MIDSTREAM Monitor

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MARCELLUS-UTICA MIDSTREAM CONFERENCE

Foreign Policy And Energy

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HART ENERGY

PITTSBURGH—Meghan O'Sullivan doesn't mind admitting to a room full of oil and gas executives that she's been having an identity crisis. But she's also quick to point out that many of those very same executives are enduring a similar conflict.

O'Sullivan, Jeane Kirkpatrick Professor of the Practice of International Affairs and the Director of the Geopolitics of Energy Project at Harvard University's Kennedy School, has spent the last 25 years working with U.S. foreign policy leaders. During the last 12 years, she has added the duties of working with energy leaders.

"The overlap between the energy world and the foreign policy world is surprisingly small," the

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former special assistant to President George W. Bush and deputy national security adviser for Iraq and Afghanistan told an audience of about 1,000 attendees during a special address at the recent Marcellus-Utica Midstream Conference.

"I've asked myself: Why do so few people wear a foreign policy lens and an energy market lens when they're trying to understand the situations in the world today," O'Sullivan, author of the recently published, "**Windfall: How the New Energy Abundance Upends Global Politics and Strengthens America's Power,"** said. "It's a natural tendency for every single one of us to put weight on the things we understand and to discount the things we don't."

In today's world where the interplay between energy market dynamics and foreign policy is almost seamless, O'Sullivan said the understanding of both points of view is instrumental to the industry continuing to make progress around the globe.

"Given all of the changes in energy markets and global causes that we're hearing about, I believe that you have to wear both of these lenses if you want to understand the past, if you want to take advantage of the present, and if you want to plan for the future," she said.

O'Sullivan said that looking at geopolitical events through a foreign policy lens or an energy lens alone can lead to differing outcomes. To illustrate her point, she cited an experience from her past as part of the Bush administration when she accompanied then-Secretary of State Condoleezza Rice to Egypt for a meeting with Saudi Foreign Minister Saud al-Faisal.

'Back In Business At The FERC'

PITTSBURGH—For 20 minutes on a Wednesday afternoon, a government regulator, of all people, was treated like a rock star at an oil and gas conference.

That Commissioner Robert Powelson of the Federal Energy Regulatory Commission (FERC) had a vote in determining whether projects moved forward—that *anyone* had a vote on a panel which lacked a quorum for six months last year—cheered the packed house at last week's Marcellus-Utica Midstream Conference.

"We are back in business at the FERC," Powelson told an approving crowd.

Powelson, nominated by President Donald Trump last May and confirmed as a FERC commissioner in August 2017, came to the federal agency after almost nine years on the Pennsylvania Public Utility Commission (PUC). Since seats were filled last summer, the commission has moved quickly.

"Within the last seven months, this current makeup of Federal Energy Regulatory Commissioners have approved $25.6 billion in pipeline infrastructure in this country," Powelson said. "As I like to remind people, when you're a five-member independent agency, you can come up with a lot of solutions to the problems but you can't buy No. 2 pencils unless you have three votes; it's that simple."

Among the recent approvals, Powelson listed:

- **Atlantic Coast Pipeline**, a $5.1 billion, 600-mile project between West Virginia and eastern North Carolina, scheduled for completion in 2019;
- **Mountain Valley Pipeline**, EQT Corp.'s $3.5 billion, 303-mile line between northwestern West Virginia and southern Virginia; and
- **PennEast Pipeline**, a 115-mile line connecting the Marcellus Shale in northeast Pennsylvania to New Jersey.

—JOSEPH MARKMAN | HART ENERGY

FRAC SPREAD

Why Are Prices Falling?

JOSEPH MARKMAN | HART ENERGY

Prices for propane and butane fell back to August levels last week at both Mont Belvieu, Texas, and Conway, Kan., hubs.

En*Vantage surmised that stabilized Asian markets for propane, coupled with a surge of imports on the East Coast could have trimmed domestic demand and led to a lower-than-expected withdrawal from storage.

CURRENT FRAC SPREAD (CENTS/GAL)				
FEBRUARY 9, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	16.70		24.21	
Shrink	18.83		18.78	
Margin	-2.13	0.79%	5.43	12.63%
Propane	75.48		83.14	
Shrink	26.01		25.95	
Margin	49.47	-3.01%	57.19	9.10%
Normal Butane	88.65		87.86	
Shrink	29.45		29.38	
Margin	59.20	-1.37%	58.48	7.43%
Isobutane	99.80		99.73	
Shrink	28.29		28.22	
Margin	71.51	1.60%	71.51	-0.07%
Pentane+	136.35		140.70	
Shrink	31.50		31.42	
Margin	104.85	2.91%	109.28	3.68%
NGL $/Bbl	28.30	-4.58%	30.45	-3.67%
Shrink	10.37		10.35	
Margin	17.92	-0.16%	20.10	5.91%
Gas ($/mmBtu)	2.84	-11.36%	2.83	-18.05%
Gross Bbl Margin (in cents/gal)	41.01	-0.23%	46.78	6.23%
NGL Value in $/mmBtu (Basket Value)				
1.04	0.92	-12.70%	1.33	-12.73%
3.12	2.62	-6.06%	2.89	-1.13%
1.16	0.96	-4.93%	0.95	-2.69%
0.69	0.62	-2.44%	0.62	-5.92%
1.53	1.76	-0.78%	1.81	-2.11%
7.54	6.88	-5.26%	7.60	-4.18%
4.61	4.04	-0.44%	4.77	6.53%

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.

The price shift in the U.S. comes as Asian propane cracking economics have improved. That creates an opening in the market for U.S. exporters and En*Vantage is seeing some Asian petrochemical companies seeking cargoes.

The various factors in the market will drag propane inventories below 35 million barrels by the end of March, En*Vantage predicts, and strong demand this month could pull the price up to 90 cents per gallon (gal) again.

The prices of butane and isobutane moved pretty much together until the close of 2017. Last week's 16 cents/gal differential at Mont Belvieu narrowed somewhat this week to a 12 cent/gal premium for isobutene. En*Vantage suggests that international marketers popping in and out of the market have created the split.

The differential could last through the end of February, the analysts say, but in March refiners start producing summertime blends of gasoline and will reduce their purchases of butane, leaving more available to the export market.

Henry Hub natural gas prices tumbled 25% between Jan. 29 and Feb. 7, but a weekend storm on track to hit the central and eastern parts of the U.S. could arrest the fall.

Chicago-based CME Group (NASDAQ: CME) projected higher natural gas demand for 2018 in its recently released outlook. Incremental growth in the LNG export and residential-commercial sectors will drive the increase. The second wave of LNG export facilities will likely face challenges but expected lower-than-normal temperatures in the Midwest and Northeast will exert pressure on storage.

Power For Midstream Growth Can't Be Assumed

NEW YORK—Power generators in both regulated and commercial markets across North America are pushing ahead with plans to retire a great amount of coal-fired capacity, but they are by no means committed to replacing that with gas-fired generation.

That was the key message from utility executives at the recent S&P Global Market Intelligence Power & Gas M&A Symposium. To be sure, gas is in the mix but producers and midstream operators that make the assumption of gas for coal at one-to-one do so at their own peril. Moreover, rapid advances in storage technology are starting to address the intermittency challenge in renewables, also possibly impinging on a smaller market but one that has to date relied upon natural gas for on-demand generation.

"The Province of Ontario, which represents 40% of the population of Canada, made a commitment to eliminate coal and signed power-purchase agreements for wind and solar," said Mayo Schmidt, CEO of Hydro One, the major utility in that province. According to S&P, there is already 28 gigawatts of solar generating capacity on the grid in the U.S., with 35 GW announced or planned, and a further aggregate 13 GW of rooftop solar anticipated.

Those trends continue despite efforts in Washington to roll back clean-energy mandates.

"We were a traditional heavy coal generator," said Terry Bassham, CEO of Great Plains Energy Inc. "We are moving away from coal and had to shut plants or make them compliant. So far we have been able to overachieve in advance of the rules, so the rollback does not really make any difference for us. We are already well down the road [to clean energy] regardless. That is for customer reasons, cost reasons, and environmental reasons, not just regulatory reasons."

Robert Flexon, CEO of Dynegy added that the change in regulatory approach "does not change our strategy, only our spending. That spending [on clean energy] may not be as fast but we will still do the same level. Only the rate has changed, not the amount. There is no change in our strategy." **—GREGORY DL MORRIS | HART ENERGY**

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