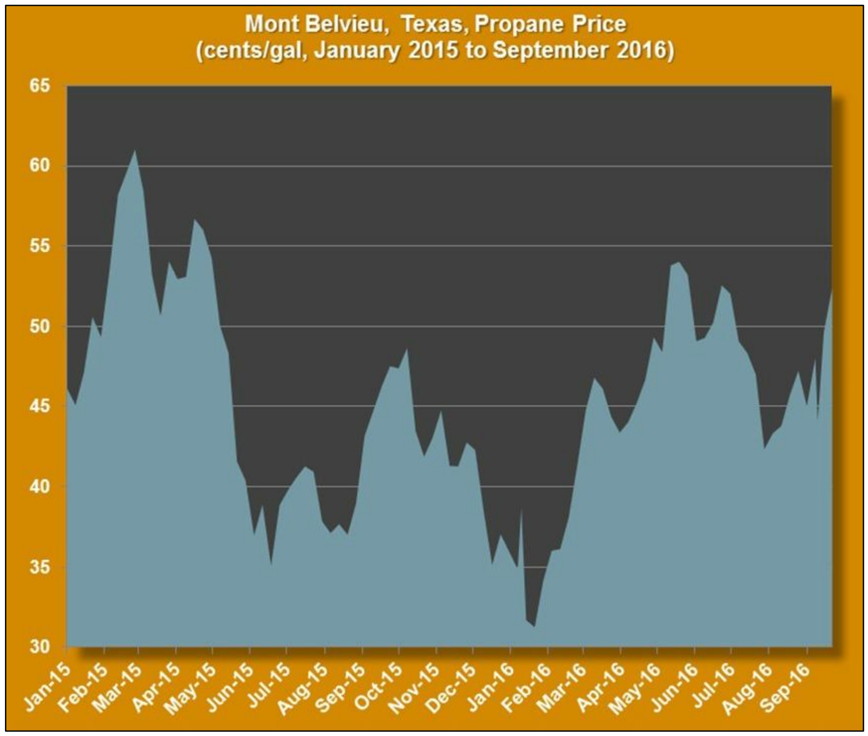
MIDSTREAM Monitor

OCT. 7, 2016 | VOLUME 34 | ISSUE 40

FEATURES

Propane Exports Jumped 41% In 1H 2016

By **JOSEPH MARKMAN**, Hart Energy



Source: Bloomberg, Hart Energy

U.S. exports of propane shot up 41% in the first half of 2016 compared to the same period in 2015, with 10x the volume of petroleum products being shipped as crude oil, the U.S. Energy Information Administration (EIA) reported.

Propane constituted about 17% of total petroleum product exports, up from about 14% last year, making it the second-largest export in that category behind distillates. Almost all of the growth went to Asia and Oceania, with Japan leading the way by increasing its purchases by 131% to 159 thousand barrels per day (Mbbl/d). Exports to Panama, however, fell 83% to 7 Mbbl/d.

EIA suggested that reduced ship-to-ship transfer activity resulted in the dramatic changes in exports to Japan and Panama. Some transfers cite the location of the transfer but not the final destination of the cargo, so propane formerly reported as sent to Panama may have been eventually destined for Japan or another country in Asia.

Click here to read more of this story online.

Of course, propane exports have slumped since the mid-year, with cancellation of some cargoes scheduled to be shipped to Asia. While exports averaged about 800 Mbbl/d in the first half of 2016, August exports were closer to 550 Mbbl/d. New customers have been developed in South America and the Caribbean, but not enough to fully compensate for the loss of Asian customers, who have turned to cheaper product available from the Middle East.

Propane stocks have reached close to 100 MMbbl, which is unheard of for this time of year, Peter Fasullo,

Continued on Page 3

PROPANE from Page 1

An LPG ship docks at a terminal in Japan.

principal of En*Vantage, recently told the Morgan Stanley energy research team. Narrowing export spreads have hurt the sector, he said, with added shipping and terminal fees making it difficult for exporters to compete in Asia.

With exports struggling, the only thing that has propped up the price of propane has been the assumption by traders of a cold winter for 2016-2017. Even if that expectation becomes a reality, propane will still be dependent on exports, meaning that markets in Asia and Europe will have to experience cold winters as well to relieve pressure on spreads.

THIRTY UNDER 40

Jeff Brinlee, Enable Midstream

Click here

to read more of this story online.

Video interview with an up-and-comer: Jeff Brinlee, 36, vice president of commercial gathering and processing/business development, oversees all gathering, processing, NGL and crude business development efforts across Enable's asset base: Anadarko, Arkoma, Ark-La- Tex, Bakken and Permian basins. He helped position the merger and IPO between Enogex Pipeline and CenterPoint Pipeline to form Enable Midstream Partners in 2013.

FROM THE LATEST ISSUE

Editor's Note: California Dreamin'

The furnaces will be kicking on across northern states as a new heating season begins. Looking at the big picture, this could be another difficult winter for the natural gas business. Projections place storage at 3.6 trillion cubic feet as the injection season ends—on the high end of the historic range—despite declining production. A number like that usually means soft prices, and another warm winter like 2015-2016 wouldn't help.

Click here

to read more of this story online.

One big market that might buck another soft heating season, though, is California. The Golden State very well could have a gas shortage—and price spikes—this time around.

Changing demand, coupled with the state's notorious bureaucratic overreach, might turn this winter into a boom time for Rockies gas producers who want to move gas west. And as someone who has spent a fair amount of time in and around the Piceance and Green River basins, I think that's great. Spot prices at the Opal, Wyo., hub on a recent day were 25 cents below Louisiana's benchmark Henry Hub price. That's not bad in perspective with times not too long ago when the differential was measured in dollars.

—**PAUL HART**, Hart Energy

FRAC SPREAD

Peak NGL Prices Should Ease The Squeeze

By **JOSEPH MARKMAN**, Hart Energy

It seemed that for every logo-bedecked, stress-relieving squeeze toy given away at Hart Energy's recent Midstream Texas conference in San Antonio, there was an accompanying deep sigh by attendees with a wish for 2016 to end already.

Understandable, given the rough year it's been, but 2017 oil prices are unlikely to rise to the point where industry folks cease trying to squeeze their stress toys back to their polyurethane origins.

Natural gas and NGL, however, are a different story.

Ethane rejection, that bane of prolific shale production of wet gas, should decline as exports and domestic petrochemical demand increase, according to Stratas Advisors forecasts. Whether an increased demand for stress-relieving toys is behind this, Stratas did not say.

What we can say is that, not only are NGL prices rising as the fourth quarter begins and winter approaches, but they were stronger in both the most recent month and in the third quarter than they were in those same periods of 2015.

Click here to read more of this story online.

Bolstered by ethane and C_{5+}, the weekly average price of the hypothetical NGL barrel at the Mont Belvieu, Texas, hub hit its high for the year at $23.03—its top mark in 17 months. At Conway, Kan., the $21.77 price was at its highest level since March 2015, or 19 months.

The barrel's price slipped in the recently ended third quarter by 4.1% at Mont Belvieu compared to second-quarter 2016, but that figure should not overshadow the upward trend signaled by September's 13.5% hike over August. On a year-over-year basis, September 2016's barrel rose 14.3% over the same month in 2015. The third-quarter price was 10.7% higher.

CURRENT FRAC SPREAD (CENTS/GAL)

OCTOBER 7, 2016	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	19.20		23.34	
Shrink	18.30		19.42	
Margin	0.90	-347.58%	3.92	255.49%
Propane	50.02		53.84	
Shrink	25.28		26.83	
Margin	24.74	11.68%	27.01	12.36%
Normal Butane	67.20		70.66	
Shrink	28.62		30.37	
Margin	38.58	10.24%	40.29	13.45%
Isobutane	77.45		76.09	
Shrink	27.49		29.17	
Margin	49.96	8.42%	46.92	9.98%
Pentane+	104.14		107.29	
Shrink	30.61		32.48	
Margin	73.53	12.87%	74.81	16.02%
NGL $/Bbl	21.77	5.97%	23.03	5.63%
Shrink	10.08		10.70	
Margin	11.68	13.31%	12.33	17.66%
Gas ($/mmBtu)	2.76	-1.43%	2.93	-5.50%
Gross Bbl Margin (in cents/gal)	26.13	13.58%	28.14	17.79%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.06	5.49%	1.28	7.81%
Propane	1.74	4.64%	1.87	2.69%
Normal Butane	0.73	4.95%	0.76	4.45%
Isobutane	0.48	4.70%	0.47	3.48%
Pentane+	1.34	8.25%	1.38	8.54%
Total Barrel Value in $/mmbtu	5.34	5.75%	5.77	5.47%
Margin	2.58	14.66%	2.85	19.77%

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.

In fact, as troublesome as 2016 has appeared, with canceled propane shipments and wobbly ethane prospects, the NGL performance has not been terrible. The average price of the Mont Belvieu barrel for the first nine months of this year is $20.13, or 3.2% higher than the average for that period in 2015. At Conway, the price of $18.82 beats 2015 by 3 cents.

US LNG Exports Might Not Be In For Smooth Sailing

Other than pipeline capacity payments, the topic of upstream contract terms has not received any investor, media or conference attention. However, some LNG terminal capacity holders have decided to integrate back to the wellhead. Of course, when the deals were done everybody expected U.S. LNG to always be in-the-money, said Kjell Eikland, founder, Eikland Energy and Energy Perspectives.

Click here to read more of this story online.

As for producer risks it is pretty simple. Most of the upstream contracts signed are linked to month ahead Henry Hub (HH) and producers basically take no price risk. Their upside is probably that they have been able to obtain increased offtake certainty and diversification as well, which is pretty bankable. So, all in all a pretty decent deal for U.S. producers regardless of the HH level, he explained.

The big issue for the U.S. Department of Energy has been to see whether if gas/LNG exports actually push prices up, thereby hurting U.S. consumers. At least three official reports have concluded that the effect is small. However, those reports have not really accounted for the near- and medium-term effect of the drilling collapse. In Energy Perspectives' view, that is a growing uncertainty. —**SCOTT WEEDEN,** Contributor

TOP STORIES

Newly Formed Producers Midstream Receives $100 Million In Equity

Private-equity firm Tailwater Capital LLC said Oct. 5 that it provided new portfolio company Producers Midstream LP with $100 million in initial equity.

Click here to read more of this story online.

Producers Midstream will support upstream operators in greenfield opportunities in Texas, Oklahoma, and New Mexico.

Producers Midstream is led by CEO Jim Bryant, who has more than 50 years' experience in oil and gas, specifically in the engineering, development and management of midstream facilities. He co-founded Endevco Inc., Regency Gas Services LLC and Cardinal Midstream LLC.

Dakota Access: Federal Appeals Court Hears Arguments Over Pipeline

Three federal appeals judges in Washington, D.C., heard arguments on Oct. 5 over whether to stop work on a crude oil pipeline in parts of North Dakota where the Standing Rock Sioux and other tribes say the project will desecrate sacred land.

The judges are not expected to rule for months. In September, they ordered the group of firms building the pipeline, led by Energy Transfer Partners LP (NYSE: **ETP**), to pause construction on the disputed section of the route while they consider the tribes' request that the U.S. government withdraw permits for the project. —**REUTERS**

Contact Information:

JOSEPH MARKMAN Senior Editor
jmarkman@hartenergy.com

Contributing Editors: Velda Addison, Darren Barbee, Nissa Darbonne, Rhonda Duey, Annie Gallay, Leslie Haines, Paul Hart, Brandy Jules, Susan Klann, Richard Mason, Emily Moser, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Bryan Sims, Steve Toon, Len Vermillion, Peggy Williams

Graphic Designer: Felicia Hammons

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