MIDSTREAM Monitor

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FEATURES

Marcellus, Utica Will Rise Again

By JOSEPH MARKMAN, Hart Energy

The U.S. oil and gas industry emerged from a rough 2016 to find support from the White House and promising developments in the areas of regulation, asset optimization and infrastructure, the Babst Calland law firm said June 20 in its annual report examining the Appalachian shale industry.

Efficiency measures, consolidation and new business drove the oil and gas rebound, the law firm said, pointing to Trump administration executive orders that encouraged pipeline development, reduced federal oversight and increased access to oil and natural gas reserves on federal lands.

The report also delved into new challenges that the industry faces, including:

- **Uncertainty created by divergent federal and state policies;**
- **Increased opposition by special interest groups to policies favorable to the energy sector; and**
- **Commodity prices that remain stubbornly low.**

For the Marcellus and Utica shales, swelling production of natural gas and NGL is bolstering the Appalachian economies and expanding opportunities in the downstream sector, with Shell's plans to build a cracker in Beaver County, Pa., the most prominent.

But while the new U.S. president's energy policies may encourage the industry, Babst Calland emphasizes in its report that they do not go unchallenged.

When the president issued his order that every new regulation by an administrative agency be met with the repeal of two others, environmental groups countered by filing suit in federal court.

When the president moved to reverse Obama administration policies on climate change, Gov. Tom Wolf of Pennsylvania promised to implement

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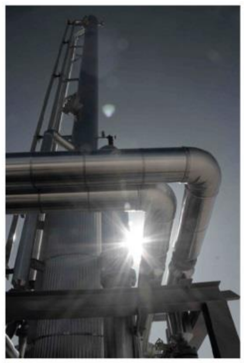
ENERGY:



POLITICS:

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RISE from Page 1

methane reduction strategies anyway, including more rigorous standards for unconventional gas wells.

Local land-use proceedings "have become battles of health and safety experts," the report said, "as anti-industry advocates, citing one-sided peer-reviewed literature, have asserted that adverse health effects have been caused by air emissions from unconventional natural gas development, notwithstanding the absence of actual air monitoring data demonstrating exceedances of regulatory standards."

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But regulations are not the only dynamic influencing the tri-state (Pennsylvania, Ohio, West Virginia) energy sector. Recent M&A activity has consolidated the producer population in the region, including the recent deal that bound **EQT Corp. and Rice Energy Inc.**, the repositioning of the **CONSOL Energy Inc. and Noble Energy Inc. JV**, and Anadarko Petroleum Corp.'s exit from the Marcellus with its **asset sale** to Alta Marcellus Development LLC.

US Wants Answers In Qatar Dispute Threatening LNG Exports

In its ongoing dispute with Qatar, ostensibly over the funding of terrorism, the Gulf Cooperation Council (GCC) has apparently created a list of demands for the world's largest LNG exporter.

U.S. Secretary of State Rex Tillerson said June 21 that he is hopeful demands from Saudia Arabia, the United Arab Emirates (UAE), Egypt and Bahrain "will soon be presented to Qatar and will be reasonable and actionable."

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Tillerson added that the U.S. supports Kuwaiti mediation efforts to resolving sanctions on Qatar that have created logistical problems due to a blockade of country, raised tensions over its ties with Iran and led to worries of food shortages and even the death of camels worth $75,000 each.

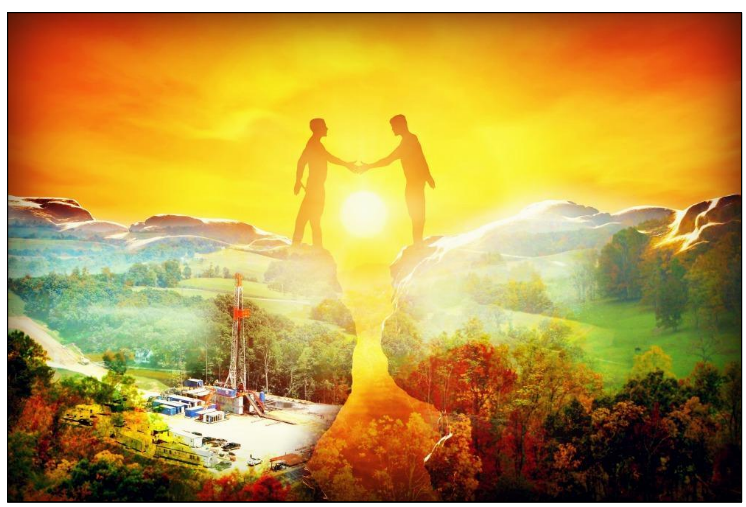
Ultimately, steps to isolate Qatar could lead to increased popularity for LNG supplies from the U.S. and Australia, both of which lack the regional pressures of the Gulf States. However, U.S. LNG terminals are time-consuming projects and any benefits would take time to reap.

Several GCC nations, likely led by Saudi Arabia, enacted the embargo against Qatar on June 5.

—DARREN BARBEE, Hart Energy

EQT, Rice Energy $8.2 Billion Merger Creates Northeast Gas Giant

In the most expensive U.S. shale merger of the year, EQT Corp. (NYSE: **EQT**) said June 19 it will buy fellow Northeast gas producer Rice Energy Inc. (NYSE: **RICE**) for roughly $8.2 billion, including about $1.5 billion in debt or preferred equity.



The acquisition of Rice's 252,000 contiguous net acres—and midstream business—in the Marcellus and Utica is set to make Pittsburgh-based EQT the largest producer of natural gas in the U.S. The purchase price, consisting of stock and cash worth $6.7 billion, represents a 37% premium on Rice's share price.

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The deal marks a continued shift from last year's oil-centric Permian Basin buying spree to more gas-focused deals in the Marcellus, Utica and Haynesville shales and Louisiana. **—EMILY PATSY,** Hart Energy

FRAC SPREAD

NGL Prices Fall As Summer Begins

By **JOSEPH MARKMAN**, Hart Energy

Outer bands from Tropical Storm Cindy darkened Houston's skies earlier this week, but it's likely that many in the energy industry believed the gloom was nature's manifestation of the commodity price markets.

West Texas Intermediate (WTI), which couldn't quite stay above $45 per barrel (bbl) last week, sank to a nine-month low and then kept sinking below $43/bbl this week. And don't breathe a sigh of relief that oil has hit bottom.

CURRENT FRAC SPREAD (CENTS/GAL)				
JUNE 23, 2017	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	18.98		24.36	
Shrink	18.51		20.10	
Margin	0.47	-18.42%	4.26	8.72%
Propane	55.70		58.88	
Shrink	25.57		27.77	
Margin	30.13	-1.34%	31.11	-1.32%
Normal Butane	66.60		68.18	
Shrink	28.95		31.44	
Margin	37.65	-3.60%	36.74	-1.94%
Isobutane	79.03		70.02	
Shrink	27.81		30.20	
Margin	51.22	-2.61%	39.82	-1.15%
Pentane+	99.00		98.24	
Shrink	30.96		33.62	
Margin	68.04	-4.43%	64.62	-2.52%
NGL $/Bbl	22.07	-2.87%	22.87	-0.96%
Shrink	10.20		11.08	
Margin	11.87	-3.23%	11.80	-1.35%
Gas ($/mmBtu)	2.79	-2.45%	3.03	-0.55%
Gross Bbl Margin (in cents/gal)	26.87	-3.11%	27.27	-1.29%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.04	-2.92%	1.34	0.95%
Propane	1.93	-1.85%	2.04	-0.96%
Normal Butane	0.72	-3.10%	0.74	-1.30%
Isobutane	0.49	-2.55%	0.44	-0.89%
Pentane+	1.28	-3.82%	1.27	-1.86%
Total Barrel Value in $/mmbtu	5.47	-2.75%	5.82	-0.76%
Margin	2.67	-3.06%	2.79	-0.99%

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.

Amrita Sen, Energy Aspect's London-based chief energy analyst, **told CNBC** that crude could easily drop below $40/bbl.

"This is like a falling knife right now; I genuinely haven't seen sentiment this bad ever," she said. "We have had clients emailing, saying they have been trading this for 20 or 30 years and they have never seen something like this."

Brightening the picture was a rise in the price of ethane at Mont Belvieu, Texas, in the past week along with an 8.72% widening of the margin. Among the other positive items on the NGL price front was ... nope, sorry, I got nothin'.

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The average weekly price of the hypothetical NGL barrel at Mont Belvieu fell below $23/bbl for the first time since late November. At Conway, Kan., the barrel's price dropped to its lowest level since early November.

With the exception of a brief dip in March, propane at Mont Belvieu stayed below 60 cents per gallon (gal) for a second week and fell to a seven-month low last week. At Conway, the story was the same except that the price has lingered below 60 cents/gal for three straight weeks.

Cancellations of propane export shipments are expected for the rest of this month, **En*Vantage** said in a report, which should result in inventory builds. The firm also reports Asian customers are worried that the canceled cargoes in June will lead to a tight market, so they expect higher exports in July.

MIDSTREAM CONNECT

DAPL Debuts And What That Means

The increased takeaway capacity that new projects like the Dakota Access Pipeline (DAPL) bring to the Bakken Shale will likely encourage increased crude production in the play, Garry Banda, midstream analyst for Stratas Advisors, told *Midstream Connect*.

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Banda noted that DAPL, which was intensely opposed by the Standing Rock Sioux tribe in North Dakota and national environmental groups, increased its capacity as the project developed from 450,000 barrels per day (Mbbl/d) to 470 Mbbl/d and ultimately to 520 Mbbl/d, or about half of the region's actual production.

TOP STORIES

Michigan Fires Contractor Who Worked On Enbridge Project

CALGARY, Alberta—Michigan said on June 21 it has fired a consultant after state officials discovered a conflict of interest with an employee of the company conducting an independent analysis on the risks of an oil spill from Calgary-based Enbridge Inc.'s Line 5 pipeline in the Great Lakes.

The company, Det Norske Veritas Inc., was to produce a risk analysis by the end of June on Enbridge's 540,000 barrel per day Line 5 pipeline, which travels underwater through the Straits of Mackinac. —REUTERS

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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