

# MIDSTREAM

## Monitor

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### FEATURES

# Not So Fast



## Delays Mean Uptick In Gas Exports To Mexico Will Have To Wait

**JOSEPH MARKMAN** | HART ENERGY

**D**ark clouds of delay may be forming in what has been considered a sunny outlook for U.S. natural gas pipeline exports to Mexico.

A recent Mizuho Securities USA LLC research note expressed concern about a Platts estimate that as many as nine pipeline project delays—averaging 350 days from original in-service dates—within Mexico could force 2018 exports to remain at the current level of about 4.3 billion cubic feet per day (Bcf/d).

“Recent reporting on the pipeline buildout within Mexico suggests bottlenecks and construction delays could prevent export growth of U.S. natural gas to Mexico via pipeline until 2019,” said the Mizuho report. Pipeline

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## DELAYS from Page 1

completion delays in Mexico's interior are expected to have several immediate impacts:

- As much of 4.4 gigawatts of the country's 7 gigawatts in new gas-fired power generation awaits fuel from the delayed pipelines, according to Platts;
- Delays would eliminate the expected 2018 incremental gas exports of 0.7 Bcf/d from the U.S.; and
- Continued robust natural gas production in the U.S. requires demand growth to balance markets—delays to Mexico and the startup of Cameron LNG diminish the hopes of achieving that in 2018.



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Upshot: "We see delays on exports as a clear negative for natural gas prices," said Mizuho. "Gassy E&Ps under coverage remain well-hedged in 2018, but the outlook for 2019 and beyond is less certain."

Timothy Rezvan, Mizuho's managing director for Americas research, told Hart Energy in an email that he perceived some diminished confidence in Mexico's energy reform but that the country was making a clear pivot away from LNG imports to U.S. shale gas imports.

"The pivot may take longer than anticipated and increase near-term reliance on LNG imports, but it will eventually happen," Rezvan said. ■

## Geopolitical Rivalries Cloud Prospects For Gas Finds

When gas started flowing from the Zohr field last month it was an important step in Egypt's drive for energy independence and signified that the eastern Mediterranean was finally establishing itself as a force in gas production.

Claudio Descalzi, CEO of Eni, the Italian group leading the \$12 billion project, said Zohr would "completely transform Egypt's energy landscape, allowing it to become self-sufficient and turn from an importer of gas into a future exporter."

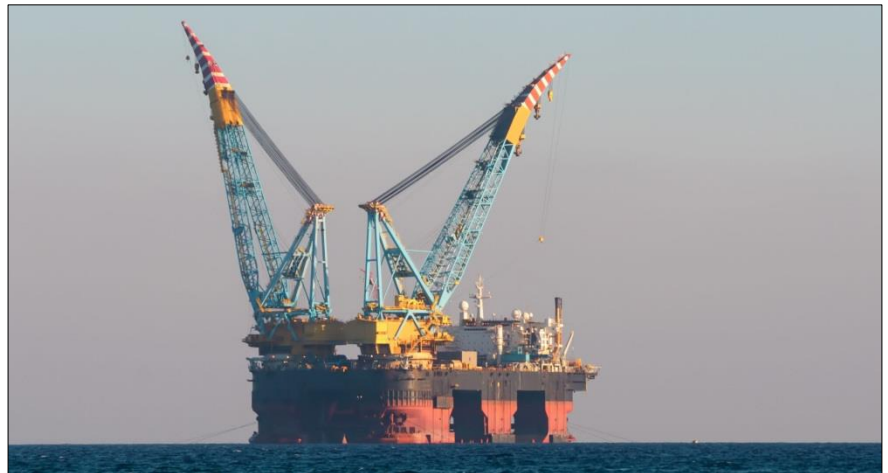
Zohr is the largest hydrocarbon

discovery made in the Mediterranean and the hunt is on for more. Israel and Cyprus see similar potential to end dependency on energy imports and generate an economic windfall by exporting surplus supplies. Lebanon is also opening its waters to exploration.

The prospect of a big new source of gas on Europe's doorstep looks strategically attractive when North Sea reserves are in decline and the region is fretting about its dependence on Russian supplies. Yet development of eastern Mediterranean resources is far from straightforward because of the cocktail of political risks and rivalries involving the countries concerned.

"The exploitation of gas reserves could change dramatically the political and economic climate in the eastern Mediterranean," said Emmanuel Karagiannis, an energy security specialist at King's College London. "At the same time . . . [it] has the potential to exacerbate decades-old border disputes and generate new tensions."

ANDREW WARD | FINANCIAL TIMES



Source: Shutterstock

*An oil and gas rig operates in the Eastern Mediterranean Sea offshore Cyprus.*



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## FRAC SPREAD

# Low Temps Lead To Higher Ethane Prices

JOSEPH MARKMAN | HART ENERGY

The price of ethane returned to its mid-November level with a 15% bounce at Mount Belvieu, Texas, last week. At Conway, Kan., the 16.7% increase delivered ethane's highest price since mid-August.

CURRENT FRAC SPREAD (CENTS/GAL)				
JANUARY 12, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	19.60		24.20	
Shrink	26.75		19.15	
<b>Margin</b>	-7.15	-28.01%	5.05	119.48%
Propane	93.15		94.76	
Shrink	36.96		26.46	
<b>Margin</b>	56.19	2.38%	68.30	-4.90%
Normal Butane	97.10		95.20	
Shrink	41.84		29.95	
<b>Margin</b>	55.26	-13.88%	65.25	-14.02%
Isobutane	107.20		105.75	
Shrink	40.19		28.77	
<b>Margin</b>	67.01	-2.65%	76.98	-6.27%
Pentane+	133.00		141.25	
Shrink	44.75		32.03	
<b>Margin</b>	88.25	1.19%	109.22	-0.78%
NGL \$/Bbl	31.29	0.58%	32.41	-1.60%
Shrink	14.74		10.55	
<b>Margin</b>	16.55	1.03%	21.86	-3.30%
Gas (\$/mmBtu)	4.04	0.07%	2.89	2.13%
Gross Bbl Margin (in cents/gal)	38.22	1.24%	51.26	-3.30%
NGL Value in \$/mmBtu (Basket Value)				
1.04	1.08	16.67%	1.33	14.96%
3.12	3.23	1.45%	3.29	-3.04%
1.16	1.05	-8.38%	1.03	-9.51%
0.69	0.67	-1.65%	0.66	-4.13%
1.53	1.71	0.81%	1.82	-0.13%
7.54	7.74	1.40%	8.13	-0.84%
<b>4.61</b>	3.71	2.89%	5.24	-2.40%

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.

movement would bolster butane prices, too, En\*Vantage noted, but such is not the case this time around for no apparent reason.

"Butane blending demand should remain strong through the end of February and export margins are widening," En\*Vantage said. "With propane prices only 6 cents/gal below normal butane prices at Mont Belvieu, normal butane should be attractive as a fuel in Latin America or in Southeast Asia." ■

The leap contrasted with sagging prices for other NGL except for butane, which suffered a sharp decline. Butane fell 9.5% at Mont Belvieu and 8.4% at Conway to its lowest point in four months at both hubs.

Ethane's margin at Mont Belvieu, by Hart Energy's calculations, more than doubled in the past week to an average above 5 cents per gallon (gal) for the first time since early December.

The spike in natural gas prices brought on by the recent frigid weather across much of the country lifted ethane prices, too. En\*Vantage cited well freeze-offs and extreme cold-induced operational problems at some processing plants that took some ethane off the market.

"Ethane had become so oversold in December that buyers are now stepping back into the ethane market knowing that a surge of ethane demand will be occurring in the second quarter as new cracking capacity comes online," En\*Vantage said. The analysts estimated that an additional 200,000 to 300,000 barrels per day (bbl/d) were being rejected.

West Texas Intermediate crude oil pushed past \$63/bbl on Jan. 10, nearing levels not seen since OPEC's Thanksgiving 2014 meeting. Market fundamentals such as significantly lower crude oil inventories support the higher price even without the extreme weather event and protests in Iran. Typically, that sort of



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## Russian Oil Production Continues Growth Trend

The production and export of oil and gas are the primary sources of income for many Commonwealth of Independent States (CIS) countries. Russia produces the bulk (73%) of the region's liquids and provides the largest share (84%) of the crude oil



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processed in the region. About two-thirds of high-quality Caspian crude oil production is currently exported outside the CIS. Considering the planned expansion of export routes from the Caspian region, this share is expected to

increase.

Despite diversification efforts, the oil and gas industry continues to play a key role in the Russian economy; oil, gas and mineral exports account for more than two-thirds of Russia's exports. The tax structure is a major tool that shapes the Russian oil sector. In the past, high export taxes for crude oil were designed to force domestic processing and the export of higher-value finished products. —**STRATAS ADVISORS**

### TOP STORIES

#### Enbridge To Restart GoM Gas Pipeline In February

A U.S. offshore natural gas pipeline could begin restarting operations for some producers next month, about three months after the line was shut due to a fire on a Royal Dutch Shell platform in the Gulf of Mexico, its operator said this week.

Enbridge Inc. (NYSE: **ENB**), which runs the 1 billion-cubic-foot per-day Garden Banks gas pipeline, notified customers that its work to separate the pipeline from Shell's fire-damaged Enchilada platform will be completed in early February. It added the timing "could change based on unforeseen circumstances."

Enbridge said after the initial work is finished, it and operators of South Marsh 192 and Garden Banks 260 platforms would begin refilling the pipeline and begin a restart. It did not say when connections to the other three affected platforms, Auger, Magnolia and Enchilada, would be renewed. Pipeline access to those platforms remains shut until further notice, it said. —**REUTERS**

## Jasper Ventures: A Lifetime of Service and Experience in Gas Processing

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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). —

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### Contact Information:

JOSEPH MARKMAN Senior Editor  
[jmarkman@hartenergy.com](mailto:jmarkman@hartenergy.com)

**Contributing Editors:** Velda Addison, Darren Barbee, Nissa Darbonne, Brandy Fidler, Leslie Haines, Paul Hart, Mary Holcomb, Jessica Morales, Emily Patsy, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Steve Toon, Len Vermillion, Brian Walzel, Peggy Williams

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