

# MIDSTREAM

## Monitor

NOVEMBER 2, 2018 | VOLUME 36 | ISSUE 43

### MIDSTREAM FINANCE CONFERENCE



**Have  
Product,  
Will  
Travel**

#### JOSEPH MARKMAN

HART ENERGY

DALLAS—At first glance, the strategy for managing the burgeoning oil and gas export market appears to be simple:

- Produce more product than the U.S. market can consume;
- Sell it to buyers elsewhere who need it; and
- Hire a smart accountant to keep track of all the profits that will gush in.

But issues from foreign and domestic supply/demand imbalances to trade policies complicate the export environment, speakers at Hart Energy's recently held Midstream Finance conference told attendees.

See EXPORT, Page 2

## EXPORT From Page 1

To begin, the numbers look good. Even great.

"Gas production is reaching 83 Bcf per day by the end of 2018," said Michael W. Hinton, chief strategy and customer officer for Allegro Development Corp. "With that, we currently have a domestic consumption of roughly 81 Bcf per day so we have a 2 Bcf per day differential that needs to find a new home."

The surplus in NGL is about 1 million barrels per day (bbl/d) with growing demand from global customers, particularly in the emerging economies of Asia. The U.S. is the world's No. 1 exporter of NGL, shipping an average of 600,000 bbl/d in first-half 2018 to markets in Asia and Oceania. During that period, Canada and Mexico imported an average of more than 400,000 bbl/d of U.S. NGL. In Europe, customers are busy building regasification infrastructure to handle imports of U.S. LNG and reduce their dependence on pipelined natural gas from Russia.

"We continue to ramp exports," Hinton said. "U.S. gas plant production is continuing to increase out past 2022. With that, you can see the oncoming infrastructure to support that export activity maximized toward the end of 2018, into 2019."

So the export market is not only a good place for the U.S. oil and gas sector to be, but also a necessary place to be.

Weak domestic demand forced the U.S. refining sector to pursue export markets. In the last 12 years, Auers said, developing economies have increased their demand for refined products by 18 MMbbl/d. Developed economies have reduced their demand by 4 MMbbl/d during that time, even considering the bump in the last three years derived from low prices. ■

## MLPs Alive, Well And Growing

DALLAS—Much like legendary author Mark Twain, reports of the death of MLPs have been an exaggeration. The partnership

organizational structure is strong and continues to work well for both the energy industry and investors, the chief of the MLP trade association told attendees at Hart Energy's Midstream Finance conference on Oct. 23.

Master limited partnerships "are the very backbone of the U.S. energy industry," emphasized Lori Ziebart, the executive director of the Master Limited Partnership Association (MLPA). "I realize I'm speaking to the choir at this conference, but I believe it is important for all of us to be reminded of the critical role we play in the energy value chain.

"MLPs provide individual investors with a vehicle to invest and participate directly in the development of U.S. energy infrastructure, natural resources and real estate," Ziebart added. MLPs' ability to provide operators with a lower cost of capital "lowers energy costs to consumers," she said, noting she has held her job for office 20 months "and the space has undergone, and continues to undergo, significant changes."

She reminded the audience that MLPs, as they are known today, owe their existence to the Reagan-era, 1987 tax code that allows firms in the natural-resource sector to organize as pass-through entities.

—PAUL HART | HART ENERGY



CLICK HERE  
TO READ MORE ONLINE



CLICK HERE  
TO READ MORE ONLINE



## FRAC SPREAD

# Oil's Fall Drags Others Down; Nobody's Out

JOSEPH MARKMAN | HART ENERGY

As crude oil goes, so go prices throughout the fossil fuel realm. And lately, they've all been going down.

U.S. benchmark West Texas Intermediate (WTI) sagged to a two-month low on Oct. 30 as crude inventories continued to rise for the sixth straight week. Brent took a 1.8% hit on Oct. 30, though it stabilized on Halloween.

CURRENT FRAC SPREAD (CENTS/GAL)				
NOV. 2, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	12.15		31.46	
Shrink	21.92		21.17	
<b>Margin</b>	-9.77	-5.91%	10.29	-31.67%
Propane	75.68		85.60	
Shrink	30.28		29.25	
<b>Margin</b>	45.40	-9.49%	56.35	-10.00%
Normal Butane	82.48		92.64	
Shrink	34.28		33.11	
<b>Margin</b>	48.20	-18.37%	59.53	-14.69%
Isobutane	96.90		94.60	
Shrink	32.93		31.80	
<b>Margin</b>	63.97	-16.84%	62.80	-13.08%
Pentane+	123.15		136.99	
Shrink	36.66		35.41	
<b>Margin</b>	86.49	-12.34%	101.58	-7.77%
NGL \$/Bbl	26.28	-8.59%	31.72	-8.54%
Shrink	12.08		11.66	
<b>Margin</b>	14.20	-13.48%	20.05	-12.45%
Gas (\$/mmBtu)	3.31	-2.07%	3.19	-0.94%
Gross Bbl Margin (in cents/gal)	32.60	-13.41%	46.76	-12.52%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	0.67	1.25%	1.73	-13.64%
Propane	2.63	-6.66%	2.97	-7.10%
Normal Butane	0.89	-12.30%	1.00	-10.24%
Isobutane	0.60	-12.35%	0.59	-9.34%
Pentane+	1.59	-9.52%	1.77	-6.10%
Total Barrel Value in \$/mmbtu	6.38	-8.02%	8.06	-8.93%
<b>Margin</b>	3.07	-13.66%	4.87	-13.50%

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.

production capacity becomes very tight; and

- The possibility of sanctions against Saudi Arabia over the murder of journalist and dissident Jamal Khashoggi could further destabilize the Middle East.

The low oil prices have been a drag on NGL in general. Mont Belvieu's barrel is off 23.8% since cresting near \$42 per barrel (bbl) at the start of October, and EnVantage believes the lower prices of propane and normal butane are forcing ethane's price to decline before it loses its advantage as the most economical feedstock. ■

The Mont Belvieu, Texas, hypothetical barrel fell 8.5% in the past week as ethane (down 13.6%) and normal butane (down 10.2%) tumbled. In fact, Conway, Kan., ethane was the only NGL tracked by Hart Energy to increase in price, rising by 1.3%.

Bleak as the numbers appear, the outlook is not a gloomy one. EnVantage Inc. even feels good about it.

"We feel that the current correction in crude prices is a healthy development for the crude markets," the analysts wrote in a report. "Talk of \$100 crude was being bandied about. Oil prices were definitely getting overheated and if crude did surge to \$100 it would have done considerably more damage to global economic growth."

EnVantage expects market fundamentals to support WTI prices at around \$64 to \$65 (the midday price on Oct. 31 was \$66.26). Among their reasons:

- U.S. refinery turnarounds will end, which will slow the build in inventories;
- Exports will benefit from the wide price spread between Brent and WTI (\$9.57 at midday Oct. 31);
- U.S. sanctions on Iran are set to become effective on Nov. 5;
- If the Saudis increase oil production to offset the decline in Iranian exports, as promised, global spare



**CLICK HERE  
TO READ MORE ONLINE**



## MIDSTREAM FINANCE CONFERENCE

# Control The Narrative When Pursuing Investors

DALLAS—As the midstream continues to grow so will the need to find financing to complete the buildout.

But the critical question is: What kind of financing will be needed to make the buildout happen? RS Energy Group Director Samir Kayande, Dennard Lascar Associates LLC Executive Vice President Rick Black, Goldman Sachs head of midstream and Managing Director Michael Casey, and Latham & Watkins LLP partner J. Michael Chambers weighed in on that question and more during the roundtable discussion: What Firms Need to Finance The Buildout at the Midstream Finance Conference on Oct. 23.



[CLICK HERE  
TO READ MORE ONLINE](#)

**This business is run by engineers and accountants, so how do they respond to people who are typically in a very different line of work? What do they need to do when they go to Wall Street?**

**Black:** Companies need to have a good narrative about their story and be able to sell it. Oftentimes when we get involved with a company that is starting to go public—obviously the ramp up to an IPO—the bankers really steer the ship in a lot of ways and legal is a very important piece of that. But sometimes they overlook the fact they need someone to help them

from the communications standpoint. Not only as they go through the deal—which the IPO is a deal—but then beyond that the bankers fall away and then the company is out there in the public markets and they need to know how to perform like a public company. —**TERRANCE HARRIS | HART ENERGY**

## Venezuela's Oil Slump Reflects Nation's Decline

In the lobby of the building where Iván Freites works, a photograph of an oil rig covers one wall. Emblazoned across it is the Venezuelan flag and a quote from former president Hugo Chávez. "We want Venezuelan oil to bring peace and love," it reads.

Freites, a union leader at PDVSA, the state oil company, would like that too. But having seen the Chávez government and subsequent regime of Nicolás Maduro plunder the oil producer, strip it of investment, sack experienced managers and replace them with military officers, he no longer thinks that outcome is possible, at least not for now.

"I've worked at PDVSA for 35 years and I've never seen anything like this," he says. "What we need above all is to get our democracy back."

The parlous state of PDVSA, which oversees the world's largest energy reserves according to the US Energy Information Administration, helps to explain the depth of Venezuela's collapse and why it finds itself in the eye of a political storm. —**GIDEON LONG and JOHN PAUL RATHBONE | FINANCIAL TIMES**



[CLICK HERE  
TO READ MORE ONLINE](#)

### Contact Information:

JOSEPH MARKMAN Senior Editor  
[jmarkman@hartenergy.com](mailto:jmarkman@hartenergy.com)

**Contributing Editors:** Velda Addison, Darren Barbee, Nissa Darbonne, Brandy Fidler, Leslie Haines, Terrance Harris, Paul Hart, Mary Holcomb, Jessica Morales, Emily Patsy, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Steve Toon, Len Vermillion, Brian Walzel, Alexa West, Peggy Williams

### ORDER TODAY!

Call: 1-713-260-4630 | Fax: 1-713-840-1449

### HARTENERGY

1616 S. Voss, Suite 1000 • Houston TX 77057-2627 • USA

Copyright 2018. All rights reserved. Reproduction of this newsletter, in whole or in part, without prior written consent of Hart Energy is prohibited. Federal copyright law prohibits unauthorized reproduction by any means and imposes fines up to \$100,000 for violations. Permission to photocopy for internal or personal use is granted by Hart Energy provided that the appropriate fee is paid directly to Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923. Phone: 978-750-8400; Fax 978-646-8600; E-mail: [info@copyright.com](mailto:info@copyright.com).