin	82.32	-3.06%	69.58	-12.03%
Pentane+	120.56		118.13	
Shrink	30.33		29.94	
Margin	90.23	1.24%	88.19	-0.39%
NGL $/Bbl	27.44	-5.88%	29.30	-5.64%
Shrink	9.99		9.86	
Margin	17.45	-5.44%	19.43	-4.81%
Gas ($/mmBtu)	2.74	-6.66%	2.70	-7.21%
Gross Bbl Margin (in cents/gal)	39.62	-5.49%	45.09	-4.90%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.13	-11.49%	1.38	-2.49%
Propane	2.28	-5.97%	2.63	-6.48%
Normal Butane	1.06	-10.30%	1.20	-8.43%
Isobutane	0.68	-3.98%	0.60	-10.74%
Pentane+	1.55	-0.87%	1.52	-2.21%
Total Barrel Value in $/mmbtu	6.71	-6.36%	7.34	-5.59%
Margin	3.97	-6.15%	4.64	-4.62%

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.

PODCAST

Managing A Business Cycle: The Capex Question

There were multiple lights, shining long into dark, holiday-season nights, at midstream firms' headquarters as 2016 ended. Seasonal cheer was not the point. Rather, those lights lit planning and budgeting departments as tired staffers sat at their computers, trying to figure out how to plan relevant capex budgets for 2017.

Crystal balls might have been more help than advanced budgeting software. Differing trends pull the energy business in opposing directions as a new year begins. This could be the year commodity prices rise—or they could remain depressed. The regulatory burden may lift—or be replaced by environmental activism. Traditional capital sources may open—or remain tight.

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What to do? Where to put the capex—and how much?

Overall, announced midstream capex budgets appear to be flat to slightly above 2016 programs as operators appear modestly hopeful for a better year. A lot depends on what either end of the energy value chain does. Upstream, drilling was picking up as 2017 began. Downstream, export demand continues to rise, particularly for NGL and petroleum products.

There's some catching up to do in some plays, according to an RBN Energy report issued in early January. "We are predicting a market where producers can make money at market prices, production volumes increase, and midstream assets start to see some of those volumes they were built to handle" during the boom, it said. **—PAUL HART,** Hart Energy

TOP STORIES

Matador's Midstream JV Plugs Delaware Capex Hole

Matador Resources Co. (NYSE: **MTDR**) said Feb. 17 it dished a portion of its Delaware Basin midstream assets to clear the path for its upstream production growth in 2017 at a value nearly double what some analysts expected.

Matador and Houston's Five Point Capital Partners LLC agreed to form a midstream joint venture (JV), called San Mateo Midstream LLC, the companies said. The JV will own, operate and expand Matador's Delaware midstream assets—though with the Dallas-based company still firmly at the helm.

The deal answers two essential questions for Matador: how to jumpstart its capex and what the midstream assets were worth. The company can now hit the gas on drilling activity and even deploy an additional rig in the basin. Five Point said the JV's implied value at closing will be about a half billion dollars.

Matador's midstream interests commanded $171.5 million cash upfront for a 49% stake in the infrastructure while retaining operational control with its 51% interest.

—EMILY PATSY, Hart Energy

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