MIDSTREAM Monitor

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MARCELLUS-UTICA MIDSTREAM CONFERENCE

The financial way forward for Appalachian pipeline projects is clear, but ...

Where's The Will?

By **PAUL HART**, Hart Energy

PITTSBURGH—The financial capital exists to fund the big midstream buildout of Appalachia's unconventional plays. The greater question, however, is whether the public will exists to permit construction of all the needed gathering lines, processing plants, storage tanks and transmission systems to connect the Marcellus and Utica to potential markets.

Three financial specialists contributed their viewpoints to a lively roundtable discussion entitled "Midstream and the Markets" at Hart Energy's eighth annual Marcellus-Utica Midstream conference Jan. 25.

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Source: Hart Energy

Ben Davis of Energy Spectrum Capital, Rob Wilson of East Daley Advisors and Guillermo Sierra of Macquarie Capital (USA) Inc., present their views at the Marcellus-Utica Midstream conference.

APPALACHIA from Page 1

The panelists discussed the capital question from their differing perspectives. Ben Davis is a partner at Energy Spectrum Capital, a Dallas-based private equity firm. Rob Wilson is director of research for East Daley Capital, a financial analysis firm based in metropolitan Denver. Guillermo Sierra is managing director and head of the midstream advisory in Houston for Macquarie Capital (USA) Inc., a capital provider, commodity trader and financial advisor.

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Wilson said his clients are "heavily focused on what we call tier-one plays" now due to the energy industry's contraction. He listed those top plays as the Permian Basin, the Midcontinent's Scoop and Stack plays and the Marcellus. "We're seeing a lot of questions directed specifically at midstream companies. We're advising our clients on private placements of debt, equity and, more recently, preferred equity in the Marcellus," he said.

Davis said Energy Spectrum currently has one Marcellus investment underway with Stonehenge Energy Resources, its second project with the firm in the region. A third Marcellus project was with Laser Energy in Susquehanna County, Pa.

Looking ahead, Davis added Energy Spectrum "would love to do more in the Marcellus and Utica. We're constantly looking for strong management teams. Ultimately, we want to meet the midstream needs of the producers." He emphasized the importance of strong, experienced management teams in finding and funding attractive and successful projects.

From Marcellus Footprint, Spectra Plans A Leap

PITTSBURGH—To understand the impact of Appalachian natural gas, just look at the Spectra Energy Partners LP (NYSE: **SEP**) map.

The sprawling pipeline system—centered around the Texas Eastern and Algonquin systems—carries gas through the eastern U.S., north to Canada and south to Texas to move LNG into Mexico. In 2016, volumes riding the pipelines averaged about 5.5 billion cubic feet per day (Bcf/d), sometimes as high as 6 Bcf/d in the southwest Pennsylvania, Ohio and West Virginia area.

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"Definitely room for growth," Bobby Huffman, Spectra's director of business development, told attendees at Hart Energy's recent Marcellus-Utica Midstream Conference & Exhibition. "That means more work to do for us in business development to get this to market."

How much room? By the time the company's myriad projects go into service, Spectra expects to be able to transport 9.5 Bcf/d out of the region in every direction. Many of those projects are greenfield, but some add on to existing capacity. **—JOSEPH MARKMAN,** Hart Energy

PODCAST

HARTENERGY POLITICAL TRACK INSIDE (((PODCAST)))

Pipeline Regs: 'I Think We'll See Some Things Put On Hold'

Listen to **Keith Coyle**, attorney and shareholder at **Babst Calland** in Washington, D.C. Coyle discussed the outlook for the regulatory environment as the new-look federal government takes control of the process. He forecast what operators can expect from the regulatory process and agencies such as the U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration (**PHMSA**).means for other infrastructure projects in the near future.

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FRAC SPREAD

One Super Bowl Later, NGL Prices Have Improved

By **JOSEPH MARKMAN**, Hart Energy

A year ago, my predecessor in this position—desperate for even a tinge of optimism—wrote about the glee fast spreading throughout the Oil Patch as the price of West Texas Intermediate (WTI) soared above $30 per barrel (bbl).

CURRENT FRAC SPREAD (CENTS/GAL)

FEBRUARY 3, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	19.15		19.06	
Shrink	21.14		20.92	
Margin	-1.99	-38.96%	-1.86	-5.94%
Propane	79.78		81.08	
Shrink	29.21		28.90	
Margin	50.57	15.42%	52.18	11.90%
Normal Butane	118.10		111.05	
Shrink	33.07		32.72	
Margin	85.03	-0.93%	78.33	14.38%
Isobutane	129.58		111.32	
Shrink	31.76		31.43	
Margin	97.82	11.25%	79.89	17.66%
Pentane+	117.67		105.95	
Shrink	35.37		34.99	
Margin	82.30	3.53%	70.96	0.28%
NGL $/Bbl	30.27	5.21%	28.57	5.46%
Shrink	11.65		11.53	
Margin	18.62	8.31%	17.04	9.84%
Gas ($/mmBtu)	3.19	0.61%	3.16	-0.42%
Gross Bbl Margin (in cents/gal)	42.71	9.03%	39.79	10.20%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.05	7.89%	1.05	0.16%
Propane	2.77	9.51%	2.81	7.18%
Normal Butane	1.28	-0.51%	1.20	9.58%
Isobutane	0.81	8.44%	0.69	11.92%
Pentane+	1.52	2.63%	1.37	0.05%
Total Barrel Value in $/mmbtu	7.42	5.89%	7.12	5.47%
Margin	4.23	10.25%	3.97	10.68%

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.

That's right. A barrel of WTI was $30 just one Super Bowl ago.

Now that January 2017 ran its course, the industry finds hope more easily. After all, WTI has stayed solidly in the mid-$50/bbl range for a while now; the man who used to run ExxonMobil Corp. (NYSE: **XOM**) now runs the U.S. State Department; and two major pipeline projects all but given up for dead are now good bets to resume construction, cheered on by the new occupant of the Oval Office.

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But that's oil, and while oil prices influence natural gas prices, and natural gas prices affect NGL prices, the differentiation between oil and NGL becomes starker all the time. While oil and gas have been relatively stable so far in 2017, ethane plunged into a price abyss, only clawing its way back in the past week. The ethane price drop is the first way NGL prices will impact profits:

En*Vantage points to a number of issues dragging down ethane. The analysts have noted in past weeks that petrochemical companies are holding onto their ethane in anticipation of higher prices later in the year. Recently, though, three crackers—Exxon Chemical in Baton Rouge, La.; Formosa #2 at Point Comfort, Texas; and Chevron Phillips #33 at Sweeney, Texas—were scheduled for turnarounds at the same time, taking 180 Mbbl/d of ethane cracking demand off the market. Ethane rejection may have spiked to 700 Mbbl/d, En*Vantage speculates. But the analysts also suggest that producers buy now: "The fire sale on ethane may not last for long."

High Court Nominee's Decisions Favor Deregulation

While President Donald Trump has become known for the unpredictable, his nominee for the U.S. Supreme Court, 49-year-old Judge Neil Gorsuch, seems anything but unpredictable. But when it comes to issues that matter most to the oil and gas industry, such as deregulation, his stance can be a bit of a guessing game.

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Gorsuch, who serves on the 10th U.S. Circuit Court of Appeals in Denver, was nominated to fill the vacancy left by the death of Justice Antonin Scalia. In many ways, Gorsuch is considered similar to Scalia in legal philosophy.

Those are characteristics the president noted in his introduction of Gorsuch at the White House on Jan. 31.

"When Justice Scalia passed away suddenly last February, I made a promise to the American people: If I were elected president, I would find the very best judge in the country for the Supreme Court," Trump said when announcing his selection Jan. 31. "I promised to select someone who respects our laws and is representative of our Constitution and who loves our Constitution and someone who will interpret them as written." **—LEN VERMILLION,** Hart Energy

TOP STORIES

Senate Panel Approves Trump EPA Chief Pick

A Senate committee suspended rules on Feb. 2 to approve President Donald Trump's controversial choice to lead the Environmental Protection Agency amid a boycott of his nomination by the panel's Democratic members.

Wyoming Senator John Barrasso, chair of the environment and public works committee, said the committee would "suspend several rules" temporarily to approve the nomination of Oklahoma Attorney General Scott Pruitt as EPA administrator.

The panel's Democrats boycotted the Feb. 1 meeting to approve Pruitt, saying that the nominee doubts the science of climate change and had too many conflicts of interest with the companies he is charged with regulating.

— REUTERS

EIV Capital Closes $450 Million Fund

Private-equity firm EIV Capital LLC reported Feb. 2 the final closing of midstream-focused EIV Capital Fund III LP and affiliates at the $450 million hard cap, passing the original $350 million target.

The institutional fundraising for Fund III began in August 2016 and was completed in early December 2016, the firm said.

The midstream infrastructure projects it will support include gathering, processing, distribution, storage and marketing of oil, natural gas and refined products. It will also support related segments of the energy value chain, the firm said.

Champlain Advisors LLC was the fund's exclusive placement agent. EIV Capital is based in Houston.

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