

MIDSTREAM

Monitor

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FEATURES

Complications



Oil and gas deals are becoming increasingly complex, attorney says.

PAUL HART | HART ENERGY

DALLAS—Getting oil and gas out of the ground may be the easy part of the energy business. The difficult side comes in drafting sales agreements that are fair and assure everyone involved receives a fair return.

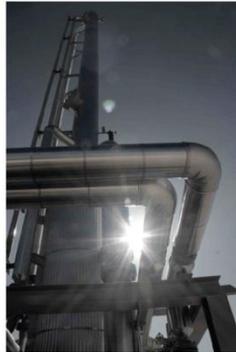
That was the advice of Dallas attorney James Holmes with **Holmes PLLC** Oct. 20 to a Petroleum Engineers' Club of Dallas luncheon in a presentation entitled "Marketing Primer and Pointers." Holmes specializes in oil and gas sales contracts and litigation. The topic is exceedingly complex—and getting more so, he cautioned.

"Lease sales agreements are getting much more complicated," he said. "I can remember when they might run one page. Now they run 20 pages more—and should be—because they define a business relationship that may last for decades."

The marketing problem stems from an imbalance of knowledge and power among a lease operator, its non-operator partners and royalty owners, Holmes said.

See **COMPLEX** on Page 3.

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"You may have knowledge of the rock but you may not understand the contractual relationship," he added of partners and royalty owners. He likened the situation to a pair of 8-year-olds, one with lots of toys and one with a single toy. "There will be a fight in two minutes and that's why there will always be gainful employment for oil and gas attorneys."

When drafting an agreement, non-operating partners and royalty owners should specify that pricing is based on gross proceeds "and never use the phrase 'at the wellhead'—that negates what I just told you." Also, it's usually to the advantage of non-operating partners to take payment in kind if possible, Holmes added.

Crude oil sales are typically a far different matter than natural gas agreements, he said. "With oil, it's Kumbaya, group play, group hug, everybody gets along" because sales arrangements can change quickly. Most oil fields have multiple crude buyers, most with public and frequently adjusted prices, who will take oil by truck or pipeline to multiple markets. It's in a producer's interest to be friendly with all of them.

No so with gas.

"Gas marketing is a knife fight in a dark alley," Holmes added. In most cases, a field has but one midstream operator who can gather, process and transport production and its resultant NGL and tail gas. "The buyer is almost always powerful. The contract may only be renegotiated every five years." The purchaser is nearly always "monopsonistic," a market situation in which a product offered by several sellers is sought by only one buyer with a monopoly, he said. ■



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India Plans Natural Gas Trading Exchange

In a bid to accelerate market reforms, India will soon build a natural gas trading platform, which could lead to market-determined pricing of gas for domestic and imported supplies.

The introduction of a natural gas trading platform was recently announced by India's Oil Minister Dharmendra Pradhan, at India Energy Forum by CERAWEEK on Oct. 8-10.

While addressing the news media at the end of the seminar, Pradhan said his ministry will soon seek approval from the government set up a gas trading platform.

More than 30 experts from India and foreign countries including BP, Saudi Aramco, Gazprom Neft, ExxonMobil, Shell, Emeron, Chevron and all major stakeholders of Indian oil companies attended the India Energy Forum, which was led by Daniel Yergin, vice chairman of IHS Markit.

The minister said the natural gas trading platform will be similar to global hubs such as Henry Hub in the U.S. and National Balancing Point in the UK. India does not have a free market regime for gas.

Last June, India joined nations like the U.S. and Australia in switching to dynamic fuel pricing for diesel and gasoline prices, but natural gas is still marketed on a government-set price formula that links the local price to international rates, while most long-term import contracts are linked to the crude oil price.

Certain sectors like city gas and fertilizer sector have some priority over other gas users, mainly because domestic production is low and about 40% of the gas requirement is met by imported LNG.

—TARA CHAND MALHOTRA | CONTRIBUTOR



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FRAC SPREAD

NGL Prices Slip But Hang On

JOSEPH MARKMAN | HART ENERGY

Margins widened for Mont Belvieu, Texas, ethane and C₅₊ last week but other NGL experienced lower prices and narrower margins.

This lull is expected to be temporary, **En*Vantage Inc.** said, anticipating exports to trend higher for ethane in the

CURRENT FRAC SPREAD (CENTS/GAL)				
OCTOBER 27, 2017	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	16.83		25.62	
Shrink	18.64		19.41	
Margin	-1.81	-2769.36%	6.21	2.51%
Propane	86.68		91.11	
Shrink	25.76		26.82	
Margin	60.92	-5.37%	64.29	-3.05%
Normal Butane	101.98		103.88	
Shrink	29.16		30.36	
Margin	72.82	-5.72%	73.52	-1.33%
Isobutane	106.23		104.15	
Shrink	28.01		29.16	
Margin	78.22	-3.71%	74.99	-1.39%
Pentane+	118.55		123.30	
Shrink	31.19		32.47	
Margin	87.36	-1.08%	90.83	2.10%
NGL \$/Bbl	29.31	-3.01%	31.39	-1.17%
Shrink	10.27		10.70	
Margin	19.03	-5.43%	20.69	-0.82%
Gas (\$/mmBtu)	2.81	1.81%	2.93	-1.83%
Gross Bbl Margin (in cents/gal)	44.21	-5.56%	48.58	-1.01%
NGL Value in \$/mmBtu (Basket Value)				
1.04	0.93	-8.43%	1.41	-0.81%
3.12	3.01	-3.35%	3.16	-2.69%
1.16	1.10	-3.68%	1.12	-1.48%
0.69	0.66	-2.32%	0.65	-1.51%
1.53	1.53	-0.34%	1.59	1.03%
7.54	7.23	-3.38%	7.93	-1.36%
4.61	4.42	-6.41%	5.01	-1.09%

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.

WTI, or still considerably higher than the 49% at this time last year. If that were to happen, the lower price would likely induce a spike in exports and increases in propane cracking. ■

medium term and for propane's price slide to be limited to 10 cents per gallon (gal).

Ethane, which slipped less than one-quarter of 1% at Mont Belvieu but 8.4% at Conway, Kan., in the past week, is wending its way through a demand falloff triggered both by shutdowns caused by Hurricane Harvey and planned maintenance of ethylene plants, En*Vantage said. Fundamentals still look promising for ethane, though, with October exports expected to be between 130,000 barrels per day (Mbb/d) and 138 Mbb/d.



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Propane prices, which have been powering the steady rise in value of the hypothetical NGL barrel, dropped to their lowest level in five weeks at both hubs. En*Vantage perceives a price ceiling in the mid-90 cents/gal for propane until winter fuel demand picks up in several weeks.

Anything higher removes the competitive advantage propane has enjoyed against naphtha in Asian and European markets.

At Mont Belvieu, the price of propane peaked at 97 cents/gal on Sept. 25. At Conway, the peak was 92.4 cents/gal on the same date. The price was more than 50% higher at both hubs compared to last year at this time.

En*Vantage believes the price, now around 70% of West Texas Intermediate (WTI) crude oil, could fall to about 65% of

Private Equity Follows EagleClaw

In the southern Delaware Basin's heartland, EagleClaw Midstream Ventures LLC's gas gathering and processing systems are sprawled across Reeves County, Texas—a 2,635-square mile wedge of land larger than Luxembourg. The pipelines, totaling about 375 miles, continue west into Culberson County, Texas, inching up toward the New Mexico border.

EagleClaw and its current and past financial backers like the company's footprint. A jagged trail of lucrative deals and seized opportunities led EagleClaw and its sponsor, EnCap Flatrock Midstream, to sell the company in the second quarter in a blockbuster \$2 billion deal.

Funds managed by Blackstone Energy Partners LP and Blackstone Capital Partners LP made the deal—for the Permian's associated natural gas, not its crude oil. The transaction is expected to close by the end of July.

Many observers, analysts and oilmen have fretted over the Permian Basin's infrastructure, and the potential of eventual bottlenecks from oil volumes overwhelming existing pipelines. But a tremendous amount of gas is also produced in the basin, second in the U.S. only to the Marcellus Shale, according to federal statistics.

—DARREN BARBEE | HART ENERGY



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Pipeline Repair: How To Prioritize

Axial cracks are a common site of failure for aging oil and gas pipelines. But how can operators know if a crack presents a risk of imminent failure or if it is safe to monitor and continue operations?

Pipeline operators rely on data from inline inspections and risk assessments to make decisions for pipeline repair, replacement and monitoring. Often, these decisions are made using limited information about crack length and depth and rules of thumb developed over decades. Until now, there has been limited empirical data about axial crack development to back up these recommendations. As a result, operators have relied on frequent testing, inspection, and often overly conservative analyses to guide repair and replacement decisions.

This leads to higher costs and, paradoxically, can compromise safety if not properly informed.

Over the last several years, Battelle has conducted studies with the U.S. Department of Transportation (DOT) to better understand how axial cracks develop under different operating conditions. Optimizing both physics-based models and empirical data, researchers created a leading-edge tool to predict crack growth under different operating scenarios. Use of this tool, entitled PipeAssess PI, can help operators reduce reliance on frequent, unoptimized inline inspection and hydrostatic tests, as well as reduce maintenance costs by informing prioritization of repair and replacement decisions.

—BRUCE A. YOUNG and JENNIFER M. O'BRIAN | BATTELLE MEMORIAL INSTITUTE



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