MIDSTREAM Monitor

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SPECIAL REPORT: OUTLOOK 2018

Surprises & Strategies

As 2017 drew to a close, Hart Energy reached out to industry experts for a review of the past year and a heads up for 2018.

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In the first of two segments hosted by Jessica Morales, we asked about surprising developments in the past year and what investors should look for going forward.

Our experts:

- Raoul LeBlanc, Managing Director, IHS Markit;
- Maynard Holt, CEO, Tudor, Pickering, Holt and Co.;
- Jeff Quigley, Director, Energy Markets, Stratas Advisors;
- Cliff Vrielink, Co-Managing Partner, Sidley Austin LLP; and
- Tim Chandler, Partner, Sidley Austin LLP

Trends & Challenges

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In the second of two segments hosted by Jessica Morales, we asked our experts about trends and challenges for the industry in the new year.

Among the insights:

- **Raoul LeBlanc:** One of the things that we think will be important will be the emergence of what we call a "superhog." We just classify any well that clocks in for peak production above 1,600 – best month – as a superhog.
- **Maynard Holt:** The thing that happened in 2017 that was just an explosion – it was kind of like a new basin – was all this technology stuff.
- **Jeff Quigley:** A lot of this market is being driven by OPEC and being driven by their decision to stay cut. That creates uncertainty and that uncertainty is going to make it hard for different companies to plan and also, right now, there are some financial pressures.
- **Tim Chandler:** I think one of the significant trends that we'll see is whether consolidation will continue or whether we're sort of done with the round of consolidation.
- **Cliff Vrielink:** I think you'll see a lot of capital sources moving into other types of products and it will be interesting to see what really gains traction and who really comes out ahead in that process, and who doesn't.

Ultra Petroleum Exits Marcellus

Ultra Petroleum Corp. (NASDAQ: **UPL**) will exit its 73,000-net-acre Marcellus Shale position after it signed and closed a deal in late December to sell the non-operated assets to an affiliate of Alta Resources LLC. The $115 million deal includes the sale of gathering system assets jointly owned by Alta, which also operates the Marcellus assets for Ultra. The company's core position is in Centre and Clinton counties, Pa. Ultra owned a 50% working interest in the field.

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FRAC SPREAD

Bombogenesis Impact On Gas, NGL Markets

JOSEPH MARKMAN | HART ENERGY

The assault by an arctic chill that jolted natural gas consumption to a record 143 billion cubic feet on New Year's Day has been largely deflected in terms of price so far by commodity markets aware of the U.S. superabundance of supply.

By morning Jan. 4, the New York Mercantile Exchange (NYMEX) price had slipped 4.3 cents from its Jan. 2 close to $3.013 per million Btu (MMBtu).

CURRENT FRAC SPREAD (CENTS/GAL)

JANUARY 5, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	16.80		21.05	
Shrink	26.73		18.17	
Margin	-9.93	596.33%	2.88	-8.81%
Propane	91.82		97.73	
Shrink	36.94		25.10	
Margin	54.88	-9.81%	72.63	8.45%
Normal Butane	105.98		105.21	
Shrink	41.82		28.42	
Margin	64.16	-9.90%	76.79	10.03%
Isobutane	109.00		110.30	
Shrink	40.16		27.30	
Margin	68.84	-7.22%	83.00	15.62%
Pentane+	131.93		141.44	
Shrink	44.72		30.39	
Margin	87.21	-9.12%	111.05	9.18%
NGL $/Bbl	31.11	6.91%	32.94	7.09%
Shrink	14.73		10.01	
Margin	16.38	-15.88%	22.93	9.21%
Gas ($/mmBtu)	4.03	52.97%	2.74	2.53%
Gross Bbl Margin (in cents/gal)	37.75	-16.35%	53.77	9.16%
NGL Value in $/mmBtu (Basket Value)				
1.04	0.92	4.67%	1.16	0.81%
3.12	3.19	8.02%	3.39	6.87%
1.16	1.14	7.54%	1.14	7.90%
0.69	0.68	8.51%	0.69	12.08%
1.53	1.70	5.38%	1.82	7.68%
7.54	7.64	6.98%	8.20	6.70%
4.61	3.60	-19.94%	5.46	8.92%

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.

Selected spot natural gas prices, however, responded to suddenly soaring demand with skyrocketing prices. The Katy, Texas, Hub closed on Jan. 3 at $6.38/MMBtu, the Ellisburg, N.Y., hub at $5.94/MMBtu and numerous other hubs closed between $5.50 and $6/MMBtu, up from less than $3/MMBtu on Dec. 26. The cold snap pushed prices for New England delivery last week to $53.50/MMBtu while the New York Hub saw a close of $46.53/MMBtu on Jan. 3.

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The winter storm referred to as "bombogenesis," or a storm that rapidly intensifies and causes a rapid change of pressure, crippled the East Coast from New England to the Carolinas, though it was expected to ease the frigid conditions temporarily. However, it could also dump as much as 10 to 15 inches of snow on Maine, according to some forecasts.

The snowstorm was expected to move through by Jan. 4 but a new front is forecast to immediately follow, bringing dangerously strong wind gusts of up to 60 mph and brutally low temperatures to the region, according to AccuWeather.

Nevertheless, there is plenty of gas for heating needs.

"Rapid production growth that has unfolded in the second half of 2017 has limited concerns of supply shortage this winter," Teri Viswanath, analyst at PIRA Energy Group, told the *Financial Times*. Even demand from the sustained very low temperatures is being met by strong gas production from the Marcellus Shale and the Permian Basin.

Alberta Crude Pipeline Projects Press Ahead

As several pipeline majors press ahead with their embattled plans to add capacity for getting Alberta crude and oil sands production to market, Calgary-based Inter Pipeline has announced a $3.7-billion plan for in-province propane dehydrogenation (PDH) and polypropylene (PP) production.

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Oil sands producers have met the challenge of reducing their incremental costs per barrel, but now are increasingly frustrated by delays that midstream companies have faced in building new pipelines or even expanding existing ones. While the PDH-PP project will hardly alleviate the crude bottleneck, it shows that industry is exploring many midstream and downstream options.

The Heartland Petrochemical Complex is planned for Strathcona County, just east of Edmonton near Inter Pipeline's Redwater Olefinic Fractionator.—
GREGORY DL MORRIS | CONTRIBUTOR

TOP STORIES

Tallgrass Acquires Interests In Pony Express Linked Crude Terminals

Tallgrass Energy Partners LP (NYSE: **TEP**) continued its strategy of bolt-on acquisitions on Jan. 3 with the purchase of interests in Pony Express linked crude terminals.

In the Denver-Julesburg basin, Tallgrass Terminals LLC entered an agreement to acquire a 51% membership interest in the Pawnee, Colo. crude oil terminal from Zenith Energy for about $31 million. The terminal is an injection point for the Tallgrass Pony Express Northeast Colorado Lateral (NECL), with 300,000 barrels (bbl) of storage and backed by minimum volume commitments of about 90,000 bbl/d.

Further, Tallgrass said the Pawnee Terminal will provide commercial and operational synergies with Pony Express and offers the potential for incremental sourcing opportunities such as directly connecting nearby producers. The company expects to close the transaction in first-quarter 2018, subject to certain closing conditions.

Partnership To Fund Permian Basin Project

Midland Basin Partners LLC (MBP) has partnered with Orion Energy Partners LP to fund a water infrastructure in the Permian Basin, the company said on Jan. 3.

The $75 million credit facility from Orion Energy will fuel the expansion of MBP's existing midstream platform focused on water infrastructure.

The company provides water sourcing, transportation and storage solutions to energy producers in the Permian Basin. Orion Energy provides capital to middle market energy infrastructure businesses across North America and select international markets.

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