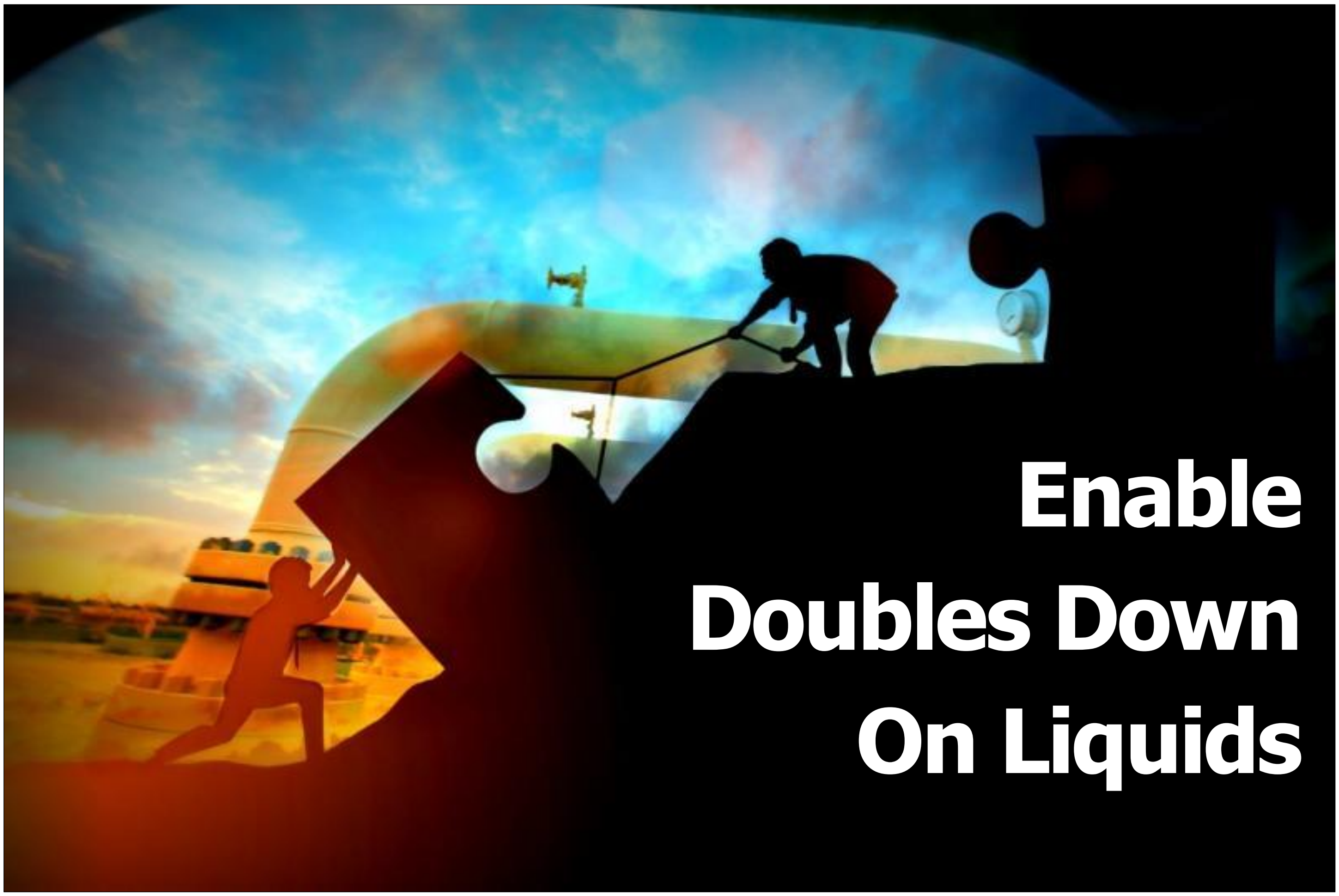
MIDSTREAM Monitor
OCTOBER 26, 2018 | VOLUME 36 | ISSUE 42

FEATURES



EMILY PATSY
HART ENERGY

Enable Midstream Partners LP (NYSE: **ENBL**) agreed on Oct. 23 to acquire Velocity Midstream, a private crude oil and condensate gathering and transportation company in the Anadarko Basin's Scoop and Merge plays, as Enable pivots toward liquids.

Oklahoma City-based Enable will acquire Velocity Holdings LLC, based in Tulsa, Okla., for $442 million. The company said it doesn't expect to raise common equity to finance the acquisition.

See ENABLE, Page 2

ENABLE from Page 1

Concurrently with the acquisition, Enable also announced on Oct. 23 a crude oil and water acreage dedication in the Williston Basin driven by "significant" activity in the Bakken play.

Analysts with Tudor, Pickering, Holt & Co. (TPH) said the concurrent announcements by Enable doubles down on the company's strategic pivot to liquids.

"Combined Velocity and Bakken investments signal commitment to expanding Enable liquids exposure though ambiguity on throughput assumptions and capital needs likely tempers market enthusiasm ahead of updated outlook on third-quarter 2018 earnings call," TPH analysts said in a research note on Oct. 24.

Together, Enable said the two crude business expansions in the Anadarko and Williston basins are expected to generate a 2019 total capital invested to adjusted EBITDA multiple of roughly 13 times, working down to below a 10-times multiple by 2020.

CLICK HERE
TO READ MORE ONLINE

Additionally, the company anticipates the business expansions to be accretive to distributable cash flow per unit starting in 2019, according to the Enable press release.

"The combination of the Velocity acquisition and the expansion of our Williston Basin assets increases the scale and contribution of our crude and water businesses, providing for fee-based growth as producers continue to target crude oil production," Rod Sailor, president and CEO of Enable, said in a statement.

In particular, Sailor said the Velocity acquisition builds on Enable's Anadarko Basin midstream platform to offer customers complete wellhead-to-market solutions for both natural gas and crude.

The Velocity crude and condensate system is comprised of about 150 miles of pipeline capable of flowing about 225,000 barrels per day (bbl/d). The Velocity assets also include more than 400,000 barrels of owned and leased storage and 26 truck bays capable of unloading more than 100,000 bbl/d.

Velocity's operations are backed by large area dedications and long-term, fee-based contracts with over 2 million acres dedicated from shippers, including acreage dedications from top Scoop and Merge producers, which include Continental Resources Inc. (NYSE: **CLR**), according to TPH analysts.

Cheniere CEO Talks LNG Exports

HOUSTON—Looking at a photo of heavy particulate matter clouding the atmosphere in China, Cheniere Energy CEO Jack Fusco recalled how quickly the particles transformed a black Mercedes and other vehicles along the street to the same color.

There were only gray cars in front of the hotel, Fusco said, recounting his stay in Beijing, China, ahead of a trade mission. Speaking during the Texas Oil & Gas Association's Lone Star Energy Forum on Oct. 22, Fusco explained how the heavy particulate matter was a result of Beijing's centralized heating system and inefficient, old underground boilers that rely on coal.

"The health risks are immense. So what we're doing is trying to clean the air in China by delivering natural gas that can displace the coal and the oil that they're currently using for generation," said Fusco. "What we've been able to do is take their natural gas generation from 6% to 7%. … Their demand in LNG has grown 50% year over year, so the opportunity for us is dramatic."

CLICK HERE
TO READ MORE ONLINE

So far, Cheniere (AMEX: **LNG**)—which earlier this year entered two sale and purchase agreements with China National Petroleum Corp. for about 1.2 million tonnes per annum—has delivered more than 50 tankers to China. "We expect that to continue and hopefully grow because we can double the size of Cheniere just with China," Fusco said. "So that's been a real focus for us."

This comes amid an ongoing trade dispute between the U.S. and China. In September, China imposed a 10% tariff on U.S. LNG in response to the Trump administration placing tariffs on Chinese goods.

—VELDA ADDISON | HART ENERGY

FRAC SPREAD

Hazard A Guess Why Industry's Unpopular?

JOSEPH MARKMAN | HART ENERGY

Here's the thing: the products moved by the members of this industry are only valuable because they are volatile. In the ground, oil and gas represent potential energy. When they burn, they power modern civilization.

Now that might be a simple—perhaps simplistic—explanation gifted to me by an analyst of why this gargantuan global industry exists, but I suspect it is not obvious to all.

CURRENT FRAC SPREAD (CENTS/GAL)

OCTOBER 26, 2018	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	12.00		36.43	
Shrink	22.38		21.37	
Margin	-10.38	23.36%	15.06	-14.39%
Propane	81.08		92.14	
Shrink	30.92		29.53	
Margin	50.16	-5.94%	62.61	-8.72%
Normal Butane	94.05		103.21	
Shrink	35.01		33.43	
Margin	59.04	-10.86%	69.78	-10.24%
Isobutane	110.55		104.35	
Shrink	33.62		32.11	
Margin	76.93	-15.40%	72.24	-10.16%
Pentane+	136.10		145.89	
Shrink	37.44		35.75	
Margin	98.66	-7.77%	110.14	-5.77%
NGL $/Bbl	28.74	-5.45%	34.68	-6.01%
Shrink	12.33		11.78	
Margin	16.41	-10.90%	22.90	-8.75%
Gas ($/mmBtu)	3.38	2.93%	3.22	-0.19%
Gross Bbl Margin (in cents/gal)	37.65	-10.86%	53.45	-8.85%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.66	-9.98%	2.01	-6.59%
Propane	2.81	-2.75%	3.20	-6.15%
Normal Butane	1.02	-6.18%	1.11	-7.21%
Isobutane	0.69	-10.56%	0.65	-7.31%
Pentane+	1.75	-5.06%	1.88	-4.46%
Total Barrel Value in $/mmbtu	6.93	-5.38%	8.85	-6.12%
Margin	3.56	-12.11%	5.63	-9.21%

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.

From a Kentucky newspaper: "Houston-based energy giant Kinder Morgan has officially asked to cancel their plans to convert a more than 70-year-old, 2-ft diameter pipeline from natural gas service to transport of hazardous natural gas liquids (NGLs)."

CLICK HERE TO READ MORE ONLINE

Don't fixate on the use of "their" instead of "its." Focus on "hazardous," which has morphed into a pejorative. It really means risky or dangerous, as in "don't light your cigarette when fueling your car because gasoline is a hazardous material." So, use gasoline but be careful around it.

That is appropriate because filling a vehicle's tank is so routine that motorists need to be reminded of the risk. They accept that risk because they are confident that, by taking reasonable precautions, their local station is relatively safe. And it is. Outside cooking on a propane grill, using reasonable precautions, is also considered to be relatively safe. And it is.

Park the word "hazardous" near the words "energy giant" and what is the connotation? Evil. In this context, inserting the word "hazardous" is unnecessary and serves only to imply that the inherent acceptable risk in an activity is, in fact, unacceptable. (See natural gas, fracked).

Kinder Morgan Inc. (NYSE: **KMI**) announced in its third-quarter earnings report that it would not proceed with its proposed Utica Marcellus Texas Pipeline project, which would have converted part of the Tennessee Gas Pipeline to NGL use. Kinder Morgan asked the Federal Energy Regulatory Commission to vacate its authorizations. The company is instead looking to utilize that segment of the pipeline to move gas to the Gulf Coast.

Filling The Midstream Investment Gaps

Everyone knows the major sources of oil and gas that require midstream infrastructure, but what about the sources of investment to build that infrastructure?

In the sector, the answer has been as easy as M-L-P. That structure is responsible for 55.6% of midstream's market capitalization as of June 29, according to Alerian. The MLP structure also retained its tax advantage over C-corps following the passage of the Tax Cuts and Jobs Act of 2017, albeit a smaller one.

CLICK HERE
TO READ MORE ONLINE

But the industry's most recent down-cycle unveiled dents in the MLP armor, notably the lack of interest on the part of many institutional investors, that has encouraged the pursuit of other sources of capital.

"From our perspective, private equity serves as a more consistent, more available stream of capital than the MLPs in the public markets may serve," James M. Hayes, Houston-based counsel for Simpson Thacher & Bartlett LLP, told Hart Energy. "From our perspective as private equity attorneys, the private equity model affords itself much more customization than publicly traded MLPs do."

—JOSEPH MARKMAN | HART ENERGY

Alerian's Feng: Capital Efficiency Remains Key

DALLAS—Renewables such as wind and solar are sure to produce some variables in the outlook, but Alerian President and CEO Kenny Feng says the energy mix will remain largely unchanged over the next 20 years.

With that understanding, Feng reminded oil and gas executives in attendance at the inaugural Midstream Finance conference on Oct. 23 of the importance of remaining capital-efficient in their business practices.

"This is a growth business," said Feng, who kicked off the conference as the keynote speaker. "Growing the distributions of cash other than the rate of inflation is a bad use of that capital. Leverage targets need to come down."

CLICK HERE
TO READ MORE ONLINE

Feng noted that the U.S. is pretty low on the cost curve primarily as a result of the shale revolution, which has driven down costs for everyone from the production side.

"If you compare that to other curves the U.S. is in the low part of that cost curve, which is another way of saying the U.S. is going to be the swing producer of hydrocarbons," he said. **—TERRANCE HARRIS** | HART ENERGY

Contact Information:

JOSEPH MARKMAN Senior Editor
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