MIDSTREAM Monitor

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FEATURES

Decision Coming On New Terminal

By **GREGORY DL MORRIS,** Contributor

Odfjell

The proposed Odfjell ethylene terminal would have an annual volume of 750,000 mtpa, and a loading rate of between 600 and 1,000 tons per hour.

As the second half of 2017 begins, decision time looms closer for the two proposed ethylene export terminals for the U.S. Gulf Coast.

The rival developers are a contrast in capabilities: Odfjell is a global leader in tankers and terminals; Enterprise Products is a dominant midstream and downstream player in North America with vast capital resources. Of the two, Odfjell has been more forthcoming about its plans, intending to make a decision by the end of this year and, if a go, to have the facility in service by year-end 2019.

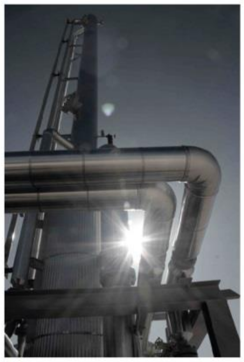
> "This is still just a project but it would be one of our largest and we are very much committed to making it happen."
>
> **Yann Bigot, director of commercial and business development, Odfjell Terminals**

Early in April, Enterprise said it had "customer commitments supporting two expansion projects that will further develop [our] ethylene infrastructure. Enterprise is repurposing a large, high-capacity ethylene storage well at its Mont Belvieu, Texas, complex. Following completion of the project, which is expected as early as third-quarter 2018, the 5.3-million-barrel cavern will be able to inject/withdraw ethylene at a rate of 2,000 barrels per hour, expandable to 4,000."

Further supporting its ethylene capabilities, Enterprise is building a new 24-mile, 12-inch diameter ethylene pipeline from Mont Belvieu to Bayport, Texas, with the potential to connect both producing and consuming sites south of the Houston Ship Channel to Mont Belvieu. The ethylene pipeline will be routed through Enterprise's ethane export terminal at Morgan's Point, which is where the proposed ethylene export facility

See TERMINAL, Page 3

ENERGY: **POLITICS**:

PODCAST ABOUT **ENERGY** AND **POLITICS**:

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TERMINAL from Page 1

would be.

“We continue to evaluate the possibilities,” said an Enterprise official. “We have not made a decision. That will depend on customer commitments.”

Odfjell is less circumspect.

“This is still just a project but it would be one of our largest and we are very much committed to making it happen,” Yann Bigot, director of commercial and business development with Odfjell Terminals in Houston told Hart Energy. “We hope to make a final investment decision in the second half of 2017 and would hope to be shipping ethylene by the end of 2019.”

The economics behind the initiative to export ethylene are simple. With the shale gas bonanza in North America, there is a glut of ethane. Based on that now inexpensive and plentiful feedstock, there is a building binge underway for steam crackers. Ethylene capacity in North America is expected to grow by more than one-third from about 32 million mtpa in 2016 to more than 44 million mtpa by 2026.

Ascension Of Saudi King’s Son Will Prove Bullish For Oil

On June 21, it was announced that King Salman of Saudi Arabia promoted his son—31-year-old Mohammed bin Salman—to be next in line to the throne. While not a shocking occurrence given early signs seen from the kingdom over the last two years, it further solidifies trends pushing the kingdom into a world of greater economic and geopolitical risk that are likely necessary for the regime to weather a time of existential uncertainty due to regional conflict, terrorism and low oil prices. Here are the implications for the oil market:

- **Economic diversification will continue to be in focus** with Prince Mohammed’s ambitions to push the kingdom away from pure petro-state status. By spearheading both the Saudi IPO and Saudi Vision 2030, it becomes clear that there will be a doubling down on this approach.

- **The fight for regional supremacy will accelerate** as has been evidenced by increasing tensions with Iran and Qatar. The Saudi/Iran conflict continues to heat up through a combination of rhetoric and the conflict within Yemen. As defense minister, Prince Mohammad has been a strong proponent of aggressive military action within Yemen and has taken a hardline position against Iran.
- **OPEC cuts are likely to be sustained and potentially deepened** to support both economic and defense activities across the region. While Prince Mohammed has waffled on the nation’s oil strategy in the past, military might and economic diversification will demand longer and potentially deeper cuts through OPEC in an effort to drive higher revenue to support those activities.
- **Ties to the West will strengthen**, as evidenced by Prince Mohammad’s support for liberalization on a number of social issues (particularly toward women), attempts to fight terrorism in the region and the country’s hardline stance on Iran. Saudi Arabia will continue to support the regional anti-terrorism goals of the Trump administration while also pushing for a restoration of Iran sanctions.

—STRATAS ADVISORS

FRAC SPREAD

Stop Russian To Judgement On Falling Prices

By **JOSEPH MARKMAN**, Hart Energy

Crude oil prices staged a strong rally in the past week, right up to the time when some guy in Houston started writing about crude oil's strong rally in his weekly Frac Spread piece. Then prices crashed.

Reliable sources say the guy blames the Russians for messing up his article because ... well, why not blame the Russians? They'll just shrug it off because they get blamed for everything lately.

CURRENT FRAC SPREAD (CENTS/GAL)				
JULY 7, 2017	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	19.61		24.61	
Shrink	18.45		20.59	
Margin	1.16	-439.04%	4.02	21.27%
Propane	56.53		59.69	
Shrink	25.49		28.45	
Margin	31.04	6.47%	31.24	6.40%
Normal Butane	69.75		69.47	
Shrink	28.86		32.20	
Margin	40.89	9.49%	37.27	8.53%
Isobutane	80.50		73.06	
Shrink	27.72		30.93	
Margin	52.78	2.93%	42.13	10.70%
Pentane+	101.60		101.03	
Shrink	30.86		34.44	
Margin	70.74	8.27%	66.59	9.19%
NGL $/Bbl	22.65	5.41%	23.35	4.94%
Shrink	10.17		11.34	
Margin	12.49	9.33%	12.00	8.85%
Gas ($/mmBtu)	2.78	0.97%	3.11	1.10%
Gross Bbl Margin (in cents/gal)	28.26	9.33%	27.71	8.78%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.08	9.37%	1.35	3.93%
Propane	1.96	3.92%	2.07	3.81%
Normal Butane	0.75	5.79%	0.75	4.96%
Isobutane	0.50	2.25%	0.45	6.42%
Pentane+	1.31	5.94%	1.30	6.29%
Total Barrel Value in $/mmbtu	5.61	5.50%	5.93	4.71%
Margin	2.82	10.38%	2.83	8.99%

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.

In fact, the guy was not alone. Analyst **Scott Nations on CNBC** blamed the sudden 4.1% drop in the price of West Texas Intermediate (WTI) on July 5 from just over $47 per barrel (bbl) to $45.13/bbl on Russia's unwillingness to support changes to the current production cut agreement. Other producers were hoping to deepen the cuts, Nations said, and traders were looking for a retreat on spending from the supermajors.

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"Some of the buyers that we've seen recently were hoping that we were going to get some additional budget cuts, also," Nations said. "Saudi Aramco said today that they're going to lower prices for consumers in Asia come August. That indicates that the production scheme is just not helping prices."

Neither is the "sky is falling" sentiment permeating market thinking.

"It is going to take more bullish statistics to convince the market that sub-$40 levels are not a possibility," **En*Vantage** said in a report. "For the next several weeks we are projecting that the EIA [U.S. Energy Information Administration] will report neutral to bullish statistics for crude oil and products that should keep WTI above $40."

But En*Vantage is wary of factors that could come into play in the fall:

- Refiners may not significantly reduce runs if product crack spreads stay fairly healthy;
- Saudi Arabia could reduce crude exports to the U.S. to help accelerate inventory declines during the summer months and minimize builds in the fall months.

HARTENERGY IndustryVoice®

Video: IHS Markit Study Predicts NGL Growth In Pa.

In Pennsylvania, we will likely always be well-known for our coal, manufacturing, and steel—throughout history these industries have provided the necessary framework to support the advanced industries of today and tomorrow.

The Department of Community and Economic Development and the Team Pennsylvania Foundation released a comprehensive study by IHS Markit outlining Pennsylvania's exciting opportunities in the petrochemical and plastics industries. The report forecasts $2.7 to $3.7 billion in investments in natural gas liquid (NGL) assets and petrochemical and plastics manufacturing, as well as the opportunity to attract up to four additional cracker plants.

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As a result of abundant natural resources and comprehensive infrastructure, we are seeing the Natural Gas Liquids (NGLs) production — such as ethane — reach new heights. As a main feedstock for polyethylene, a major plastics component, our abundant regional ethane supply is powering our potential for greater plastics production in Pennsylvania. This includes products ranging from construction materials and food-grade packaging to clothing and retail items, and everything in between.

—PENNSYLVANIA DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT

Canada Rail Surge Sustained By Pipeline Constraints

Crude oil exports from Canada by rail have broken record highs so far this year, according to data from the U.S. Energy Information Administration.

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The major reason for the resurgence is that pipeline capacity to take oil sands output has been essentially filled, even as incremental production grows. More to the point, a big mining expansion is due to come into service by the end of this year, but no significant new pipeline capacity out of the region will be available until 2019. That leaves rail as the only way for producers to get molecules to market.

"There are several large unit-train loading facilities in Alberta," said Sandy Fielden, director of oil and products research at analyst firm **Morningstar Inc.** "Those racks are not operating anywherenear capacity, so it does not seem that there will have to be any additional investment necessary."

—GREGORY DL MORRIS, Contributor

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