

# MIDSTREAM

# Monitor

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## FEATURES

### Compromise Can Get Energy Legislation Moving



By **PAUL HART**, Hart Energy

The energy industry should be willing to compromise with opponents to get key legislation it wants, such as crude oil exports and faster LNG export licensing, three members of Congress told the North American Gas Forum on Oct. 6.

They also agreed U.S. energy policy has a role to play abroad.

In a wide-ranging panel discussion, Sen. Heidi Heitkamp (D-North Dakota); Rep. Ted Poe (R-Texas); and Rep. Bill Johnson (R-Ohio) agreed that an all-or-nothing approach by industry won't work. Heitkamp said there are "irrational" positions on both sides of energy issues.

"I'm the 49<sup>th</sup> most liberal senator from the 50<sup>th</sup> most conservative state—I know about compromise," Heitkamp said at the Washington, D.C., conference.

Current energy issues "are no-brainers that would take five minutes to solve in a boardroom," Heitkamp said, but added that government doesn't work the same way corporations do. Congress has to hear and respond to multiple viewpoints.

Unfortunately, energy issues now are falling into two, bitterly opposed camps and the energy industry will suffer if it doesn't respond.

"Energy opponents are in an irrational conflict with the oil and gas industry: They (energy) are the bad guys" in the view of environment activists, Heitkamp said. However, energy providers tend to want everything they seek and ignore their opponents. Thus, nothing gets done, she said.

"Everybody loves the golden egg that is being laid but very quickly that golden egg is getting cracked. What's happening is violating Economics 101. Energy is a commodity," Heitkamp added.

The North Dakota senator referred to "the Keystone effect," what would normally be a mundane regulatory issue becomes a do-or-die environmentalist cause. "Keystone is not about catastrophic climate change; it's about American jobs. It's a pipeline," she said. But the industry's failure to see early on the views of the project's opponents, and respond to those views, has stalled construction. "For me, this is a fairly urgent issue," she said.

Heitkamp, a former state attorney general, won election in 2012 in one of the closest Congressional races that year over North Dakota's Congressman Rick Berg.

As for natural gas, the industry is worried about low prices "but the solution to low natural gas prices is low natural gas prices," the senator said, explaining that low prices will stimulate demand and that will eventually raise the commodity's price.

Poe, who represents Texas' 2<sup>nd</sup> District in suburban Houston, emphasized the need to increase energy exports. He humorously invoked the advertising slogan of Texas' famous Blue Bell Ice Cream, "We eat all we can and sell the rest."

"In Texas, we use all (the oil and gas) we can and want to sell the rest. But we can't sell it abroad," he said. "In Houston, 50% of our economy is the port, and 50% of that business is energy related."

Poe said his membership on the House Foreign Affairs Committee has convinced him that LNG exports "are an economic issue and also a geopolitical issue" that can serve as a counterweight to Russia's attempt to dominate Europe.

The Congressman told of a meeting he had with the prime minister of Ukraine in Kiev after the Russian invasion.

"He told me, 'quit sending us canned food and send us natural gas.' That was two years ago and we haven't done anything to help Ukraine (or) other eastern European countries of the Baltics. Gazprom turned off Ukraine's gas in the winter of 2009 for political reasons. It's cold and dark in Ukraine in the winter, people died because of that," Poe said.

He added that the federal government "should let the market control" export issues. "For example, we can trade anything we make with Mexico except crude, that's nonsensical," Poe said.

Johnson was elected to eastern Ohio's mostly rural 6<sup>th</sup> District—the center of the Utica unconventional shale—in 2010. He said he has learned, like Poe, from trips abroad just how important the shale revolution has been to the world's energy market.

"You can't go anywhere in the world and talk about gas and not see a map of eastern Ohio," he said, adding the Utica development provides an economic growth model for both Washington and the Ohio capital in Columbus.

"Unemployment has fallen 60% in my district and is driving down the unemployment rate across our state. That's why Ohio is the leading state for economic development in the Midwest."

Johnson sharply criticized the federal government's slow pace in licensing LNG export projects.

"LNG is big, it could mean 45,000 new jobs and many of those jobs would be for the people I represent," he added. "It's mind-numbing. Meanwhile, the administration and the bureaucrats at the Department of Energy are slow-walking on this very important issue.

"The leaders in other countries are trying to set the rules of (energy) engagement. We have to lead or we will fall behind. Our energy policies are based on an outdated era. We thought our energy resources were limited and now we

know that is not true,” he said. The European Union emphasizes security of supply for commodities “and they are begging American to get in the energy export market” as a counterweight to Russia.

In addition to compromise and flexibility, Johnson said the U.S. needs to approach the energy revolution in the same way as the nation it did in the 1960s with the Apollo moon shots.

“Where would be if Washington would just step aside and advance a true energy policy for all forms of energy, oil, gas, coal and alternative energy? It was only 66 years from the Wright brothers’ first flight in 1903 until 1969 when Neil Armstrong stepped on the moon—all Ohio boys, by the way. Our energy supply should be independent and secure, then how our economy could kick into gear.”

The panelists agreed that trend of federal over regulation of energy will continue and Heitkamp warned that “the regulation of carbon won’t go away. Understand, you will be in a carbon-constrained world. Now, let’s figure out what that is.”

## ‘No Ordinary Time’ Gives Gas Growing Role



Stefan Selig, undersecretary of commerce for international trade. Photo: U.S Department of State

By **PAUL HART**, Hart Energy

U.S. natural gas production has proved more resilient than anyone imagined in past years and—thanks to the unconventional plays—its role in the nation’s economy will continue to grow. Its place as an export will be of particular importance going forward.

That’s the view of Stefan Selig, undersecretary of commerce for international trade, who opened the North American Gas Forum in Washington, D.C., on Oct. 5 by reminding attendees how things have changed since President George H.W. Bush signed the Natural Gas Wellhead Decontrol Act.

When Congress passed the law in 1989, the nation had 35 years of estimated gas reserves. Today, it enjoys 100 years of gas reserves. And the figure continues to grow, though gas usage is far higher, he pointed out.

“Clearly, this is no ordinary time for natural gas,” Selig said. “The gas business far exceeds what was envisioned 25 years ago.”

He estimated 20% of the nation's gas production will be exported by 2040 and reminded the forum that the U.S. also will be able to export billions of dollars' worth of gas-related machinery and technology. Together, that growing volume of foreign sales will have an important impact on the economy. In that context, he called for reauthorization of the recently expired Export-Import Bank.

"It is a critical tool that helped close 3,300 deals last year worth more than \$27 billion," Selig added. "And that was not an anomaly. It helps us compete. More than 80 other countries have export-import banks."

From the perspective of defense and politics, "strong gas exports will enhance our ability to shape events on the global stage," he said.

Selig also serves as executive director of President's Exports Council and leads the Commerce Department's International Trade Administration, which works to develop global U.S. trade policy. He is a life member of the Council on Foreign Relations. He was vice chairman of global corporate and investment banking at Bank of America Merrill Lynch before his appointment.

Selig also called for "close energy relations between the U.S., Canada and Mexico," saying cooperation between the North American neighbors is "crucial" for economic development of all three nations.

His speech coincided with the Obama Administration's announcement of the 12-nation Trans-Pacific Partnership trade deal, which Selig hailed as an important international trade pact that will help of all kinds of businesses in the U.S. He said the pact will create "the most expansive free-trade zone in history and" he added the administration "is committed to making it a reality."

The undersecretary credited the energy business for the turnaround in gas production and said it occurred "through constructive government engagement" with the private sector. "We have the most-developed gas market in the world today" as a result, he said, adding that "the main drivers were innovation and creativity."

During a question-and-answer session following his presentation, the topic of the nation's 40-year-old crude export ban came up. Selig admitted the law "was put in place in a very different world and that policy may need to change."

He said the current administration is responding to the world's current, oversupplied energy market. Selig pointed to last year's decision that processed condensate may be exported legally, and the recent ruling that crude-oil swaps with Mexico are permissible. But the undersecretary added that "there is no change in the Obama Administration's policy on crude oil exports" at this time.

## Despite Cash Crunch, Rice Forms Utica Midstream JV With Gulfport



By **DARREN BARBEE**, Hart Energy

Rice Energy Inc. ([RICE](#)) is pushing ahead with a premier midstream system in the Utica Shale, but its portion of a \$640 joint venture (JV) may put the company in a bind in 2016.

Rice is poised to outspend cash flow by more than \$400 million in 2016 based on current strip prices.

Subsidiary Rice Midstream Holdings LLC ([RMP](#)) and ally Gulfport Energy Corp. ([GPOR](#)), which operate in an area of mutual interest (AMI) in the Utica, said Oct. 8 they will invest about \$520 million to develop gathering and compression assets and \$120 million for water assets within the JV over the next six years.

“This significantly increases Rice's retained midstream footprint in Ohio, which previously consisted solely of the acreage inside the Rice/GPOR AMI,” said Daniel Braziller, equity analyst for Jefferies LLC.



Kistler said Gulfport has been transparent about its goal of securing dedications on its acquired acreage. Its selection of Rice as a partner “builds on their prior working history with Rice in the Utica.”

### Rice/Gulfport Dry Gas Gathering System

Gathering capacity	1.8 MMBtu/d
Pipeline	12- to 30-inch gathering pipelines
Interstate interconnections	Rockies Express, ET Rover, TETCO and Dominion East Ohio
Compression horsepower	50,000 hp
Fresh water distribution	To deliver fresh water to pads for completion activities

*Source: Rice Energy Inc.*

### Down Drop

Daniel J. Rice IV, CEO, said the JV furthers its midstream relationship with Gulfport in the core of the Utica.

“This joint venture will be one of the premier midstream systems in the prolific dry gas core of the Utica and adds to Rice's attractive inventory of potential dropdown candidates to Rice Midstream Partners,” he said.

Rice could use those dropdowns to help overcome its estimated 2016 deficit, Braziller said.

In 2015 and 2016, Rice’s capex is at least double its discretionary cash flow.

Rice’s estimated 2015 discretionary cash flow is \$332 million while capex is \$678 million—a \$347 million deficit, according to Wells Fargo Securities LLC.

In 2016, estimated discretionary cash flow falls to \$286 million while spending rises to \$709 million, resulting in Rice spending \$424 million more than it takes in.

To help balance its budget, Rice’s existing water distribution assets will likely be dropped down to Rice Midstream in early 2016 for proceeds of roughly \$150 million, Braziller said.

“RMP is low-debt and we are optimistic that it will have access to external funding sources” he said.

Rice may also drop roughly one-third of its existing Ohio gathering EBITDA into its midstream subsidiary by the end of 2016.

Combined proceeds of roughly \$270 million would help improve Rice’s balance sheet and funding outlook materially, Braziller said.

Under the terms of the JV agreement, Gulfport will have the right to participate on a proportionate basis in any direct or indirect sale transactions by Rice, which includes potential dropdown transactions with its midstream subsidiary.

The JV will also pursue additional third-party opportunities within a 340,000-acre AMI in Belmont and Monroe counties. Future acreage leased by Gulfport and Rice in the counties will be dedicated to the JV.

## SandRidge Buys Back West Texas Gas Gathering System



By **PRNEWSWIRE**

SandRidge Energy Inc. ([SD](#)) said Oct. 5 it will buy back a strategic midstream asset in West Texas that will support its natural gas production in the region.

The Oklahoma City company entered into an agreement to acquire the Piñon Gathering Co. LLC from EIG Global Energy Partners for \$126 million.

Piñon owns about 370 miles of gathering lines supporting the natural gas and CO<sub>2</sub> production from SandRidge's Piñon Field in West Texas.

SandRidge will pay \$48 million cash and \$78 million of its senior secured notes due 2020.

As a result of the transaction, the company will eliminate minimum volume commitment payments of about \$40 million per year. This is forecasted to continue until 2021 with additional contractual fees thereafter.

The transaction is anticipated to close in the fourth quarter of 2015, subject to the expiration or termination of the applicable waiting period under the Hart Scott Rodino Act.



**FRAC SPREAD**

## Frac Spread: Reason For Optimism?

By **FRANK NIETO**, Hart Energy

After a solid month of growth, propane prices retreated at both Mont Belvieu and Conway. It was not a matter of if, but when, this would occur as the supply-demand dynamics cannot support a sustained price rally for propane.

Despite the gloomy outlook there could be some bright spots on the horizon as Jefferies Group LLC stated in an October 8 research note that inventory levels may be closer to historical norms than originally forecast.

“While noting that U.S. propane production is near all-time highs and U.S. inventories are bloated on an absolute basis, if translated into [12 months] of demand, propane stocks appear more normal,” the investment firm said in the report. It further noted that propane storage was 51% above its seasonal five-year average in July, but if this was divided by the trailing 12-month average daily demand and exports, it was only 11 days above the five-year seasonal average.

End-user demand for propane has arrived earlier this year due to the attractive prices available ahead of demand season, which has resulted in earlier withdrawals from storage. Jefferies stated these early withdrawals combined with increased LPG export capacity and PDH additions in 2016 may bring propane inventory levels back to normal levels sooner than later.

Another positive to the increase in propane supplies is that much of this new growth is coming out of the Northeast and Midwest, which is close to domestic demand centers and will make for easier transportation to most of these markets.

In an October 5 research note, RBN Energy LLC stated that additional pipelines, rail facilities and export terminals are also increasing the flexibility and interconnection of the marketplace. “Increasingly, volumes from new propane producing regions are transported by rail...[which] can be less ratable than pipeline deliveries. [This] new infrastructure will enable regional propane shortfalls to be mitigated by rail deliveries, interregional flows and temporary cuts in exports,” the report said.

Ethane prices remained flat at Mont Belvieu at 20 cents per gallon (/gal) while gaining 2% at Conway to 17 cents/gal. Inventory levels have been decreasing as widespread rejection is helping reduce stock, which should help support price gains. Jefferies anticipates a sizable increase in ethane exports from the U.S. to 270,000 barrels per day (bbl/d) along with strong utilization of steam cracker capacity. However, ethane will still be heavily rejected at 600,000 bbl/d.

“We do not believe the aforementioned factors will be enough to justify standalone value for ethane given the ongoing growth in fractionation and de-ethanization additions; hence, our expectations for ethane to track a 90-100% relationship to 2015-18 NYMEX natural gas prices,” Jefferies said in its report.

Heavy NGL prices improved along with West Texas Intermediate crude prices, which rose to its highest level in more than a month. The outlook for crude is still mixed, but there are growing sentiments that fundamentals are improving even as the short-term looks hazy. It is likely that a significant build in inventory will take place in the coming weeks as refiners undergo routine maintenance, but the longer-term outlook indicates production decreasing while demand is expected to improve faster than previously expected. Recent reports indicate that China’s demand for oil could be 2% greater than anticipated by most forecasts.

NGL PRICES						
Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Sept. 30 - Oct. 6, '15	19.74	47.38	63.90	64.42	97.00	<b>\$20.34</b>
Sept. 23 - 29, '15	19.65	47.52	61.70	61.96	94.22	<b>\$19.97</b>
Sept. 16 - 22, '15	18.60	46.24	59.26	59.86	96.44	<b>\$19.62</b>
Sept. 9 - 15, '15	18.23	44.10	55.84	56.64	96.98	<b>\$19.08</b>
September '15	18.71	45.45	58.34	59.01	96.20	<b>\$19.46</b>
August '15	18.55	37.35	50.57	51.80	94.58	<b>\$17.76</b>
3rd Qtr '15	18.26	40.99	54.16	55.19	100.10	<b>\$18.80</b>
2nd Qtr '15	17.93	46.30	58.11	59.66	126.14	<b>\$21.48</b>
1st Qtr '15	18.38	53.01	66.35	67.81	110.53	<b>\$21.94</b>
4th Qtr '14	20.22	76.90	96.73	98.28	149.25	<b>\$30.10</b>
Oct. 1 - 7 '14	23.18	105.86	122.54	123.50	192.40	<b>\$38.96</b>
Conway, Group 140	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Sept. 30 - Oct. 6, '15	16.63	44.30	61.68	71.22	97.40	<b>\$19.75</b>
Sept. 23 - 29, '15	16.24	45.68	58.46	66.76	96.76	<b>\$19.52</b>
Sept. 16 - 22, '15	16.22	43.98	54.16	61.70	96.66	<b>\$18.95</b>
Sept. 9 - 15, '15	15.90	42.30	50.56	59.60	95.36	<b>\$18.36</b>
September '15	16.10	43.19	53.66	62.28	96.61	<b>\$18.82</b>
August '15	15.71	33.52	44.88	51.94	93.63	<b>\$16.67</b>
3rd Qtr '15	15.47	36.28	48.59	54.34	99.10	<b>\$17.59</b>
2nd Qtr '15	15.50	40.55	52.40	56.80	121.50	<b>\$19.89</b>
1st Qtr '15	17.81	49.00	66.13	76.84	106.32	<b>\$21.49</b>
4th Qtr '14	18.69	78.64	102.72	113.19	146.37	<b>\$30.77</b>
Oct. 1 - 7 '14	18.97	108.19	122.40	143.24	185.06	<b>\$38.80</b>

Overall the theoretical NGL bbl price improved at both hubs as the Mont Belvieu price rose 2% to \$20.34/bbl with a 6% increase in margin to \$11.39/bbl. The Conway price improved 1% to \$19.75/bbl with a 4% increase in margin to \$11.20/bbl.

The most profitable NGL to make at both hubs was C<sub>5+</sub> at 72 cents/gal at Conway and 70 cents/gal at Mont Belvieu. This was followed, in order, by isobutane at 48 cents/gal at Conway and 40 cents/gal at Mont Belvieu; butane at 37 cents/gal at Conway and 39 cents/gal at Mont Belvieu; propane at 23 cents/gal at Conway and 25 cents/gal at Mont Belvieu; and ethane at 1 cent/gal at Conway and 4 cents/gal at Mont Belvieu.

There was another large storage injection the week of October 2, the most recent information available from the U.S. Energy Information Administration. The agency reported storage increased by 95 billion cubic feet to 3.633 trillion cubic feet (Tcf) from 3.538 Tcf the previous week. This was 14% higher than the 3.19 Tcf figure posted last year at the same time and 5% greater than the five-year average of 3.748 Tcf.

Storage builds could remain high the week of October 14 as the National Weather Service is forecasting warmer-than-normal temperatures throughout the country, which will further delay the start of heating season.

CURRENT FRAC SPREAD (CENTS/GAL)				
OCTOBER 9, 2015	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	16.63		19.74	
Shrink	15.51		16.24	
<b>Margin</b>	1.12	240.18%	3.50	21.57%
Propane	44.30		47.38	
Shrink	21.43		22.44	
<b>Margin</b>	22.87	-3.50%	24.94	2.43%
Normal Butane	61.68		63.90	
Shrink	24.27		25.41	
<b>Margin</b>	37.41	11.44%	38.49	8.54%
Isobutane	71.22		64.42	
Shrink	23.31		24.40	
<b>Margin</b>	47.91	11.80%	40.02	8.86%
Pentane+	97.40		97.00	
Shrink	25.95		27.17	
<b>Margin</b>	71.45	1.86%	69.83	5.54%
NGL \$/Bbl	19.75	1.18%	20.34	1.84%
Shrink	8.55		8.95	
<b>Margin</b>	11.20	4.19%	11.39	6.15%
Gas (\$/mmBtu)	2.34	-2.50%	2.45	-3.16%
Gross Bbl Margin (in cents/gal)	25.06	3.96%	25.98	6.04%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	0.92	2.40%	1.09	0.46%
Propane	1.54	-3.02%	1.64	-0.29%
Normal Butane	0.67	5.51%	0.69	3.57%
Isobutane	0.44	6.68%	0.40	3.97%
Pentane+	1.26	0.66%	1.25	2.95%
Total Barrel Value in \$/mmbtu	4.82	0.93%	5.07	1.50%
<b>Margin</b>	2.48	4.39%	2.62	6.28%

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 NGPL Midcontinent zone, Mont Belvieu based on Houston Ship Channel.

RESIN PRICES – MARKET UPDATE – OCTOBER 9, 2015					
TOTAL OFFERS: 19,402,708 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Inj	6,053,960	0.55	0.64	0.5	0.54
LDPE - Film	4,793,636	0.58	0.655	0.53	0.57
HDPE - Blow Mold	2,601,428	0.515	0.575	0.5	0.54
LLDPE - Film	2,205,864	0.495	0.675	0.51	0.55
PP Homopolymer - Inj	1,499,128	0.55	0.685	0.58	0.62
HMWPE - Film	1,058,208	0.555	0.59	0.52	0.56
LLDPE - Inj	617,288	0.63	0.64	0.56	0.6
LDPE - Inj	308,644	0.55	0.635	0.58	0.62
PP Copolymer - Inj	264,552	0.645	0.645	0.6	0.64

Source: Plastics Exchange – [www.theplasticsexchange.com](http://www.theplasticsexchange.com)

**MORE TOP STORIES**

## NH Supreme Court Upholds Exxon's \$236 Million Groundwater Pollution Fine

New Hampshire's top court on Oct. 2 upheld a \$236 million judgment against Exxon Mobil Corp over groundwater contamination linked to gasoline additive MTBE.

The New Hampshire Supreme Court ruling affirms a 2013 jury decision that rejected Exxon's claims that contamination linked to the fuel additive was the fault of the local gas stations and storage facilities that spilled it.

In the 1990s, in response to U.S. clean air regulations, MTBE was commonly added to gasoline to reduce smog. Subsequent studies found that the chemical easily penetrated and contaminated groundwater, and its use was gradually phased out.

New Hampshire's lawsuit against Exxon, which is headquartered in Irving, Texas, dates back to 2003. State officials say the \$236.3 million judgment is the largest MTBE verdict since states and other agencies began making the claims for remediation and other damages.

"This is the most significant environmental victory in the history of the state," New Hampshire Attorney General Joseph Foster said in a statement on Oct. 2. "This historic decision sends a clear message that New Hampshire will not permit polluters to endanger the health of its citizens and destroy its natural resources."

A spokesman for Exxon said on Oct. 2 that the company is considering appealing the case to the U.S. Supreme Court.

"MTBE contamination has been found in New Hampshire because someone spilled gasoline in New Hampshire, not because it was added to gasoline in a refinery in another state," spokesman Todd Spitler said in an email.

"The state should have sued the parties responsible for spilling gasoline, not the refiners who were compelled by law to add oxygenates to gasoline," he said.

In 2014, Exxon appealed to the U.S. Supreme Court a \$105 million jury verdict in favor of New York City over MTBE contamination, but the court declined to hear the case, letting the decision stand.

According to New Hampshire officials, more than 600 wells in the southern part of the state are contaminated with MTBE.

New Hampshire has received \$90 million in legal settlements with other gasoline suppliers over MTBE contamination. The state has yet to receive any compensation from Exxon. – **REUTERS**

## Morocco Will Shortlist Three Companies For LNG Imports Deal

Morocco expects to shortlist three companies for its new long-term contracts to import liquefied natural gas (LNG) within the next two weeks, its energy minister said on Oct. 6.

Morocco is evaluating offers from Royal Dutch Shell as well as French, Spanish and American companies, and plans to import 2 million tonnes of LNG a year starting in 2020 as part of the first phase of its LNG import plan, Abdelkader Amara told reporters in Dubai.

"In the first phase it will be 2 million tonnes, and the second step will be from 3.5 to 4 million tonnes," Amara said.

"Yes Shell made an offer and there are also (companies) from France, from Britain, from Spain and the U.S.... in two weeks we will evaluate the offers and take a decision. It is likely we will have three suppliers," he said.

Morocco has launched an international tender seeking advisers for its LNG imports plan, worth up to \$4.6 billion and including the import of up to 7 billion cubic meters (bcm) of gas by 2025, the construction of a jetty, terminal, pipelines and gas-fired power plants.

Morocco, a net energy importer, aims to diversify energy supplies and reduce its dependence on oil and coal imports. It is also developing a plan to build 4 gigawatts of renewable energy.

It has started negotiations to secure its imports with exporting countries --including Qatar and Russia -- and private companies, Amara told Reuters earlier this year.

The kingdom is already burning 1 bcm of gas annually, including around 70 million produced locally. Gas is still only 5 percent of the country's energy bill. - **REUTERS**

## TransCanada Buys Pennsylvania Gas-Fired Plant For \$654 Million

Power producer Talen Energy Corp. ([TLN](#)) said it would sell three plants in Pennsylvania for \$1.51 billion to meet regulatory requirements related to its formation in 2014.

Talen said on Oct. 8 it would sell a natural gas-fired plant to TransCanada Corp. ([TRP](#)) for \$654 million and two hydroelectric projects to Brookfield Renewable Energy Partners LP ([BEP](#)) for \$860 million.

Talen has to divest assets in the PJM market, which covers parts of the U.S. mid-Atlantic and Midwest, to meet Federal Energy Regulatory Commission (FERC) rules.

Talen was formed in June 2014 after Pennsylvania power company PPL Corp.'s ([PPL](#)) merchant generation business merged with private equity firm Riverstone Holdings LLC's generation assets.

Merchant power generation businesses sell power to wholesale markets, where prices are not regulated by the government.

The power plants being divested have total generating capacity of 996 megawatts. Talen said the expected net income from the plants was about \$56 million for 2016.

The transactions are expected to close in the first quarter of 2016.

Talen shares were up slightly at \$10.60 in light premarket trading. Up to close on Oct. 7, Talen's market value had nearly halved since it started trading as a separate company on May 18.

Credit Suisse and RBC Capital Markets advised Talen on the deals. - **REUTERS**

## Mutual Fund Investments In Tesoro, Valero Increase

In a rare case of positive momentum in the beat-up energy sector, U.S. mutual funds have piled into shares of Tesoro Corp and Valero Energy Corp , two independent refinery companies taking advantage of cheap crude prices.

Tesoro and Valero are shining stars in an otherwise gloomy picture of the S&P 500 Energy Sector Index, whose one-year return is minus 21 percent. Shares of Tesoro, the benchmark's top performer during that period, are up 62 percent, followed by those of No. 2 performer Valero, up 40 percent.

Falling oil prices tend to benefit refiners because they purchase crude as a feedstock for their refineries, which churn out valuable fuels such as gasoline and diesel.

But portfolio managers say another reason they are interested in the sector is that the management teams at top U.S. refiners have become disciplined about their capital spending plans and are returning more cash to shareholders.

"The group has found religion, especially with capital deployment," said George Maris, manager of the \$2 billion Janus Global Select Fund, which owned \$39 million worth of Valero stock at the end of June.

The number of actively managed mutual funds investing in Tesoro and Valero increased by 20 percent and 32 percent, respectively, this year. Fund research firm Lipper Inc said 319 funds currently hold Valero shares and 210 hold Tesoro. And the number of funds holding both companies has increased 31 percent to 151, according to Lipper, a unit of Thomson Reuters.

One notable entrant is Fidelity Investments' \$103 billion Contrafund, which has largely avoided oil stocks during the sector's meltdown. But this year, the fund, run by star portfolio manager Will Danoff, has accumulated stakes in Tesoro and Valero worth \$93 million and \$149 million, respectively, according to end-of-August fund disclosures.

The \$4.4 billion MFS Research Fund also initiated a position in Valero, buying about 565,000 shares in June. Analysts at the fund praised management for increasing its dividend, reducing capital expenditure growth and boosting free cash flow, according to fund commentary for investors.

The rosy picture for refiners contrasts with the problems facing exploration and production companies, many of which are struggling to survive low energy prices by selling assets and relying heavily on Wall Street banks for credit.

U.S. crude futures on Oct. 9 traded at \$49.57 a barrel, down from more than \$107 a barrel in June 2014, amid an overabundance of global supply.

Arthur Barry, portfolio manager of the \$1.5 billion Loomis Sayles Value Fund, said he is worried that Valero's outperformance has attracted the fund industry's momentum money - a potential red flag.

"That makes us a little bit nervous," said Barry, whose value fund held about 262,000 Valero shares at the end of August. "When things turn, they'll flee the stock."

U.S. hedge funds have already trimmed some of their holdings in Valero, cutting them to 46.3 million shares from 68.6 million during the first half of 2015, according to data compiled by industry research firm Symmetric.io. --Reuters

## Willbros Takes Another Step Toward Regaining Stability

Willbros Group Inc. ([WGI](#)) said Oct. 9 it has closed another divestiture that will bring it closer to its restructuring goal.

The Houston company has sold Bemis LLC to NAPEC Inc.'s U.S. subsidiary, Riggs Distler & Co. Inc., for US\$19.2 million. The strategic acquisition will enhance the Canadian company's presence in the Northeast region of the U.S.

Bemis has provided major utility companies in the U.S. Northeast with construction and maintenance services for electricity transmission and distribution networks since it was founded in 1981. The company is based in Jacksonville, Vt., and currently has more than 40 employees.

During the last four years Bemis has generated average annual EBITDA of more than US\$4 million. The company's management team, led by Rodney Bemis, will remain in place following the acquisition.

NAPEC financed the deal through a combination of existing and new credit facilities. Houlihan Lokey was financial adviser to Willbros and Conner & Winters LLP was its legal adviser.

On Oct. 5, Willbros said it entered an agreement to sell its professional services segment to TRC Cos. Inc. (TRR) for \$130 million in cash. The sale is expected to close by the end of November.

The two divestitures will reduce the company's term loan debt to less than \$100 million and provide \$43 million to maintain its liquidity and working capital, said John T. McNabb II, Willbros chairman and CEO.

"In the past 13 months we have taken difficult but necessary management actions with the goal of restructuring Willbros operations, strengthening the balance sheet and positioning the company to be a preferred provider of energy infrastructure construction and maintenance services," McNabb said in a statement.

Greenhill & Co. LLC was financial adviser to Willbros and Conner & Winters LLP was its legal adviser for the professional services divestiture.

Willbros received notification in August from the New York Stock Exchange warning it of potential de-listing. At close on Oct. 8 the company's shares were trading at \$2.57.

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