

MIDSTREAM

Monitor

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FEATURES

Tax Reform's Impact

Baker Botts tells clients that, while the tax advantage compared to C-corporations has narrowed, it remains favorable for MLPs.



Source: Shutterstock

Then-candidate Donald Trump presents his tax reform plan at Trump Tower in September 2015.

JOSEPH MARKMAN | HART ENERGY

“Spoiler alert,” Baker Botts Partner Mike Bresson told listeners as he opened the law firm’s recent webinar. “Master limited partnerships [MLPs] did just fine on tax reform.”

Not everything landed exactly where companies might have hoped, but given the consensus of just a few weeks ago—that it just wouldn’t happen—the passage of the Tax Cuts and Jobs Act allowed the webinar’s legal team a chance to be the bearers of mostly good tidings to clients.

“The first big [change], which is definitely a positive, is a reduction in tax rates,” said Steve Marcus, partner and Dallas-based department chair in taxes. “The corporate tax rate’s been reduced from 35% to 21%.”

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TAX from Page 1

The second major change, which is a little negative, Marcus said, is that interest deductions are now limited. The limitation amounts to about 30% of an MLP's adjusted taxable income. How this affects the typical MLP depends on its tax shield.

The issue won't go away for a while, he said.

"Because of the way adjusted tax and income is defined, it's unlikely that's there's going to be a material impact on tax shields at least until 2022," Marcus said.

This interest deduction, however, does not apply to certain public utility businesses, he said. Baker Botts believes that companies transporting natural gas on natural gas pipelines fall into that category.

Another plus: bonus depreciation has been extended so that the percentage of capex, that is, tangible personal property, can be immediately written off. That depreciation has increased from 50% to 100%, although the 100% rate begins to phase out in 2023.

"Bonus depreciation has also been expanded so that it applies to used property purchased by a taxpayer, including an MLP," Marcus said. The taxpayer must not have used that property and isn't acquiring that property from related parties.

The bonus depreciation doesn't apply to certain utility properties, he said, which likely includes regulated natural gas pipelines. ■



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How ICE Bans Could Catalyze Big Oil Concerns

As electric vehicle (EV) consumption increases, some countries around the globe have begun to discuss banning internal combustion engines (ICE). China, France, Germany and India have all revealed future plans to eradicate the production and sale of ICE-based vehicles. Those plans, along with new technology, have companies such as Royal Dutch Shell Plc (NYSE: **RDS.A**) and

General Motors Co. (NYSE: **GM**) taking action.

As these countries strive for cleaner power, the adoption of EVs has become a key part of their zero-emission goals.

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At an automotive conference in Tianjin, China revealed it was developing plans towards banning fossil fuel-based cars. Though China has not set a 2040 goal like the U.K. and France, it said it was working with other regulators on a time-specific ban.

"The ministry has also started relevant research and will make such a timeline with relevant departments. Those measures will certainly bring profound changes for our car industry's development," Xin Guobin, the vice minister of industry and information technology, said.

Both India and Norway have also said they have electric car targets set for the next few decades. India, home to heavily polluted cities, said by 2030 it plans to have vehicles solely powered by electricity.



FRAC SPREAD

US Is Frozen, But Gas Prices On The Move

JOSEPH MARKMAN | HART ENERGY

The Alberta Clipper that blasted cold air through last weekend was followed by an Atlantic coastal storm that blanketed New England with snow and wreaked havoc with airline schedules.

In addition to long lines of cranky, delayed travelers at airport Starbucks locations, natural gas has experienced spot

market gyrations and benchmark climbs, while NGL prices have convulsed.

Weekly average ethane prices have soared 25.8% since mid-December at Mont Belvieu, Texas, and 30.8% at Conway, Kan. Propane jumped 6.9% then fell back 9.4% at Mont Belvieu. At Conway, the rise was 9.6% and the fall was 7.5% in that time period.

An upward trend for ethane continued this week, with a close of 26.75 cents per gallon at Mont Belvieu on Jan. 17. Natural gas trends have also been somewhat jagged, with Chicago Citygate rising close to \$4 per million British thermal units (MMBtu) on Jan. 16 before a steep drop to close at \$3.32/MMBtu on Jan. 17.

The steadier Henry Hub price increased from \$2.80/MMBtu on Jan. 5 to \$3.23/MMBtu on Jan. 17, a rise of 15.6%.

But it's not just the frigid Northeast that has influenced gas markets.

Record low temperatures in the usually mild Gulf Coast region have nurtured rumors of a 265 billion cubic feet (Bcf) draw for the week ending Jan. 19, **Seaport Global Securities** wrote in a research note.

In the week ended Jan. 12, storage of natural gas in the Lower 48 experienced a decrease of 183 Bcf, the **U.S. Energy Information Administration** reported, less than the Bloomberg consensus of a 198 Bcf draw and the 2017 draw at this time of 230 Bcf. It was closer to

CURRENT FRAC SPREAD (CENTS/GAL)				
JANUARY 19, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	21.00		26.26	
Shrink	20.75		19.86	
Margin	0.25	-103.47%	6.40	26.76%
Propane	86.13		88.56	
Shrink	28.67		27.43	
Margin	57.46	2.26%	61.13	-10.51%
Normal Butane	95.00		93.29	
Shrink	32.46		31.06	
Margin	62.54	13.18%	62.23	-4.62%
Isobutane	105.88		105.75	
Shrink	31.17		29.83	
Margin	74.71	11.48%	75.92	-1.38%
Pentane+	134.50		142.10	
Shrink	34.71		33.21	
Margin	99.79	13.07%	108.89	-0.31%
NGL \$/Bbl	30.64	-2.07%	31.95	-1.43%
Shrink	11.43		10.94	
Margin	19.20	16.06%	21.01	-3.90%
Gas (\$/mmBtu)	3.13	-22.43%	3.00	3.70%
Gross Bbl Margin (in cents/gal)	44.27	15.82%	49.02	-4.37%
NGL Value in \$/mmBtu (Basket Value)				
1.04	1.16	7.14%	1.45	8.51%
3.12	2.99	-7.54%	3.07	-6.54%
1.16	1.03	-2.16%	1.01	-2.01%
0.69	0.66	-1.23%	0.66	0.00%
1.53	1.73	1.13%	1.83	0.60%
7.54	7.57	-2.30%	8.02	-1.37%
4.61	4.44	19.60%	5.02	-4.16%

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 S&P Global Platts forecast of a 189 Bcf draw. The figure also contrasts with the five-year average decrease of 203 Bcf, resulting in a total of 2.584 trillion cubic feet (Tcf). That is 12.5% below the 2.952 Tcf figure at the same time in 2017 and 12.3% below the five-year average of 3.946 Tcf.

If the 265 Bcf withdrawal estimate is correct, then the working gas inventory would descend to about 2.3 Tcf or 17.7% below 2017 levels at this time and 17.3% below the five-year average, Seaport Global said. ■



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Australian LNG Exports Hit Record Highs In 2017

Australia's exports of liquefied natural gas (LNG) hit a record high of 56.8 mtpa in 2017, leaping 26.3% from 44.9 mtpa in the corresponding previous calendar year.



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The boom in LNG cargoes from the Lucky Country, in tandem with recovering oil prices, boosted Australia's 2017 LNG export revenue by 44.1% to \$20.51 billion, according to the December LNG report released on Jan. 16 from energy consultancy, EnergyQuest.

EnergyQuest CEO, Graeme Bethune, described 2017 as a watershed year for Australia's LNG industry, with growth demand from China driving historic highs as total

Australian LNG exports to China increased by 40.5% from 12.4 mtpa to 17.5 mtpa over the period. **—DALE GRANGER | CONTRIBUTOR**

Pickens To Close Hedge Fund

T. Boone Pickens, the influential Texas oilman, said on Jan. 12 that he is closing the energy hedge fund he has run since 1996, citing health concerns and poor financial performance.

"It's no secret the past year has not been good to me, from a health perspective or a financial one," Pickens said in a statement. The 89-year old, who is still recovering from a series of strokes he suffered late in 2016 and a fall over the summer of 2017 said, "those things tend to put life in perspective" and that "it's time to start making new plans and setting new priorities."

—MAMTA BADKAR | FINANCIAL TIMES



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TOP STORIES

Kinder Morgan Further Delays Trans Mountain Oil Pipeline

Kinder Morgan Canada said on Jan. 17 that the start-up of its Canadian Trans Mountain oil pipeline expansion would be delayed by three months to December 2020, marking the latest setback to a project facing fierce local opposition.

Trans Mountain originally had an operational date of December 2019, but the company in October pushed that back to September 2020 because of difficulty in obtaining permits.

The company is focusing on gaining permit approvals, and is holding off on starting full construction of the \$5.95 billion project, CEO Steve Kean said.

"What we're doing here is all the right things," Kean said on a conference call with analysts about quarterly results. "We are being careful stewards of our capital and we're doing everything we can to get the clarity we need to proceed."

The proposed pipeline expansion from Canada's oil-rich Alberta province to the British Columbia coast would nearly triple its capacity to 890,000 barrels per day.

Canadian oil producers, whose landlocked product trades at a discount to the West Texas Intermediate benchmark, say they need additional pipeline capacity to fetch better prices. **—REUTERS**

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