

MIDSTREAM

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EXECUTIVE INTERVIEW: PORTER BENNETT

Midstream Needs To Show What It's Got

JESSICA MORALES
HART ENERGY



Porter Bennett, co-founder and CEO of B3 shares, his 40-year history in the oil and gas industry. Plus, why he thinks midstream companies face a difficult task to overcome producers' tendency to want to do it themselves.

Jessica Morales, Hart Energy: We'll start off focusing on how much the water management topic is being discussed right now. There are infrastructure concerns amongst others. What are you hearing?



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Bennett: A lot of casting about for the right answer is really the best way to put it. [I look at my 40-year history in the oil and gas business] and I look at this and the way it is evolving in that context. There are so many differences. I think the technological change that is going on here is important. They are trying to figure out the right way to do it. There are concerns about seismicity and overpressuring.

There are a lot of uncertainties in the process and the companies are trying to grasp with that and I think that's pretty good.

See BENNETT, Page 2

BENNETT from PAGE 1**Hart Energy: How can midstream firms best serve producers' needs?**

Bennett: There is always going to be a tendency among producers to do it themselves. That's just the way it is. The thing that midstream companies have to do is overcome that and that is not easy. They are going to have to be able to demonstrate that their option is more economically beneficial. It's technically sounder. They are going to have to demonstrate the value of what they bring to the table. I think implicit in that is a lot of education. There are things that some companies are doing well, there are other things companies are doing that aren't working quite as well and some they don't do well at all.

A lot of the companies trying to become midstream players work with a number of different producers. By the nature of their business, they see a lot of different solutions. Bringing that education role back to the producers is really important. [With] the producer, self-directed approach and the midstream player approach...I don't see how in the long run the producer-directed approach or the self-controlled approach is going to work as well as the midstream. You can't get the economies to scale. I don't think people understand the economy is a scale yet.

Companies like H2O Midstream or WaterBridge are doing a terrific job. But, they are working at a relatively constrained area. They are working in a sub-part of the Delaware Basin for example. Is that the right scale to think about these solutions on or should it be the broader Delaware Basin or maybe it's the Midland Delaware or it's the Permian. It's too early in the game to know that kind of answer and how it is going to play out. A lot of what the midstream companies bring to producers is the ability to educate and recommend what works and what doesn't.

Hart Energy: Tell us about the foundation of B3.

Bennett: It grew out of my career of 40 years. One way you can look at it is, I have been building databases and information systems that bring transparency to OPEC markets. In my first company, Bentek that's what we did in the gas world and at the end, we brought it—to a degree—to the oil side of the business. With Ponderosa we were looking at the ability to understand oil and the complexity of the different grades of oil [and] how that affected the market and cost structure for different basins and operators. The systems were all designed to do that.

What B3 is doing now is taking that approach and bringing it to water. Water is an interesting subject in this kind of context because it is very state specific. The data sets are different across states. The way the regulatory structures work is different. It's a much more complex undertaking. As we go through each state across the country we are assembling all the data we can get our hands on. Whether it is surface rights for water rights or whether it is water rights, disposal wells. [We take] all sorts of different data and put it into what I think is a very elegant and sophisticated information system. ■

Tariffs Unlikely To Impact Oil Prices

The trade war has heated up as more tariffs are being imposed on energy products with a Chinese refiner opting out of purchasing crude oil from the U.S., but this trend is not likely to continue, experts said.



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Several media reports cited an official from Dongming Petrochemical Group, a refiner in China, who said that the company had halted crude oil purchases from the U.S. in retaliation to America's tariffs. Instead, the refiner chose to buy crude oil from Iran.

China has imposed a 25% tariff on U.S. exports, which now includes energy products such as crude oil, LPG, gasoline, naphtha, fuel oil and natural gas.

The largest impact is expected to be on crude oil. Both state-owned and private Chinese buyers had been increasing imports of U.S. crude oil. China remains the largest buyer in Asia of U.S. crude oil and its imports rose in the first quarter to 316,770 barrels per day (bbl/d) and accounted for 23% of total U.S. crude exports of 1.67 MMbbl/d in March, according to data from the Energy Information Administration (EIA), the independent statistical arm of the Department of Energy based in Washington, D.C. —ELLEN CHANG | CONTRIBUTOR

FRAC SPREAD

Dog Days Of Natural Gas Prices

JOSEPH MARKMAN | HART ENERGY

The price of natural gas eased up in the past week as cooler-than-expected temperatures lowered power generation and gas demand.

Those walking their dogs on Texas evenings with a heat index of 106 degrees might be skeptical of the previous

sentence, but fake news it is not. A wide swath of below-average or slightly below-average temps is sweeping on a southwest trend from North Dakota through the plains toward Florida. On the East Coast, heavy rains are causing flash floods from the Carolinas to New England.

Extreme heat from California to Texas counters that potential market but that region is also home to significant renewable power generation. But here's the thing, as noted by **Envantage Inc.:** wind generation tends to be reduced during peak electricity demand times in the summer.

Dog walkers hoping for a breeze to offer relief figured that one out on their own.

Even solar power generation is less effective, says Envantage. The higher temperatures actually reduce output from the photovoltaic panels, leading to higher-than-normal natural gas-fired generation.

Ethane's price fell at Mont Belvieu, Texas, and Conway, Kan., last week and margins shrunk at both hubs, as well. The Mont Belvieu price is down 12.3% in the last two weeks following a 48% rise from mid-May, what Envantage considers a needed market correction.

Exxon Mobil Corp. (NYSE: **XOM**) announced July 26 that its Baytown, Texas, **ethane cracker was fully operational**. The 1.5 million-metric-ton facility will be a market mover, along with Indorama Corp.'s overhauled



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CURRENT FRAC SPREAD (CENTS/GAL)				
JULY 27, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	9.90		32.13	
Shrink	17.50		18.17	
Margin	-7.60	20.15%	13.96	-12.45%
Propane	71.15		91.18	
Shrink	24.18		25.10	
Margin	46.97	3.08%	66.08	0.26%
Normal Butane	78.88		110.63	
Shrink	27.38		28.41	
Margin	51.50	-0.72%	82.22	4.67%
Isobutane	95.30		113.75	
Shrink	26.29		27.29	
Margin	69.01	-5.66%	86.46	-3.40%
Pentane+	125.60		148.74	
Shrink	29.28		30.39	
Margin	96.32	-5.02%	118.35	0.85%
NGL \$/Bbl	25.30	-2.66%	34.74	-0.68%
Shrink	9.64		10.01	
Margin	15.66	-3.23%	24.73	-0.44%
Gas (\$/mmBtu)	2.64	-1.71%	2.74	-1.28%
Gross Bbl Margin (in cents/gal)	35.98	-2.83%	57.60	-0.53%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	0.55	-13.76%	1.77	-6.46%
Propane	2.47	1.40%	3.17	-0.16%
Normal Butane	0.85	-1.07%	1.19	3.07%
Isobutane	0.59	-4.60%	0.71	-2.90%
Pentane+	1.62	-4.27%	1.92	0.41%
Total Barrel Value in \$/mmbtu	6.08	-2.61%	8.76	-1.19%
Margin	3.44	-3.29%	6.02	-1.15%

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. cracker in Lake Charles, La., expected to restart in August.

Envantage estimates ethane inventory at 28 days, but the increased demand from a major plant like Exxon Mobil's could easily pull that level down to 24 days.

"History has shown that when ethane inventory days-of-supply go below 25 days that ethane prices can show dramatic increases from time to time as bottlenecks become more prominent," said Envantage. Those bottlenecks could include inadequate takeaway and fractionation capacity for ethane, or brine limitations at Mont Belvieu.

Propane has experienced a 5.6% dip at Mont Belvieu in the last two weeks but Envantage is not concerned. Its analysts dismiss concerns of a propane surplus, noting that even as propane extraction has increased this year, so have exports. ■

When MLPs Convert, What Should You Do?

On May 17, there were three big announcements that certain MLPs would be acquired by their parent companies structured as conventional corporations (C-corps). The Williams Cos. Inc. is acquiring its MLP, Williams Partners LP; Cheniere Energy Inc. is buying the remaining interest in Cheniere Energy Partners LP Holdings; and most notably—in a simplification transaction similar to Kinder Morgan Inc. in 2014—Enbridge Inc. is buying-in all its sponsored investment vehicles, including four MLPs.

Williams, Cheniere and Enbridge rank Nos. 6, 10 and 1, respectively, on the *Midstream Business* Midstream 50 list of the sector's largest publicly held firms.

Against a backdrop of a few other conversions, as well as tax updates discussed previously in this space, the avid MLP researcher is tempted to counter the above news with other specific examples like the commitment of both Enterprise Products Partners LP and Magellan Midstream Partners LP to remain MLPs. Or even that NuStar Energy LP's simplification transaction preserved the MLP.

—MARIA HALMO | CONTRIBUTOR



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AFPM: Midstream Necessary To Grow Markets

If the first half of the U.S. energy renaissance of the 21st century was primarily led by producers, the second half is being led in many ways by midstream operators. Indeed, the ability to fully capitalize on the multitude of new domestic crude, liquids and gas production depends on the timely investment in midstream infrastructure projects.

According to a recent report from the American Fuel & Petrochemical Manufacturers (AFPM), "The Fuel and Petrochemical Supply Chains – Moving the Fuels and Products That Power Progress," midstream infrastructure isn't just essential to helping build domestic markets, but also in supporting exports that will help improve trade balances.

Since the shale revolution started in the early 2000s, midstream infrastructure has been growing to transport, process and refine these new volumes. According to the AFPM report, from 2010 to 2016, crude oil and NGL pipeline mileage increased by more than 25%.

—FRANK NIETO | CONTRIBUTOR



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Contact Information:

JOSEPH MARKMAN Senior Editor
jmarkman@hartenergy.com

Contributing Editors: Velda Addison, Darren Barbee, Nissa Darbonne, Brandy Fidler, Leslie Haines, Terrance Harris, Paul Hart, Mary Holcomb, Jessica Morales, Emily Patsy, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Steve Toon, Len Vermillion, Brian Walzel, Alexa West, Peggy Williams

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