

# MIDSTREAM

## Monitor

MAY 5, 2017 | VOLUME 35 | ISSUE 18



### Report: Ethane Supply To Boost Petchem Production

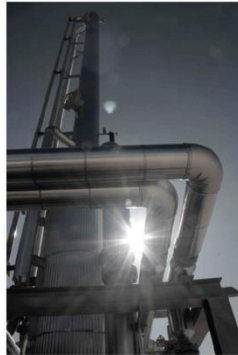
By **PAUL HART**, Hart Energy

What to do with all the ethane? The problem may take care of itself in the next few years, according to a newly released white paper published by London-based Petrochemical Update, a unit of FC Business Intelligence Ltd. The U.S. will take a growing share of the world's substantial trade in polyethylene through 2020 because of its abundant NGL production and the cost advantages of cracking ethane rather than naphtha, the study said.

"The increased production of U.S. ethylene and the associated

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investment in new U.S. polyethylene capacity will increase North American polyethylene production to over 54 billion pounds per year by 2020, up from 44 billion pounds as of the end of 2014,” according to the white paper. “This increase assumes 75% of the announced polyethylene projects are actually built and commissioned by 2020.”

That’s an ambitious increase in cracking capacity—but the numbers actually may be conservative, it added. “In addition, industry sources cite the potential addition of another 2 billion pounds of capacity over this time frame. The significant U.S. ethylene supply and U.S. ethylene feedstock cost advantages will increase U.S.

polyethylene production beyond domestic demand and support export volumes over the period.”

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And domestic markets will only be able to absorb so many shampoo bottles, cell phone protectors and soft drink cups, so much of that new production will seek markets abroad.

“Excess North American polyethylene production available for export will be 6-9 billion pounds within the 2016-2020 time frame,” again assuming that three out of four announced projects actually enter service, Petrochemical Update added. That will build on a long-term trend. The report said international trade of the plastic nearly doubled to 50 million tons per year in 2014 from 26 million tons in 2001. ■

## New Regulations Follow Tragic Home Explosion In Colorado

New regulations have been issued regarding the inspection and maintenance of flowlines in the wake of a tragic **Colorado home explosion** that resulted in two deaths and critically injured one other.

Colorado Gov. John Hickenlooper issued a directive on actions to be taken by the oil and gas sector, and the Colorado Oil & Gas Conservation Commission (COGCC) issued a **Notice to Operators**. The new regulations followed an investigation by the Frederick-Firestone Fire Protection District (FFFD) linking the explosion to a severed, abandoned flowline.

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“It would appear that an unusual and tragic set of circumstances occurred here, including circumstances around the proper identification of, and maintenance of, the related abandoned flowlines,” said FFFPD District Chief Ted Poszywak. The findings, he said, were part of “a complex and ongoing investigation.”

The explosion occurred on April 17 at a home that was within 200 ft of a well, but the well was not a factor, according to Poszywak. — **CHRIS SHEEHAN**, Hart Energy

## India’s Growing LNG Demand Leads To New Terminal Deal

India's privately owned diversified conglomerate, Essar Group, won a contract to build the first LNG regasification terminal in West Bengal state at an investment of 4.5 billion Indian rupees (US\$69.7 million).

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The facility will come up at the Haldia port with a capacity to store up to 1 million tons of LNG, and the terminal is expected to be ready within two years.

Earlier this year, Haldia Dock Complex under Kolkata Port Trust called bids for setting up LNG terminals with storage and distribution facilities. The contract is to build and operate the LNG receipt and storage facility for 30 years.

Essar Ports, in consortium with Ultra LNG and Essar Shipping, participated in the tender and emerged as the highest bidder for the project, beating state-owned Petronet and private operator V Energy.

— **TARA CHAND MALHOTRA**, Contributor

## FRAC SPREAD

# What If A Hurricane Hits LNG Plants In GoM?

By **JOSEPH MARKMAN**, Hart Energy

While NGL prices entered May by mostly surrendering April's increases, there are expectations that West Texas Intermediate will emerge from the \$40s and settle in the \$50 to \$54 range this month.

While a market price separation is somewhere in our future, for now crude oil sets the trend, natural gas follows and NGL finds a place in the middle.

In its report, **En\*Vantage** observed a new vulnerability in the natural gas market to events that did not

CURRENT FRAC SPREAD (CENTS/GAL)				
MAY 3, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	19.45		23.91	
Shrink	19.53		21.04	
<b>Margin</b>	-0.08	-156.14%	2.87	-1.69%
Propane	57.10		61.60	
Shrink	26.99		29.07	
<b>Margin</b>	30.11	-10.40%	32.53	-9.82%
Normal Butane	70.80		74.17	
Shrink	30.55		32.91	
<b>Margin</b>	40.25	-9.02%	41.26	-5.99%
Isobutane	78.93		76.95	
Shrink	29.34		31.61	
<b>Margin</b>	49.59	-5.63%	45.34	-5.68%
Pentane+	108.98		106.58	
Shrink	32.67		35.20	
<b>Margin</b>	76.31	-4.65%	71.38	-6.85%
NGL \$/Bbl	23.21	-3.30%	24.19	-3.32%
Shrink	10.76		11.59	
<b>Margin</b>	12.45	-7.36%	12.60	-7.32%
Gas (\$/mmBtu)	2.95	1.87%	3.17	1.44%
Gross Bbl Margin (in cents/gal)	28.04	-7.75%	29.03	-7.52%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	1.07	0.67%	1.32	1.06%
Propane	1.98	-4.99%	2.14	-4.84%
Normal Butane	0.76	-4.62%	0.80	-2.83%
Isobutane	0.49	-2.97%	0.48	-2.88%
Pentane+	1.41	-2.78%	1.37	-4.27%
Total Barrel Value in \$/mmbtu	5.71	-3.21%	6.11	-3.07%
<b>Margin</b>	2.77	-8.08%	2.94	-7.52%

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. something to keep our eyes on," the analysts warn.

Only ethane prices rose among NGL in the last week and the increases were slim: about 1% at Mont Belvieu, Texas, and less than 1% at Conway, Kan. En\*Vantage continues to forecast inventories declining to 32 days in July, which should maintain a 30 cents per gallon (gal) price this summer. ■

trigger such extreme impacts in the past. Analysts are accustomed to short-term volatility attributable to weather. Now, markets reel from a pipeline outage in Mexico combined with a drop in volume at Cheniere Energy Inc.'s (NYSE MKT: **LNG**) Sabine Pass, La., LNG terminal.

But let's return to a natural impact, the weather.

"As the LNG terminals become concentrated along the Gulf Coast we could see an outside influence of hurricanes (affecting the demand side of the equation) that the market had diversified away from over the last decade as offshore gas production (supply side) declined and inland supplies took its place," said En\*Vantage.

Then there is an unnatural impact, the prospect of a domestic natural gas shortage on the east coast of Australia, a country moving quickly toward the No. 1 slot in the global LNG export market. A resolution that diverts gas from LNG export facilities to domestic consumption could put future projects at risk and En\*Vantage notes no progress on the part of federal and state governments to address restrictions on drilling.

"The importance is that any disruption in the force down under could reduce the potential competitive pressure in the global marketplace for U.S.-based exports—

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# Executive Order May Require Review Of MLP Qualifying Income

On April 21, the Trump administration issued an executive order that requires the Department of the Treasury to review all “significant” tax regulations issued after 2015. Any reviewed regulations that are deemed unduly complex or burdensome, or to exceed the authority of the Internal Revenue Service (IRS), may be modified or rescinded, or have their effective date delayed or suspended.

Treasury is required to issue an interim report by June 20 identifying all significant regulations that may be the subject of further action, and to submit a report to the president by Sept. 18

recommending specific further actions as to the identified regulations.

It is not clear whether the order will require a review of the final regulations defining “qualifying income” issued in January 2017. Treasury previously determined that those regulations were not “significant,” but the new executive order provides

that earlier determinations are not controlling for this purpose.

MLPs do not pay federal income taxes. Instead, like other partnerships, they allocate their income or loss to their partners, who take the income or loss into account in determining their own tax liabilities. By contrast, a corporation must pay tax on its own income, then the corporation’s shareholders are taxed on dividends paid by the corporation—a double tax. — **MIKE BRESSON**, Baker Botts LLP



(Source: White House video)

**President Donald Trump signs a financial services executive order on April 21 at the Treasury Department. At right is Treasury Secretary Steven Mnuchin.**

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## TOP STORIES

### TransCanada To Sell Interests In Two Gas Pipelines For \$765M

TransCanada Corp. (NYSE: **TRP**) said on May 4 it would sell its remaining 49.3% interest in Iroquois Gas Transmission System LP and an 11.8% stake in Portland Natural Gas Transmission System (PNGTS) for \$765 million.

The Canadian pipeline operator said it would sell the stakes in the two gas pipelines to TC PipeLines LP, its master limited partnership that has investments in seven pipelines capable of moving 9.1 billion cubic feet per day of natural gas. — **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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