

MIDSTREAM


Monitor

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FEATURES

Midland's Still Got It

Midland Basin Asset Summary



The map displays the Midland Basin in Texas, divided into 12 counties: Kent, Stoneham, Gains, Dawson, Borden, Scurry, Fisher, Jones, Andrews, Harrison, Howard, Mitchell, Nolan, Ector, Garza, Garfield, Core, Crane, Lamb, Tom Green, and Schleicher. Three shale trends are highlighted: Wolfcamp Shale (top), Cline Shale (middle), and Spraberry Trend (bottom). A network of yellow pipelines is overlaid on the map, connecting various production areas.



Organic Development

- Over 700 miles of new infrastructure
- 5 new plants
- Organic processing growth from 0 to >240,000 Mcf/day
- Crude oil gathering pipeline system serving Wolfcamp producers
- High pressure gas pipeline system interconnecting all plants
- Contracted with large independents and majors

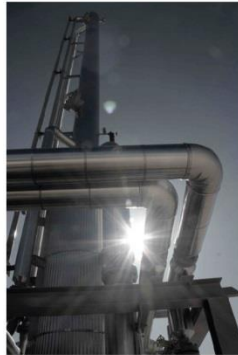
By **PEGGY WILLIAMS**, Hart Energy

MIDLAND, Texas—Midstream gatherer and processor Lucid Energy Group is completely focused on the Permian Basin, but its businesses in the two sub-basin areas are on separate trajectories. It's got high-growth potential in the Delaware and a mature, consolidating business in the Midland Basin.

The privately held company, backed by EnCap Flatrock, operates in 12 counties and has more than 2 million total acres dedicated to its systems from 80 customer counterparties. It can process 1 Bcf per day and claims a network of 2,200 miles of pipelines.

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The company has a new project in the Northern Delaware that it is feverishly working on, said Mike Latchem, president and CEO. Latchem spoke at Hart Energy’s Midstream Texas conference and exhibition in Midland, Texas, in late May. Unquestionably, acquisition and exploitation in the Delaware Basin has delivered Lucid’s recent growth, and these assets are the bright shiny jewels in its portfolio.

The company first planted its flag in the Midland Basin, however.

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“We entered the Midland Basin early, and we were able to grow organically in the heydays of 2012 to 2014,” said Latchem. “Then, we turned and worked on converting a growth-oriented business into an optimized operating company.”

That transformation is a case study in the life-cycle of a shale basin, and how companies with fixed assets can adapt to a changing landscape.

The first horizontal wells in the Midland Basin were drilled on its eastern side in 2009; Lucid entered Sterling, Mitchell, and Erie and Crockett counties in 2012.

“We were a little bit late to the game, but we were still there when the frenzied land grab was going on,” said Latchem. “We were fortunate to get a lot of our organic infrastructure built when many people hadn’t fully bought into the Wolfcamp idea, and the horizontal development was still in proof-of-concept stage.”



Mike Latchem

Moving Gas To Mexico Via Waha: ‘It’s Going To Be Ugly’

MIDLAND, Texas—Not many oil and gas conference speakers illustrate their arguments with citations from Tolkien, but the peculiar nature of the Waha natural gas hub inspired Michael Banschbach’s approach.

“One does not simply walk into Waha,” the energy consultant said, paraphrasing the character of Boromir from “The Lord of the Rings: Fellowship of the Ring” at the recent Midstream Texas conference. “It’s not a place that you feel that you’ve arrived at. It’s more a geographic area. It’s a confluence of pipelines that is a Texas area, maybe a three- or four-mile diameter area. But it’s much different than a specific place that you’re actually at.”



Michael Banschbach

But it’s not exactly Mordor, Tolkien’s orc-populated land that is home to Mount Doom, either. It’s just that, unlike Henry Hub in Erath, La., it is not a true hub.

“Waha’s a little bit different,” Banschbach said. “There’s a lot of gas that interconnects from one pipeline to another. It never really does go through what we consider a hub. Actually there are probably three or four hubs if you want to look at it that way.”

Add the current 5.7 Bcf/d to 6 Bcf/d capacity to the three new lines that will move gas to Mexico and this non-hub hub has 12 Bcf/d running through it, he said. But while there’s plenty of capacity, there is also plenty of unreserved space in those pipelines for

prospective customers. —JOSEPH MARKMAN, Hart Energy

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FRAC SPREAD

Have NGL prices hit bottom and are primed to head up?

By **JOSEPH MARKMAN**, Hart Energy

Finally, the NGL price outlook resembles a half-full glass. That's because:

- The price of West Texas Intermediate (WTI) has tumbled to about 14% below what it was less than two months ago when it surged past \$53 per barrel (bbl);

- Last week's natural gas price decline was the sharpest since the November U.S. presidential election; and
- All NGL prices tracked by Hart Energy fell in the past week, with margins narrower for all but one: ethane at the Conway, Kan., hub.

Perhaps that glass should be half-full of **12-year-old Aberfeldy**, a single malt scotch whisky mentioned by some to be an excellent choice for a Father's Day gift. But trust the economics before rushing to drown sorrows.

U.S. crude oil inventories had been

declining until the 3.3 MMbbl build of the week ending June 2, noted **En*Vantage**, but supplies have still dipped below 30 days, as measured by the U.S. Energy Information Administration (EIA). At this time in 2016, supplies were near 31 days. Days of supply for propane are about 18% below what they were in 2016 at this time, and 29% under 2015 levels.

En*Vantage admits that WTI could drop to \$45/bbl just because bearish sentiment weighs on traders but insists that fundamentals justify a price above \$50.

| CURRENT FRAC SPREAD (CENTS/GAL) | | | | |
|--------------------------------------|--------|---------------------------|--------------|-----------|
| JUNE 9, 2017 | Conway | Change from Start of Week | Mont Belvieu | Last Week |
| Ethane | 19.80 | | 23.52 | |
| Shrink | 18.35 | | 20.52 | |
| Margin | 1.45 | 90.70% | 3.00 | -7.31% |
| Propane | 58.33 | | 61.64 | |
| Shrink | 25.35 | | 28.35 | |
| Margin | 32.98 | -6.83% | 33.29 | -7.77% |
| Normal Butane | 70.08 | | 69.74 | |
| Shrink | 28.70 | | 32.10 | |
| Margin | 41.38 | -2.21% | 37.64 | -3.66% |
| Isobutane | 81.80 | | 72.78 | |
| Shrink | 27.57 | | 30.83 | |
| Margin | 54.23 | -0.39% | 41.95 | -5.50% |
| Pentane+ | 106.10 | | 105.79 | |
| Shrink | 30.70 | | 34.33 | |
| Margin | 75.40 | -3.91% | 71.46 | -4.00% |
| NGL \$/Bbl | 23.25 | -4.73% | 23.74 | -5.45% |
| Shrink | 10.11 | | 11.31 | |
| Margin | 13.14 | -3.34% | 12.43 | -5.45% |
| Gas (\$/mmBtu) | 2.77 | -6.47% | 3.10 | -5.45% |
| Gross Bbl Margin (in cents/gal) | 29.79 | -3.48% | 28.71 | -5.64% |
| NGL Value in \$/mmBtu (Basket Value) | | | | |
| Ethane | 1.09 | -2.85% | 1.29 | -5.69% |
| Propane | 2.02 | -6.67% | 2.14 | -6.72% |
| Normal Butane | 0.76 | -4.00% | 0.75 | -4.49% |
| Isobutane | 0.51 | -2.53% | 0.45 | -5.48% |
| Pentane+ | 1.37 | -4.66% | 1.36 | -4.48% |
| Total Barrel Value in \$/mmbtu | 5.75 | -4.78% | 6.01 | -5.63% |
| Margin | 2.98 | -3.15% | 2.91 | -5.81% |

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.

But not this week—average NGL prices, tethered to crude oil and natural gas, took a beating. The hypothetical NGL barrel fell 5.5% at Mont Belvieu, Texas, and 4.8% at Conway. ■

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Legal Challenges Match The Midstream Buildout

The legal hurdles the Texas midstream must jump in the next few years are nearly as high as the sector's challenge to add billions in new infrastructure, according to a legal roundtable discussion at Hart Energy's 3rd annual Midstream Texas conference, held May 24 in Midland, Texas.

Eminent domain may be the top issue, according to Bruce Stanfill, a partner with Akerman LLP and a litigation specialist.

"This will be a major issue for the coming years in all parts of Texas," Stanfill said. "It applies to the new pipelines, the [border] wall, the Houston-to-Dallas bullet train and more. There will be many contests of condemnation proceedings."

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Joining Stanfill in the discussion were Christopher D. Smith, partner with newly formed Smith Jolin LLP and previously a government and regulatory specialist with Thompson & Knight LLP; and Jeffery Muñoz, a partner with Latham & Watkins LLP specializing in energy M&A transactions.

"Increasingly, landowners are using eminent domain law as a weapon," Smith said. Proceedings can be "procedural, not substantive" as landowners seek to block a project or to extract more favorable terms.

"Implementation will drive this," he added. "What kind of waivers will there be?" —PAUL HART, Hart Energy

Permian Bottlenecks Coming, Exec Warns

MIDLAND, Texas—The Permian Basin's production boom will alter the world's energy business at a fundamental level as its surging crude output goes overseas, according to a Buckeye Partners LP executive.

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"When I go to conferences in London, Rio, Singapore and elsewhere, there are panel discussions that talk about the Permian Basin," said Ismael Hernandez, vice president for

global business development at Buckeye Partners LP.

But Permian producers must get production out of the basin. Sometime soon Permian production will exceed the capacity of the multiple pipeline systems serving the region. —PAUL HART, Hart Energy

TOP STORIES

Evolution Midstream To Acquire Powder River Gas Gathering Assets From Lucid

Evolution Midstream LLC said June 5 it will acquire the Rowdy Gas Gathering System in the heart of the Powder River Basin, where activity has recently been on the rise.

As part of a binding transaction, Evolution said it agreed to purchase the Rowdy system from Lucid Energy Group for an undisclosed amount.

The Rowdy system serves oil and gas producers in the Powder River Basin in Campbell, Converse and Johnson counties, Wyo.

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