MIDSTREAM Monitor

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FEATURES

PARTNER, I HAVE A HEADACHE

How To Make Your JV 'Marriage' Work

By **JOSEPH MARKMAN,** Hart Energy

One pumped hydrocarbons out of the ground; the other had a way of moving them to market.

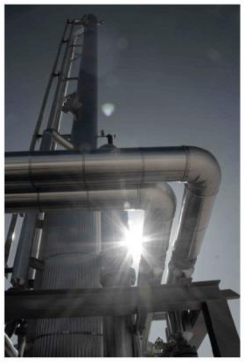
Fate—or more likely, shale—brought these companies together and soon enough they were both standing in the same oil (or gas) field, ready to declare their project intentions to a judge, er, team of lawyers and make their joint venture (JV) official.

But funny things can happen in a relationship, even a sustainably profitable one.

"I worked years ago on an extremely successful joint venture in the energy space between two parties and it was incredibly profitable but their core philosophies at the corporate level diverged," Cliff Vrielink, co-managing partner of **Sidley Austin's** Houston office and co-leader of the law firm's global energy practice, told Hart Energy. "One party wanted to grow the business; the other wanted to grow other parts of the business. It just came to the point where they sold it and they each took their 50% of the capital and pursued

See JV, Page 3

ENERGY:



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JV from Page 1

different strategies."

And they were a perfect couple!

"Right now, the volatility in the marketplace is a huge challenge for any investor in the North American energy patch, be they housed within a JV structure or not," Greg Haas, director of integrated energy services for **Stratas Advisors**, told Hart Energy. "If prices, margins and differentials erode, production and flows could be curtailed and the JV may see its fortunes wither."

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For want of a better term, the JV partners should have a prenup—a clear set of goals for the venture's end game:

- Will one partner buy out the other?
- Will both seek to monetize via a sale to the public or a third party entity?

"Conditions change and partners will need to remain flexible," Haas said, "so these questions may bedevil even the closest of partners in good times, bad times or in-between."

A Good Fit

Companies that pursue JVs usually fall into one of two categories, Vrielink said. Either they are industry players with different strengths or complementary strengths, or strategic pieces that fit together well; or a financial investor with capital that joins with an industry player possessing assets.

That is where the simple descriptions end.

Energy Secretary: US To Aim For Energy Dominance

WASHINGTON—U.S. Energy Secretary Rick Perry said his "marching orders" from President Donald Trump aren't merely to push the U.S. to energy independence, but to leverage the nation's resources to advance its interests.

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Perry, addressing the morning session at the 2017 Energy Information Administration (EIA) conference on June 27, said his new boss wants "America to be energy dominant."

"That's his vision for America—an all of the above energy policy," Perry said.

That includes increased oil and LNG exports; streamlining regulations; renewable energy and caretaking the nation's nuclear energy portfolio. However, some were left wondering what "dominance" would look like.

—DARREN BARBEE, Hart Energy

Who's Winning Battle of Shale Gas Vs. Clean Coal?

This week, power regulators in Mississippi advocated no further rate hikes by a regulated utility generator, Mississippi Power Co. (MPC), a subsidiary of Southern Company (NYSE: **SO**), in relation to the billions in cost overruns incurred in building the first-of-its-kind clean coal power plant showcase known as the Kemper County Energy Facility. What's more, they advocated against operating the plant as a clean coal plant and instead recertifying the facility to run only on lower-cost, readily available and secure natural gas.

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The essentially complete and partially operating 582 MW facility was conceived and approved by the state's public utility commission in 2009 for a 2014 startup. A price cap of $2.88 billion was set and approved by regulators and $382 million in federal DOE grants were committed to MPC for use at the project.

The project may have made sense if that investment cost was accurate and if the expected operating costs of coal would remain low relative to the high gas fuel costs that predominated in 2009 when the U.S. was expected to become an LNG importer. But neither has held true. **—STRATAS ADVISORS**

FRAC SPREAD

In Strange Twist, Markets Are Balancing

By **JOSEPH MARKMAN**, Hart Energy

Crude oil prices registered five straight days of gains by the middle of this week, a rally that analysts attributed to the effects of Tropical Storm Cindy's tour of the Gulf of Mexico. Reeling NGL prices, however, stumbled to their lowest levels in seven and a half months.

CURRENT FRAC SPREAD (CENTS/GAL)				
JUNE 30, 2017	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	17.93		23.68	
Shrink	18.27		20.36	
Margin	-0.34	-172.97%	3.32	-22.14%
Propane	54.40		57.50	
Shrink	25.24		28.14	
Margin	29.16	-3.22%	29.36	-5.60%
Normal Butane	65.93		66.19	
Shrink	28.58		31.85	
Margin	37.35	-0.79%	34.34	-6.53%
Isobutane	78.73		68.65	
Shrink	27.45		30.59	
Margin	51.28	0.11%	38.06	-4.43%
Pentane+	95.90		95.05	
Shrink	30.56		34.06	
Margin	65.34	-3.97%	60.99	-5.62%
NGL $/Bbl	21.49	-2.63%	22.25	-2.74%
Shrink	10.07		11.22	
Margin	11.42	-3.78%	11.03	-6.54%
Gas ($/mmBtu)	2.76	-1.29%	3.07	1.31%
Gross Bbl Margin (in cents/gal)	25.85	-3.80%	25.47	-6.58%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.99	-5.53%	1.30	-2.79%
Propane	1.89	-2.33%	2.00	-2.34%
Normal Butane	0.71	-1.01%	0.71	-2.92%
Isobutane	0.49	-0.38%	0.43	-1.96%
Pentane+	1.24	-3.13%	1.23	-3.25%
Total Barrel Value in $/mmbtu	5.31	-2.78%	5.67	-2.69%
Margin	2.56	-4.34%	2.60	-7.02%

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.

Natural gas prices were on a slow and steady rise, too. But with the exception of a miniscule bump in isobutane at Conway, Kan., all NGL showed thinner margins than the prior week.

The good news is that oil should be on the mend no matter what the weather does.

"Fundamentally, we feel that U.S. crude balances are improving, but it is just not happening fast enough for traders," **En*Vantage** said in a recent report. "With U.S. crude production increasing and OPEC production cuts being partially offset by production increases by Libya and Nigeria, there is little confidence that global oil markets can rebalance anytime soon."

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Despite the bearish sentiments from traders for most of this year, there are far more upside price risks for crude than downside. The volatile situation in Venezuela alone, En*Vantage argues, could be enough to push oil back to $50 per barrel (bbl) by fall.

Ethane fell by 2.8% at Mont Belvieu, Texas, in the past week and by 5.5% at Conway. That puts the average ethane price for the week at just barely above where it was a year ago at Mont Belvieu and a hefty 9.4% below the 2016 price at this time at Conway. Gulf Coast ethylene plants did not appear to have been negatively impacted by the recent tropical storm, En*Vantage said, and fundamentals point to higher demand and improved prices for the second half of this year.

EXCLUSIVE

EQT's Schlotterbeck Talks Rice Deal, Strategy, Returns Vs. Growth

PITTSBURGH—*Steve Schlotterbeck assumed the CEO title at EQT Corp. (NYSE: **EQT**) and its two publicly traded midstream companies on March 1, and since has wasted no time in his new role.*

*With Schlotterbeck at the helm, **EQT announced June 19** it will pay $8.2 billion in cash, stock and assumed debt to acquire Rice Energy Inc. (NYSE: **RICE**) in a transaction that consolidates the Appalachian Basin E&Ps into the largest U.S. natural gas producer.*

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*Hart Energy met with Schlotterbeck the day after the deal was unveiled, while editors were attending Hart Energy's annual **DUG East Conference**. EQT now has "a cool million acres," and while a lofty number wasn't the goal, Schlotterbeck admits it sounds nice to say. It's a round number.*

Hart: Who approached who, or did an investment banker bring you the idea? Can you give us some color on how this deal came down?

Schlotterbeck: No details yet, but the proxy will have all that information. What I can tell you is that for the past couple of years, we've been working on a consolidation strategy and as part of that, you look at all the opportunities, big and small. Rice from day one was always there; Rice stood out when we were looking at the bigger opportunities that were more of a corporate nature, not just acreage. It stood out because of the synergies. It was always an attractive option, but we had no idea if it was 'executable' or not. In big transactions like these, you need both parties to be on board.

Hart: So you looked at other companies too?

Schlotterbeck: In just over a year now, we've done six different acquisitions, so we've been pretty active. These were primarily acreage deals, although the **Trans Energy deal** was a corporate one too. So, yes, we've been very active, but this transaction was a different order of magnitude. To achieve the objective of delivering synergies, Rice kind of puts it all together for us. **—LESLIE HAINES,** Hart Energy

TOP STORIES

South Korean Energy Group, GE To Develop US Shale Gas

South Korean energy conglomerate SK Group signed a memorandum of understanding (MOU) with General Electric Co. (NYSE: **GE**) on June 29 to jointly develop U.S. shale gas fields in a bid to expand in the U.S. shale gas sector.

The partnership with GE will help SK Group bring in U.S. LNG to South Korea as well as onsell it to other countries amid growing U.S. LNG exports, SK Group said in a statement. **—REUTERS**

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