MIDSTREAM Monitor

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MARCELLUS-UTICA MIDSTREAM CONFERENCE

Will Appalachia Be Ready?

Source: Hart Energy

Alan Armstrong, president and CEO of The Williams Cos., speaks to attendees at the Marcellus-Utica Midstream Conference & Exhibition in Pittsburgh.

Williams Cos. CEO Alan Armstrong expressed concern and optimism.

By **LEN VERMILLION**, Hart Energy

PITTSBURGH—Alan Armstrong has concerns. The chairman and CEO of the Williams Cos. Inc. doesn't want natural gas producers and midstream operators in the Marcellus-Utica region to get caught off guard by rising demand, left without sufficient infrastructure to meet it.

Setting the tone for the 2017 Marcellus-Utica Midstream Conference & Exhibition on Jan. 25, Armstrong warned the audience for his opening keynote address that "there is a lot of work ahead" for the industry.

See APPALACHIA, Page 3.

One if by sea, Three if to Mexico

MidstreamBusiness.com explores how the Panama Canal expansion and Mexico's energy reform are creating an export revolution and ways that U.S. shippers of oil, gas and NGL can take advantage.

OVERVIEW

The Panama Canal's expansion creates economics that will allow U.S. exporters to compete globally.

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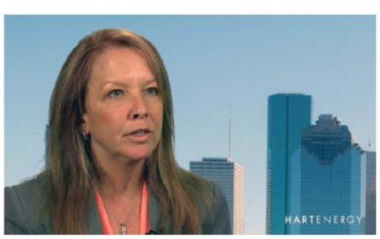
VIDEO



KPMG's Regina Mayor offers insight into the potential for U.S. companies to succeed in Mexico

AUDIO

Two attorneys offer guidance in navigating the legal terrain of Mexico's energy reform.

REPORT

How Howard Energy's natural gas pipeline projects from Texas define success in Mexico.

APPALACHIA from Page 1

"You're going to hear today about the demand that is building up on the backs of low-price natural gas," he said. "I think it may catch us a little bit by surprise in areas like [Marcellus-Utica]."

This might have been an early-morning jolt for some celebrating President Donald Trump's executive order, one day earlier, to accelerate work on the Keystone XL and Dakota Access pipelines.

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While optimism is indeed in order, Armstrong and other executives were on hand to remind midstream operators that it all still comes down to growing demand for natural gas and the industry's ability to be ready to deliver it safely and efficiently.

"Several years ago, I spoke about getting large-scale NGL takeaway capacity here, and we're still fighting that [lack of capacity]," he said. "We still haven't solved that as an industry. We're still waiting on getting some of that big infrastructure in place."

He said the lack of NGL takeaway shifted much of the region's drilling from rich gas to dry gas. More than 60% of the rigs in the Marcellus-Utica over the last year have been targeting dry gas, according to Armstrong.

"So we are excited about any and all infrastructure going out of the area, whether we are competing against it or not," he said. 'We are rooting for everyone's pipeline, whether gas or NGL."

Trump Executive Orders Likely Fast-Track Pipelines, Lawsuits

Work on pipeline projects across the country—not just the Keystone XL and Dakota Access Pipeline—should lurch forward after executive orders signed by President Donald Trump on Jan. 24.

Lawsuits are almost certain to follow as well.

On Jan. 24, Trump also signed orders to: expedite and simplify approval of the Dakota Access Pipeline approval; invite a TransCanada Corp. (NYSE: TRP) subsidiary to reapply for a presidential permit for the Keystone XL Pipeline using streamlined procedures; and call for a plan from the Department of Commerce to use, to the maximum extent possible, domestically produced materials and equipment in pipeline projects.

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Greg Haas, director of integrated oil and gas for Stratas Advisors, said Trump's executive orders reverse years of opposition to the Keystone that will create jobs.

Oil and gas "upstream, midstream and downstream [sectors] across North America should see this as a shot in the arm," he said. "President Trump called for an expedited review within 60 days of any renewed application by TransCanada Corp."

TransCanada's website says it is "currently preparing our application for a presidential permit."

—DARREN BARBEE, Hart Energy

MIDSTREAM CONNECT

Video: Trump's Job Is To Create Energy Jobs

Jason Bennett, partner with Baker Botts, sees the biggest impact of the new Trump administration on the energy industry as its commitment to job creation. Developing oil and gas assets and moving those assets to market—whether for export, to the downstream refinery sector or as petrochemical feedstocks—will accomplish the administration's goals and bolster the industry.

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EIA: Natural Gas Prices On 2-Year Upward Trend

Colder weather and increased exports will bolster natural gas prices in 2017 and 2018, the **U.S. Energy Information Administration** (EIA) forecasts in a report.

Dry natural gas production is also expected to increase in 2017 and 2018 after a decrease last year. The EIA attributes the rise to its forecast of higher prices as well as the infrastructure buildout taking place in the Marcellus and Utica gas producing regions.

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The EIA expects the benchmark Henry Hub price to average $3.55 per million British thermal units (MMBtu) in 2017 and $3.73/MMBtu in 2018. Henry Hub averaged $2.51/MMBtu in 2016, the lowest average since 1999. The EIA attributes that to a mild winter which resulted in record-high natural gas inventory levels in March.

The Henry Hub price rallied in December 2016, however, peaking at $3.68 per MMBtu near the end of the month. The EIA expects that late trend to set the standard this year and continue to rise next year.

Natural gas rose from an average $2/MMBtu in first-quarter 2016 to $2.88 in the third quarter, pushed up by summer weather and lower production. Cold weather in the northern U.S. from September through December pushed up demand for gas for heating and cut into inventories, the EIA said. Henry Hub's average of $3.59/MMBtu in December was its first month above $3 since December 2014.

—**JOSEPH MARKMAN,** Hart Energy

FRAC SPREAD

Optimism Bridges Gap Between Ethane, Propane Prices

By **JOSEPH MARKMAN**, Hart Energy

The advantage of an annual conference, like the 2017 **Marcellus-Utica Midstream** Conference & Exhibition Jan. 24-26 in Pittsburgh, is that it puts price movements in perspective.

- The ethane crackers are on their way;
- Executive orders by the president are clearing the way for construction of two major pipeline projects that had been waylaid; and
- The massive resources of the Marcellus and Utica shales resemble those of Qatar.

That puts the price of ethane—which has tumbled 31% at Mont Belvieu, La., and 30% at Conway, Kan., in the past month—easier to take because the ethane crackers, i.e., demand, are still on their way. And Denise Brinley of Pennsylvania's Department of Community & Economic Development Executive Office told conference attendees on Jan. 26 that the commonwealth's ethane production could support as many as four new crackers.

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While ethane's slump dragged down the price of the hypothetical NGL barrel at both hubs, propane and the butanes experienced increases and C_{5+} remained above $1 per gallon (gal), as it has with a single exception since September.

CURRENT FRAC SPREAD (CENTS/GAL)

JANUARY 27, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	17.75		19.03	
Shrink	21.02		21.01	
Margin	-3.27	-602.11%	-1.98	-178.87%
Propane	72.85		75.65	
Shrink	29.04		29.02	
Margin	43.81	8.64%	46.63	7.09%
Normal Butane	118.70		101.34	
Shrink	32.87		32.86	
Margin	85.83	6.76%	68.48	7.31%
Isobutane	119.50		99.46	
Shrink	31.57		31.56	
Margin	87.93	5.41%	67.90	5.94%
Pentane+	114.65		105.90	
Shrink	35.16		35.14	
Margin	79.49	-6.37%	70.76	-11.50%
NGL $/Bbl	28.78	-2.02%	27.09	-2.79%
Shrink	11.58		11.57	
Margin	17.20	-1.15%	15.52	-3.75%
Gas ($/mmBtu)	3.17	-3.28%	3.17	-1.49%
Gross Bbl Margin (in cents/gal)	39.17	-0.53%	36.11	-3.25%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.98	-20.69%	1.05	-20.14%
Propane	2.53	3.55%	2.63	3.63%
Normal Butane	1.28	3.78%	1.09	4.29%
Isobutane	0.74	2.96%	0.62	3.46%
Pentane+	1.48	-5.44%	1.37	-8.41%
Total Barrel Value in $/mmbtu	7.01	-2.57%	6.75	-3.32%
Margin	3.84	-1.98%	3.58	-4.89%

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 barrel dipped but was still above $27 for the fifth straight week, the longest it has remained in that territory at both hubs in 26 months. While the average price of natural gas over the five-day recording period gave up 3% over last week, it's important to note trends. The price rose sharply on Jan. 24.

TOP STORIES

NEB's Review Of Energy East Will Restart From The Beginning

A review of TransCanada Corp.'s proposed Energy East Pipeline will start again from the beginning, Canada's energy regulator, the National Energy Board (NEB), said on Jan. 27. This move could delay the project by several years.

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The NEB's announcement also looks set to spare the Liberal government from making a politically charged decision on the pipeline's future before the next federal election in October 2019.

—REUTERS

Santa Fe Midstream, Vermilion Cliffs Will Develop Midstream Infrastructure

Santa Fe Midstream LLC and Vermilion Cliffs Partners LLC will develop midstream infrastructure for oil, natural gas and water in the Delaware Basin, a Jan. 23 press release said.

Vermilion will contribute a 20-inch natural gas pipeline and associated facilities in Culberson County and will dedicate acreage.

Santa Fe Midstream will supply the additional capital required to construct gathering pipelines as well as a new 200 million cubic feet per day cryogenic gas processing plant in Culberson County. Santa Fe will be the operator of the midstream assets.**—REUTERS**

Ultra Settles $303 Million Breach Of Contract Claim With REX

Ultra Resources Inc. agreed to a seven-year transportation agreement with Rockies Express Pipeline LLC (REX) as part of the settlement of a $303 million breach of contract claim brought by the pipeline company and Tallgrass Energy Partners LP (NYSE: **TEP**).

The deal calls for west-to-east service of 200,000 dekatherms per day at a rate of $0.37, or about $26.8 million annually. Ultra will also pay REX $150 million within six months of emerging from bankruptcy, according to the agreement, which is on its way to U.S. Bankruptcy Court for approval.

"TEP worked closely with Ultra's management to resolve REX's claim and assist in Ultra's restructuring efforts to emerge from bankruptcy," David G. Dehaemers Jr., Tallgrass' president and CEO, said in a statement.

Baird Equity Research said in a report that it expects REX to distribute the $150 million to its partners—Tallgrass Energy Partners, 50%; Tallgrass Development LP, 25%; and P66REX LLC, a Phillips 66 (NYSE: **PSX**) subsidiary, 25%. That would result in a one-time, $75 million cash infusion for Tallgrass in third-quarter 2017.

—JOSEPH MARKMAN, Hart Energy

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