MIDSTREAM Monitor

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FEATURES

Stocks Rally To End Half

By **JOSEPH MARKMAN,** Hart Energy

The theory that long-term contracts ensure the profitability of midstream public companies no longer appears as convincing to investors, at least not in a **post-Sabine world** in which “covenants that run with the land” is not a certain guideline.

From its high to its low, the **Midstream 50** index of leading companies in the sector suffered a 14.8% loss of value in first-half 2017, but a late charge near the end of June tempered the setback to only 3.8%.

Given the struggles endured by the rest of the oil and gas industry, most midstream operators won’t complain. Upstream brethren have been rocked so far this year. The **S&P Oil & Gas Exploration & Production Select Industry Index** tumbled by 23% in the first six months, and the broader **S&P 500 Energy**

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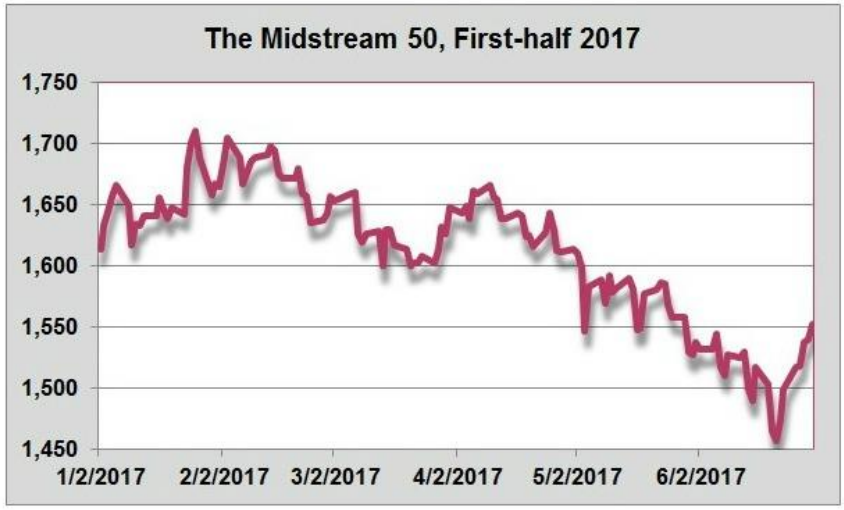
gauge showed a 13.8% drop in value. The Dow Jones industrial average rose 8.0% in the first half.

The industry has been gripped by volatile commodity prices that have periodically rallied from low points ($42.53 per barrel [bbl] in late June for West Texas Intermediate [WTI]; $2.44 per MMBtu in late February for Henry Hub natural gas) but not sustain those rallies.



Source: Bloomberg, Hart Energy

During the first half of 2017, the price of WTI on the New York Mercantile Exchange fell by 14.3% to $46.04/bbl. The NYMEX price of Henry Hub natural gas took a 20% hit.

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NGL, which tend to float between oil and gas, struggled even more. Hart Energy's hypothetical NGL barrel based on prices at the Mont Belvieu, Texas, hub lost 21.5% of its value in the first six months. Blackmon's conclusion, what he terms the "pesky new reality for crude prices," is a type of low-price paradigm on crude oil prices in which they seesaw between $40/bbl and $60/bbl for years.

Analysts: US 3rd-Quarter Crude Production Coming Up Short

Key Points

Earlier this week, the U.S. Energy Information Administration (EIA) reported commercial stocks for last week ended July 7. The EIA's crude stocks for this report week moved lower by a seasonally strong 7.56 million barrels (MMbbl) to 495.35 MMbbl vs. expectations of a 2.45 MMbbl decline. On top of those declines, the Strategic Petroleum Reserve also sold 3.2 million barrels of crude, the largest reported sale this year yet.

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Commercial stock levels are closing in on year-ago levels, as shown by the data from last year at this time wherein crude stocks were 491.17 MMbbl. Gasoline inventories went down by 1.65 MMbbl during the report week to 235.66 MMbbl, while distillate inventories went higher by 3.13 MMbbl to 153.55 MMbbl. Combined, total U.S. commercial petroleum stocks picked up steam for the report week and now stand 16.86 MMbbl above last year's level and 163.83 MMbbl up from the contemporaneous five-year average.

Intraday on July 14, West Texas Intermediate (WTI) crude prices traded at $46.46/bbl, which represents a $2.23/bbl rise over the close of the EIA report week seven days ago and compares to $45.68 /bbl a year ago.

The data for implied demand for petroleum products, as represented by the EIA's volumes supplied to the consuming market, show an average for this report week running at 19.96 MMbbl/d vs. 22.23 MMbbl/d the prior report week, both stronger than the year ago data point of 19.51 MMbbl/d. That said, the EIA's total demand data for this report week came in below the five-year average for this week. —STRATAS ADVISORS

FRAC SPREAD

NGL Prices Reach Highest Levels Since May

By **JOSEPH MARKMAN**, Hart Energy

NGL prices last week rose to their highest levels since late May, with the hypothetical barrel breaking through $23 at Conway, Kan., and $24 at Mont Belvieu, Texas.

With the exception of Conway isobutane, margins increased for all NGL.

Market fundamentals are strong enough to keep the price of West Texas Intermediate (WTI) crude oil above $40 per barrel (bbl) and possibly crack $50/bbl this summer, **En*Vantage Inc.** said in a report, citing recent statistics released by the U.S. Energy Information Administration (EIA).

CURRENT FRAC SPREAD (CENTS/GAL)

JULY 21, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	20.15		24.61	
Shrink	19.05		19.66	
Margin	1.10	36.64%	4.95	7.42%
Propane	61.03		64.24	
Shrink	26.33		27.16	
Margin	34.70	10.14%	37.08	10.09%
Normal Butane	73.37		74.23	
Shrink	29.80		30.74	
Margin	43.57	3.52%	43.49	5.42%
Isobutane	82.23		76.65	
Shrink	28.63		29.53	
Margin	53.60	-1.17%	47.12	5.24%
Pentane+	102.00		102.43	
Shrink	31.87		32.88	
Margin	70.13	0.17%	69.55	3.43%
NGL $/Bbl	23.54	3.88%	24.33	3.78%
Shrink	10.50		10.83	
Margin	13.04	4.03%	13.50	6.25%
Gas ($/mmBtu)	2.87	3.68%	2.96	0.86%
Gross Bbl Margin (in cents/gal)	29.67	4.46%	31.34	6.57%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.11	5.06%	1.35	2.12%
Propane	2.12	7.26%	2.23	5.99%
Normal Butane	0.79	3.59%	0.80	3.49%
Isobutane	0.51	0.46%	0.48	3.51%
Pentane+	1.32	1.24%	1.32	2.59%
Total Barrel Value in $/mmbtu	5.85	4.33%	6.18	3.87%
Margin	2.97	4.97%	3.22	6.81%

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.

Ethane popped back up to 24.61 cents per gallon (gal) at Mont Belvieu and broke through 20 cents/gal at Conway. Ethane inventories are high, En*Vantage notes, but markets are bullish in anticipation of increasing demand as crackers come online. The Mont Belvieu price was 32.7% higher than the price last year at this time. At Conway, the gain was 41.9%.

Commissioning of Dow Chemical's Freeport cracker in August will likely result in a step change in demand for ethane in September. Over the short term, ethane inventories will decline to a 28-day supply by October, En*Vantage expects, putting ethane prices over 25 cents/gal by September and 30 cents/gal by the end of 2017.

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Propane, which bounced up 6% to a seven-week high of 64.24 cents/gal at Mont Belvieu and 7.3% to 61.03 cents/gal at Conway, is primed for a second-half price spike, En*Vantage believes. That's because bearishness toward crude oil may result in a reluctance to stockpile propane.

However, propane stocks in the U.S. are relatively tight. A chilly fall and winter could tighten those inventories even more and propel prices skyward. By the end of October, En*Vantage forecasts, U.S. propane inventories could be reduced to a 35-day supply.

Compared to last year at this time, the price of propane is 32.9% higher at Mont Belvieu and 40.7% higher at Conway.

MIDSTREAM CONNECT

A Place That Protects Pipelines And Profits

Hart Energy

Louis Krannich, CEO of Katy, Texas-based ROC.

"We hear a lot from customers that are really looking for help," said Louis Krannich, CEO of **Remote Operations Center** (ROC). His clients seek solutions for compliance with a host of federal and state pipeline safety regulations.

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How can a midstream company afford to protect both its assets and its profit margins? That's the question that *Midstream Connect* explores in this month's segment.

We visited ROC's state-of-the-art control room in its Katy, Texas, headquarters. From there, the company monitors 15 pipeline systems in multiple basins across the country. It aims its services at small and medium-sized companies that may be financially hard-pressed to maintain the technology and training necessary to keep up with fast-changing regulations and could use a third-party option.

Australia Hits Record LNG Export Milestone

Australia has broken through the 50 million tonnes per annum (mtpa) LNG export barrier for the first time in the 12 months to June 30. In addition, cargoes of LNG from the Lucky Country are forecast to grow 22.6% in the 2017-2018 financial year.

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The milestone was revealed in a June LNG report by energy consultant EnergyQuest, which stated Australia exported 51.4 mtpa of LNG in the 2016-17 financial year.

The latest figures reveal a 37% spike in LNG exports from the 2016 output of 37.5 mtpa. EnergyQuest predicts the current volume in Australia will grow to 63 mtpa by June 30, 2018—just below the 63.8 mtpa forecast by the Office of the Chief Economist. **—DALE GRANGER,** Contributor

Contact Information:

JOSEPH MARKMAN Senior Editor
jmarkman@hartenergy.com

Contributing Editors: Velda Addison, Darren Barbee, Nissa Darbonne, Rhonda Duey, Brandy Fidler, Annie Gallay, Leslie Haines, Paul Hart, Richard Mason, Emily Patsy, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Steve Toon, Len Vermillion, Brian Walzel, Peggy Williams

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1616 S. Voss, Suite 1000 • Houston TX 77057-2627 • USA