

MIDSTREAM

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THE INTERVIEW: BRANDON WEBSTER

New Play, New Player



PAUL HART
HART ENERGY

They say the best place to find new oil and gas reserves is where hydrocarbons already have been found. That's certainly the case with southeastern Oklahoma's Arkoma Basin. The town of Seminole, Okla., was a classic boomtown in the 1920s as the surrounding Seminole Field burst onto the energy scene. There's a reason why the local newspaper is the *Seminole Producer*. After years of slumber, the area is coming alive again as a new, unconventional shale play. Producers tapping that play are served by a new midstream operator—Valiant Midstream—that, although scarcely a year old, has big growth plans for the region.

MIDSTREAM You began your midstream career at Copano and Kinder Morgan. How did that

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experience impact your plans for Valiant?

BRANDON WEBSTER At Copano, I was part of the Midcontinent division, which was formerly a small private startup known as Scissortail Energy that grew into an expansive gas gathering and processing platform in eastern and central Oklahoma. The Copano/Scissortail all-hands-on-deck approach really set a foundation for me in terms of what it takes in terms of culture to execute in a high growth midstream company. My tenure left me with this strong desire to be part of smaller, private companies. I liked the speed, the efficiencies that a small company with strong leadership brought to the table.

I had a front-row seat to observe Copano's leaders execute an incredible growth story in the Eagle Ford—watching it transition into a major Eagle Ford player in just over a couple of years.



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At the same time, I had the opportunity to lead our Midcontinent growth in both the Mississippi Lime and Arkoma that resulted in a significant number of new contracts and capital projects still paying dividends today. This period, 2011-2013, really just kind of set a strong standard and belief in my mind of what a responsive, nimble and not risk-averse midstream company can accomplish.

Copano's 2013 acquisition by Kinder Morgan was truly a blessing in disguise for me. At Kinder I was very fortunate to work for some great people who, whether they know it or not, were very influential on my career and the development of my own leadership strategy. Further, the principles instilled into the company's culture by Mr. Kinder regarding how to protect value by constantly monitoring and tracking the financial and operational metrics of a business will forever stick with me.

Always knowing where you stand allows you to make informed decisions in real time and gives you the opportunity to get out in front of problems rather than waiting to learn about them at the end of the quarter.

MIDSTREAM Your first big project is in southeastern Oklahoma's Arkoma-Stack play. Can you tell us about it?

WEBSTER Yes. Interestingly enough, during my days at Copano and then subsequently Kinder Morgan, we had assets that we operated—gathering and treating assets—across the Arkoma, including parts of the particular area of the Arkoma Stack that is being redefined today. I have had a lot of opportunity to work the Arkoma dating back to 2008. During my tenure we secured some large contracts down there, built a lot of pipe and compression, connected more than 100 wells and added nearly 200 million cubic feet per day (MMcf/d) of new gas supply. While it's changed a bit, I feel like I know the Arkoma very well.

Fast-forward to Valiant and the area's re-emergence, which began forming over the past 12-18 months led by private-equity-backed producers, each with track records of discovering significant oil and gas resources in the Midcontinent. These producers were independently operating off an overarching thesis that a rich gas fairway spanning through the central and western portions of the basin would lead to the Midcontinent's next big play. This thesis, while varied by producer, was supported by strong economics generated by past Woodford wells.

The result to date has been the Arkoma Basin being one of the nation's most-leased basins in 2017—with 2018 off to a strong start, looking more active than last year. The leasing frenzy has been paired with significant acquisition activity as producers began to block up specific core positions.

Our team tracked this leasing and acquisition activity early on and began communicating with the producers behind it. After those discussions, our thought was this might be a place that, due to some familiarity, we could really have some strong interest in as a company.

Getting into the development of this project, we really liked the idea that our team knows the Woodford specifically, and further, that the Arkoma has been a prolific producer for the past 100 years.

The Woodford has been highly productive for the past decade, plus utilizing horizontal drilling, and now it is just starting to show us what enhanced completion techniques—putting up to 2,000 pounds per foot of frack sand and fluid downhole—have done to really unlock the potential of the reservoir. Early on, these enhanced completions and low D&C [drilling and completion] costs really made for some nice, rich gas wells that should only continue to improve.

Combine this with the potential Stack play opportunities presented by the Mayes and Caney formations and our outlook as a midstream provider looks very promising. ■

FRAC SPREAD

Ethane Starts To Feel The Strain

JOSEPH MARKMAN | HART ENERGY

Kim Jong-Un had just assumed the title of supreme leader of North Korea and Steve Nash had just been traded from the Suns to the Lakers in July 2012, which was also the last time the Conway, Kan., price of ethane was as low as it was this past week.

Point guard Nash retired from the NBA two years ago and will be inducted into the Hall of Fame in September. Kim

Jong-Un ... let's just say he keeps himself busy. Ethane's price outlook, however, is appearing less certain all the time.

While the Mont Belvieu, Texas, ethane price dipped 2.9% to 24.25 cents per gallon (gal), what might be of greater concern is the downward trend. In the last two trading days of the five-day tracking period, Mont Belvieu ethane tumbled 5.1%. At Conway, the drop was 30% to 7 cents/gal.

The margins aren't looking that great, either. At Mont Belvieu, ethane narrowed by almost 17% in the past week to just above 6 cents/gal. Conway's continued to drop to -7.5 cents/gal.

"Despite strong ethane demand," wrote **En*Vantage Inc.** analysts, "the current fear that many have is that the U.S. ethylene industry cannot continue to operate above 90% of capacity given the vast surplus of ethylene on the Gulf Coast that is weighing down spot ethylene prices."

That surplus could last another 18 months until more export capacity becomes operational. The U.S., En*Vantage noted, only has one ethylene export terminal—Targa Resources Inc.'s (NYSE: **TRGP**) Galena Park, Texas, facility—with capacity of about 365,000 metric tons per year. Meanwhile, ethane crackers are running hot, with En*Vantage reporting that



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CURRENT FRAC SPREAD (CENTS/GAL)				
MAY 18, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	8.90		24.75	
Shrink	16.39		18.61	
Margin	-7.49	33.74%	6.14	-16.83%
Propane	72.18		89.85	
Shrink	22.64		25.71	
Margin	49.54	0.26%	64.14	2.18%
Normal Butane	82.43		96.68	
Shrink	25.63		29.11	
Margin	56.80	0.30%	67.57	4.21%
Isobutane	104.40		119.63	
Shrink	24.62		27.96	
Margin	79.78	-1.74%	91.67	15.12%
Pentane+	147.90		162.40	
Shrink	27.41		31.13	
Margin	120.49	-1.39%	131.27	2.18%
NGL \$/Bbl	27.21	-0.19%	33.80	2.74%
Shrink	9.03		10.25	
Margin	18.18	-2.31%	23.55	2.75%
Gas (\$/mmBtu)	2.47	4.39%	2.81	2.72%
Gross Bbl Margin (in cents/gal)	41.56	-2.26%	54.66	2.70%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	0.49	-11.88%	1.36	-2.94%
Propane	2.51	1.52%	3.12	2.33%
Normal Butane	0.89	1.54%	1.04	3.76%
Isobutane	0.65	-0.36%	0.74	11.96%
Pentane+	1.91	-0.37%	2.09	2.28%
Total Barrel Value in \$/mmbtu	6.44	-0.38%	8.36	2.37%
Margin	3.97	-3.14%	5.56	2.20%

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.

one new plant is at 108% of nameplate capacity.

Propane's prices and margins drifted upward at both hubs, but traders are becoming bearish, En*Vantage said. The U.S. Energy Information Administration (EIA) forecasts that, by October, inventories will surpass 2017 levels by 9%.

It's not happening yet. The EIA reported that propane and propylene stocks for the week ending May 11 increased to 40.4 million barrels, but that is 23.4% below the five-year average level for this time of the year. ■

Is Renewable Investment Ready To Step On The Gas?

The U.S. renewable energy industry—having weathered the shale natural gas revolution—is primed for a burst of investment, though where the capital will come from is not entirely clear.

The wind and solar sector has reached the mature stage in the past decade, said Henry Berling, U.S. managing director for KPMG, during a recent webinar.

“Over the past decade we’ve seen almost a doubling of capacity of renewables and that’s come mostly at the expense of retirements of coal and nuclear generation assets,” he said. That has elevated renewables into the mainstream mix of U.S. power generation sources.

However, energy demand has been flat and the emergence of natural gas as suddenly much cheaper has challenged renewables in the marketplace, Berling said. The sector has relied on federal tax incentives to facilitate growth that has outpaced that of traditional fossil fuel power generation.

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