MIDSTREAM Monitor

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FEATURES

‘We Could Do An Awful Lot’

Dick Cheney suggests using LNG exports against Putin’s Russia.

By **RICHARD MASON**, Hart Energy

AUSTIN, Texas—Exported LNG from the U.S. might just calm the troubles of a resurgent Russia under the leadership of President Vladimir Putin, former Vice President Dick Cheney told attendees at the 71st annual Texas Independent Producers & Royalty Owners Association (TIPRO) Feb. 27. Cheney said that the U.S. has an opportunity to capitalize on its growing energy production as a way to positively influence foreign affairs.

Specifically, Cheney suggested LNG exports to the Baltic states—Estonia, Latvia and Lithuania—should be considered a strategic move on a dynamic foreign policy chessboard that features Russia having re-acquired Crimea and slowly re-asserting dominion of Ukraine.

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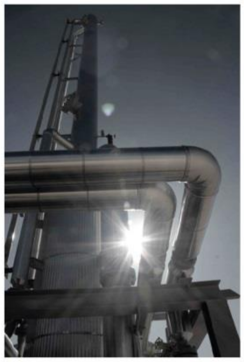
ENERGY:



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"I think a great response to Mr. Putin is for us to get in the business of aggressively using our resources, especially in developing our LNG capabilities, and substitute our product for the Baltics, which gets 100% of their energy from gas from Russia," Cheney said. "We could do an awful lot if we were to take advantage of our expanded capabilities and all that we've been able to develop—and will develop in the future—and use that surplus, if it is a surplus, for our overall capabilities politically, strategically."

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Cheney's keynote was delivered to roughly 200 TIPRO attendees who are meeting in conjunction with the state's biennial legislative session.

"Russia is not in good shape," Cheney said. "Putin stays on top in the polls by taking shots at us. Every time he jabs an elbow in the United States, the Russians love it. He's at 82% in the polls. I think we should look on [U.S. energy production] as an asset and our capability in that area."

Investors Look Again At Enbridge Following Completion Of Merger

The completion of Enbridge Inc.'s (NYSE: **ENB**) US$28 billion merger with Spectra Energy Corp. on Feb. 27 created not just North America's largest pipeline and energy infrastructure company, but what could be an investing opportunity.

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Financial analysts peppered online sites with "now is the time to buy Enbridge" articles in the days preceding the closing. The consensus stock target price for the Calgary-based company among Canadian banks is CA$62.67 (US$47.80), with Enbridge units priced at CA$55.39 (US$45.25) at midday Feb. 28 on the Toronto Stock Exchange.

Analysts, including one on the **Seeking Alpha** site, cited the pickup experienced when Enbridge's merger with Spectra was announced in early September 2016. Over a six-day period, Enbridge units rose by 15.8% on the New York Stock Exchange. **—JOSEPH MARKMAN,** Hart Energy

TransCanada Dropdown Moves Along Capital Buildup

The financial gears continue to grind at TransCanada Corp. (NYSE: **TRP**), which on Feb. 27 offered to drop down its 49.3% interest in the Iroquois Gas Transmission System LP as well as its remaining interest in the Portland Natural Gas Transmission System to its MLP, TC PipeLines LP (NYSE: **TCP**).

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The actions are part of the company's near-term CA$23 billion (US$17.4 billion) capital buildup and reinforce the role the MLP will play in the program, said Russ Girling, president and CEO, in a statement.

Iroquois, a JV between TransCanada and Dominion Resources Inc. (NYSE: **D**), is a FERC-regulated 416-mile pipeline that transports natural gas under long-term contracts from the U.S.-Canadian border at Waddington, N.Y., to markets in the Northeast, including New York City, Long Island and Connecticut.

The Portland system moves gas to New England, connecting with the TransQuebec and Maritimes Pipeline at the Canadian border and with the Tennessee Gas Pipeline System near Boston. TransCanada dropped down a 49.9% interest in the system to TC PipeLines in January 2016.

TransCanada owns a 27% interest in TC PipeLines. **—JOSEPH MARKMAN,** Hart Energy

FRAC SPREAD

Warm Winter Cools Gas Storage Outlook

By **JOSEPH MARKMAN**, Hart Energy

What's in store for commodities? More gas.

The **U.S. Energy Information Administration** (EIA) reported on March 2 that natural gas inventories rose during the week ended Feb. 24 for the first time ever during that week in February.

Storage in the Lower 48 rose by 7 billion cubic feet (Bcf), compared withthe Bloomberg consensus of a withdrawal of 4 Bcf. That resulted in a total of 2.363 Tcf or 7.3% below the 2.55 Tcf figure at the same time in 2016. It is 14.3% above the five-year average of 2.068 Tcf.

CURRENT FRAC SPREAD (CENTS/GAL)

MARCH 3, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	19.50		23.25	
Shrink	16.61		16.62	
Margin	2.89	18.88%	6.63	-7.61%
Propane	58.35		65.81	
Shrink	22.95		22.96	
Margin	35.40	-12.84%	42.85	-16.24%
Normal Butane	82.05		97.44	
Shrink	25.99		25.99	
Margin	56.06	-19.61%	71.45	-13.77%
Isobutane	93.15		88.50	
Shrink	24.96		24.96	
Margin	68.19	-17.16%	63.54	-8.68%
Pentane+	120.05		117.65	
Shrink	27.79		27.80	
Margin	92.26	2.25%	89.85	1.89%
NGL $/Bbl	25.09	-8.59%	26.87	-8.29%
Shrink	9.15		9.16	
Margin	15.93	-8.71%	17.71	-8.85%
Gas ($/mmBtu)	2.51	-8.37%	2.51	-7.17%
Gross Bbl Margin (in cents/gal)	36.01	-9.11%	40.84	-9.44%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.07	-5.16%	1.28	-7.30%
Propane	2.03	-11.13%	2.28	-13.28%
Normal Butane	0.89	-16.36%	1.05	-12.11%
Isobutane	0.58	-14.98%	0.55	-8.26%
Pentane+	1.55	-0.42%	1.52	-0.41%
Total Barrel Value in $/mmbtu	6.11	-8.86%	6.68	-8.88%
Margin	3.61	-9.19%	4.18	-9.87%

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.

Pearce Hammond of **Simmons & Co. International** anticipated the possibility of a historic injection. He noted that the withdrawal during the same week in 2016 was 67 Bcf and the five-year average was 132 Bcf.

The price of the hypothetical NGL barrel rose 7.5% in February at Mont Belvieu, Texas, compared to the previous month, masking sharp declines for the third straight week.

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The crash of butanes since the start of February at Mont Belvieu (23% for normal butane, 27% for isobutane) and at Conway, Kan., (32% for normal, 27% for isobutane) has pulled the barrel down 16% at Mont Belvieu and 20% at Conway.

This time of year typically brings increased demand for normal butane from facilities blending gasoline. Not so this year, wrote **En*Vantage Inc.** analysts, because gasoline demand is slightly lower than at the same point in 2016.

En*Vantage attributes butane's price drop relative to West Texas Intermediate crude oil to the end of the winter gasoline blending season. Asian winter demand is ending as well.

The analysts observe crude markets trusting that OPEC members will continue to adhere (for the most part) to their crude oil production cut agreement. The assumption is that members of the cartel will deepen cuts if oil falls below $50 a barrel (bbl).

Recent Moves Highlight Evolution Of PE In Midstream

There are only a few pure-play private equity (PE) firms in the midstream, one of which is **Five Point Capital Partners**. A pair of recent transactions by that firm indicates a couple of clear opportunities for PE in the sector:

- Gathering for small to midsize producers; and
- The convergence of hydrocarbon and water midstream services.

On Feb. 27, Five Point portfolio company WaterBridge Resources named John R. Durand president and chief operating officer. Prior to joining WaterBridge, he served on the management team of Pioneer Water Management, a wholly owned subsidiary of Pioneer Natural Resources, one of the largest independent producers in the Permian Basin.

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About a week earlier, Five Point and Permian operator Matador Resources **formed a joint venture** to own and operate the producer's midstream assets in the Delaware basin.

"Matador has exceptional acreage in the Delaware," said David N. Capobianco, CEO and managing partner of Five Point. "The market likes fully financed drilling programs rather than debt-financed plans, and this JV is a part of their financing plan. It is also a model of further relationships with producers. We are operating guys, and if an upstream company wants to build a midstream affiliate it wants two things: service and value." **—GREGORY DL MORRIS,** Contributor

TOP STORIES

Court Opinion Puts Pipeline Developers On Firmer Footing

Pipeline developers, take note: the identity of "common carriers" just became (slightly) clearer.

On Jan. 6, the Texas Supreme Court issued its opinion in the *Denbury Green Pipeline-Texas, LLC v. Texas Rice Land Partners, Ltd. et al.* case (Texas Rice II), which had been sent back on remand in 2012 to enable lower courts to adequately test whether a "reasonable probability" exists that the pipeline in question serves the public, enabling its "common carrier" status and, in turn, the pipeline developer's powers of eminent domain over the surface owner.

By holding in summary judgment that such a probability existed when presented with a post-construction transportation agreement with an unaffiliated customer, the court provided a helpful precedent to pipeline developers who have been waiting anxiously for more detail about the relevant factors in the court's application of the so-called "Reasonable Probability Test."

— AARON ROFFWARG and AARON CARPENTER, Bracewell LLP

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