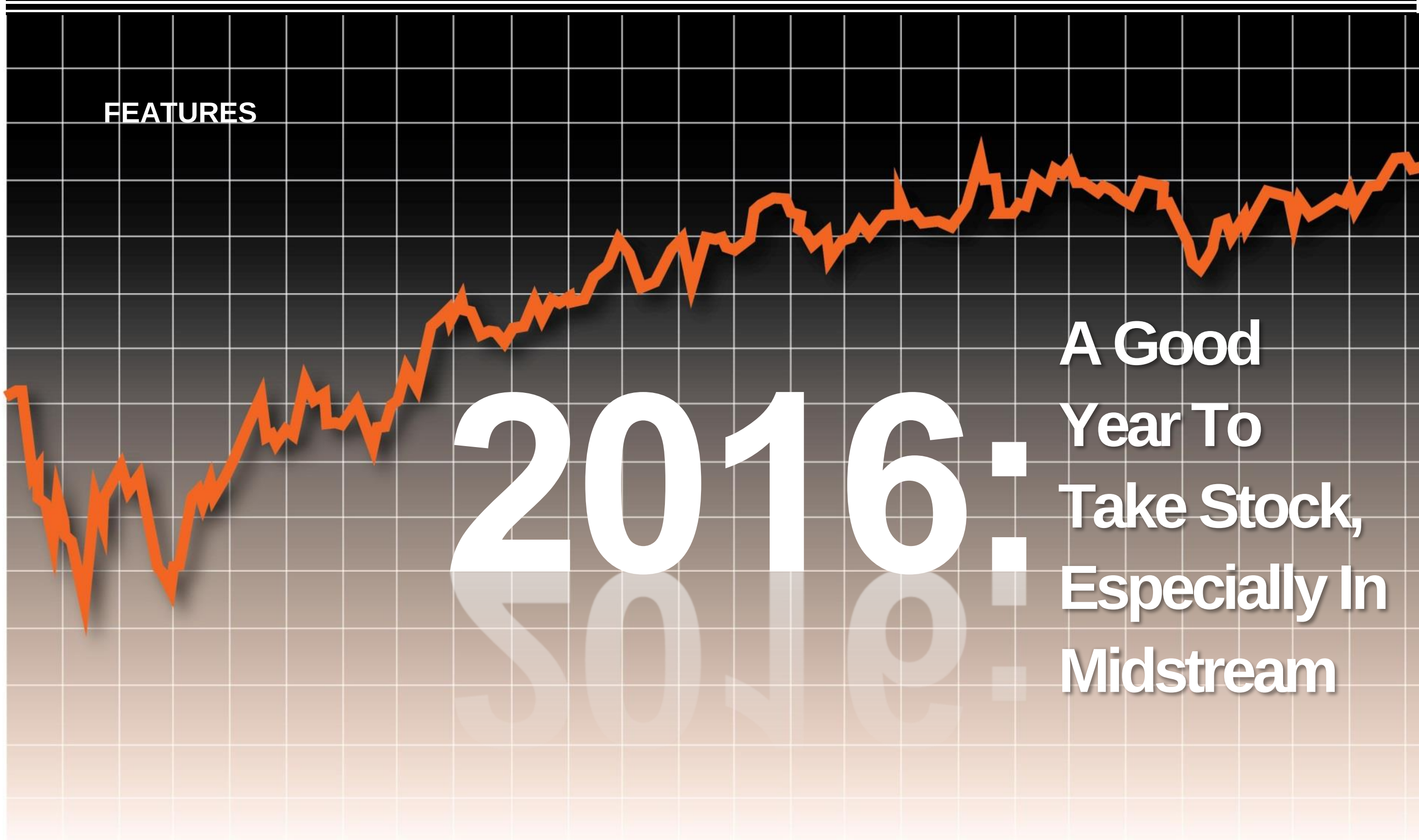
MIDSTREAM Monitor

JAN. 6, 2017 | VOLUME 35 | ISSUE 1

FEATURES



2016: A Good Year To Take Stock, Especially In Midstream

By **JOSEPH MARKMAN**, Hart Energy

There have been better years for making money in oil and gas, but for investors in publicly traded midstream companies, 2016 got the job done.

Hart Energy's **Midstream 50** stock index showed a 24.8% increase for the year. The index tracks performance of the sector's leading companies as measured by 2015 EBITDA, and is weighted by market capitalization.

By comparison, the Dow Jones industrial index rose 13.4% in 2016 and the broad S&P 500 index grew by 9.5%.

The Midstream 50's performance is even more heartening when compared to the 32.1% plunge that it suffered in 2015, when broader markets took smaller losses.

The figure falls short of upstream performance as measured by the S&P Oil & Gas Exploration & Production select industry index, which posted a 37.1% gain. That index fell by 37.4% in 2015. While bankruptcies plagued that sector in 2016, many of the victims were private companies, and bankrupt public companies would have been bumped from that list.

Border-Adjustment Tax Plan Could Trigger Implications

President-elect Donald Trump recently suggested that he would support a border-adjustment tax, essentially a tariff on imports in order to incentivize American-made manufacturing for export. The move could tax oil imports, while encouraging domestic producers to export at higher prices.

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However, an increase in the price of crude oil could trigger significant increases in the retail prices of gasoline and diesel fuels for domestic buyers, a whitepaper released by energy and commodities expert Philip Verleger and economists at The Brattle Group concluded.

The **report**, funded by Koch Industries, found that Trump's tax would be a boon to domestic oil producers, but would raise gasoline prices by 30 cents per gallon (cents/gal), or 13%, should the tax plan become law.

Meanwhile, retail prices of diesel fuel would rise by around 11%, or 27 cents/gal. However, should the world prices of crude oil rise, the domestic retail costs would increase dramatically. If crude oil prices rise to the levels forecast by the U.S. Energy Information Administration, the border-adjustment tax would be responsible for an estimated 55 cents/gal increase over what would otherwise be the case, according to the authors.

The border-adjustment tax proposal, included as part of the U.S. House of Representatives' Tax Reform Task Force Blueprint (the Blueprint), is a new, wide-ranging legislative plan spearheaded by Speaker of the House Paul Ryan (R-Wis.) and Chairman of the House Ways and Means Committee Kevin Brady (R-Texas). The plan includes modifications to the rules on how corporates are taxed.

—**BRYAN SIMS,** Hart Energy

Activist Investor Pushes EQT Merger With Antero, Range

An activist investor is urging EQT Corp. (NYSE: **EQT**) to take a bold step and commence merger discussions with Antero Resources (NYSE: **AR**) or Range Resources Corp. (NYSE: **RRC**) for "much needed, large-scale consolidation in the Appalachian Basin."

The bold suggestion, should it ever come to fruition, could potentially reshape control of gas production in the eastern U.S. It would create a company with an estimated enterprise value exceeding $25 billion.

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On Dec. 28, Chapter IV Investors LLC sent a letter to EQT's board of directors asking it to engage an investment banker and reach out to the two companies to submit competitive bids for a stock-for-stock merger. Chapter IV owns and has economic interests in the securities of all three companies.

The firm's vision is that it might one day be possible to house the assets of EQT, Range and Antero under one roof, but only after the first step of merging EQT with one of the other companies.

W. Barnes Hauptfuhrer, portfolio manager of Chapter IV, is spearheading the concept. Hauptfuhrer is a 30-year industry veteran whose private equity group was selected as a founding institutional shareholder of Kinder Morgan in 1997.

Scott Hanold, an analyst at RBC Capital Markets LLC, said Chapter IV believes Appalachian consolidation is necessary and that EQT is in the best position to lead it.

"We expect this letter to spur some conversations on the merits of consolidation in the region," Hanold said. "The Marcellus and the liquids-rich Utica are at a maturation point where consolidation can make sense but we think dry-gas Utica value can still be debated thus making certain combinations a bit more challenging."

—**DARREN BARBEE,** Hart Energy

Philadelphia's Story Is Now As An Energy Center

Appalachian shale development has helped create new jobs and provided economic advantages in the commonwealth, including its largest city—Philadelphia. However, the city has lagged behind other parts of the U.S. in job growth.

Ironically, manufacturing was one of the city's industries that experienced the largest declines even in the midst of the shale gale that helped grow this sector nationally. According to a 2015 report from the Pew Charitable Trusts, there was a 34% employment decline in the manufacturing sector between 2004 and 2014.

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Energy jobs had also been leaving the Philadelphia region during this time with Sunoco Logistics Partners LP's 2011 closure of the Marcus Hook oil refinery the highlight of this exit. However, shortly after ceasing operations at the refinery, the company announced it would reopen and spend $2.5 billion to convert the facility to handle NGL production from the Marcellus and Utica shales.

The company has been developing the Marcus Hook Industrial Complex into a premier NGL hub with the capability to receive volumes via marine, pipeline, truck and rail and store up to 3 million barrels of NGL in an underground cavern. The hub is also home to the Mariner East and West pipeline projects that provide multiple transportation and export options for liquids produced in the Appalachian Basin.

—FRANK NIETO

FRAC SPREAD

NGL Prices Sizzle To Complete 2016

By **JOSEPH MARKMAN**, Hart Energy

The hypothetical NGL barrel ended 2016 on 25-month highs at both the Mont Belvieu, Texas, and Conway, Kan., hubs as crude oil prices floated in the mid-$50 per barrel (bbl) range on hopes that OPEC members won't cheat on their production quotas.

CURRENT FRAC SPREAD (CENTS/GAL)				
JANUARY 6, 2017	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	24.91		26.84	
Shrink	24.09		23.43	
Margin	0.82	-45.17%	3.41	-29.69%
Propane	69.38		70.28	
Shrink	33.28		32.37	
Margin	36.10	15.46%	37.91	13.23%
Normal Butane	109.09		113.19	
Shrink	37.67		36.65	
Margin	71.42	-1.47%	76.54	-5.47%
Isobutane	113.60		103.22	
Shrink	36.18		35.20	
Margin	77.42	2.89%	68.02	4.85%
Pentane+	119.50		114.50	
Shrink	40.29		39.19	
Margin	79.21	2.17%	75.31	1.96%
NGL $/Bbl	29.21	2.71%	28.96	2.14%
Shrink	13.27		12.91	
Margin	15.94	3.81%	16.05	1.64%
Gas ($/mmBtu)	3.63	1.42%	3.53	2.76%
Gross Bbl Margin (in cents/gal)	35.91	4.50%	36.86	2.19%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.37	-1.35%	1.48	-2.93%
Propane	2.41	8.27%	2.44	8.16%
Normal Butane	1.18	-0.49%	1.22	-2.95%
Isobutane	0.71	2.42%	0.64	4.13%
Pentane+	1.54	1.92%	1.48	2.23%
Total Barrel Value in $/mmbtu	7.21	2.93%	7.26	2.25%
Margin	3.57	4.51%	3.72	1.77%

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.

"It may take several months before the market can tell if there are definite trends of cheating," noted En*Vantage in its weekly report, "because the quotas are meant to be an average of production over the six months of the deal."

While the NGL barrel remains nowhere near its mid-$80s zenith of 2008, it broke $27/bbl at both hubs in December, a 17.5% jump over November and a 53.3% increase over December 2015 at Mont Belvieu. At Conway, the one-month rise was 18.5%, with a 61.2% year-over-year (yoy) increase.

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Fourth-quarter 2016 heated up as well, with the barrel showing a 28.7% gain over the third quarter and a 40.2% rise over fourth-quarter 2015 at Mont Belvieu. Conway's increases were 37.2% over third-quarter 2016 and 46.7% above fourth-quarter 2015.

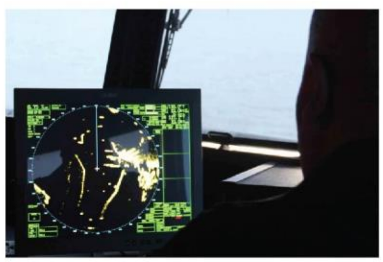
But remember that 2015's late-year downward trend continued into early 2016, so to better gauge the barrel's advance over the year, consider these figures:

- The fourth-quarter 2016 barrel at Mont Belvieu was 63% above the first-quarter barrel—Conway's uplift was 71%;
- The weekly yoy gain was 64% at Mont Belvieu and 72% at Conway;
- Last week's barrel price was 105% higher than the Mont Belvieu weekly low for 2016, set in mid-January—Conway's difference was 113%;
- C_{5+} ended the year on a high that was 77% above its Mont Belvieu low set in February, and 82% over its Conway low, set in January; and
- Propane cracked 70 cents per gallon (gal) at Mont Belvieu last week for the first time since November 2014.

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.

TOP STORIES

Remaining DAPL Protesters Face Risk Of March Floods

North Dakota's new governor warned on Jan. 3 that protesters remaining at the construction site of the Dakota Access Pipeline should vacate their main camp before spring because of the risk of flooding.

The site of the $3.8 billion project, which crosses four states, was the scene of demonstrations by Native Americans, environmentalists, military veterans and celebrities who said the North Dakota portion would harm water resources and sacred lands.

In early December, the Army Corps of Engineers denied an easement needed to allow the pipeline to run under Lake Oahe, a reservoir formed by a dam on the Missouri River.

The Standing Rock Sioux Tribe, whose land is adjacent to the pipeline, asked the thousands of protesters to disperse after the decision. Most did so, but some have remained despite the harsh winter conditions. —REUTERS

Tallgrass Terminals, Tallgrass NatGas Operator Acquired For $140 Million From Tallgrass Development

Tallgrass Terminals LLC and Tallgrass NatGas Operator LLC were acquired for $140 million in cash from Tallgrass Development, according to a Jan. 3 press release from Tallgrass Energy Partners LP (TEP).

This is TEP’s fifth dropdown acquisition from Tallgrass Development. It was funded at closing through borrowings on TEP’s revolving credit facility.

Tallgrass Terminals owns the following fully operational assets:

- The Sterling terminal near Sterling, Colo., that provides about 1.3 million barrels (MMbbl) of operational storage to the Tallgrass Pony Express crude oil pipeline. This facility’s footprint could accommodate at least 0.8 MMbbl of expanded storage capacity.

- The Buckingham terminal in northeast Colorado that includes four truck unloading skids capable of receiving 16 Mbbl/d and providing an injection point into Tallgrass Pony Express.
- A 20% interest in the Deeprock Development terminal in Cushing, Okla.

Arab Separatists Claim Responsibility For Pipeline Attacks

Arab separatist militants in Iran said on Jan. 3 they had blown up two oil pipelines in coordinated attacks in the western Khuzestan region two days earlier, though this was subsequently denied by Iran's Interior Ministry.

The group, the Arab Struggle Movement for the Liberation of al-Ahwaz, said on its website that its armed section had caused major damage and fuel losses in the attacks on Jan. 3 near the town of Omidiyeh and the port of Deylam.

However, a spokesman for the Interior Ministry told state television the reports were untrue.

Ahwazi Arabs are a minority in mainly ethnic Persian Iran, and some see themselves as under Persian occupation. —REUTERS

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