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FEATURES

Waiting For Demand

By **FRANK NIETO**, Hart Energy

The big question on everyone's mind is when are prices going to turn around; but the real question could be when does demand return? The current downturn isn't so much akin to supply racing ahead of demand as it is to supply racing so far ahead of demand that it lapped it. In many ways the old conventions aren't applicable: drilling efficiency has gotten to the point where the U.S. Energy Information Administration (EIA) and industry analysts are no longer relying on rig counts to forecast production output.

Instead, rig releases have grown in importance in determining the number of wells being drilled across the country. While the outright rig count can decrease, producers are now able to drill the same amount of wells, or even more wells, by cutting their drill times.

"Producers are getting better and better all the time at what they do. They're drilling faster and getting more volumes out of every well. What that means is that as we wait for demand to pick up, we're also lowering the cost of production and the cost to bring on incremental volumes of gas, liquids and crude," Bernadette Johnson, director, research and analytics at Ponderosa Advisors LLC, told *Midstream Business*.

There are long-term positives for demand, particularly natural gas, as new facilities come online in the next five years. Lower crude prices may negatively impact this demand as the spread between crude and gas prices narrows and makes projects tied to crude not look as good as they were before the price crash. However, it is expected that most of these projects will still be built.

Johnson said that low prices are primarily short-term concerns until seasonal demand increases in the winter. Until that time, all eyes are on storage and the natural gas sector's ability to absorb extra volumes.

"Natural gas storage is tracking pretty close to the five-year average, but since we're producing at such a high level there will be increased downward pressure on prices. It's similar to what we've seen the last few years where high storage levels mean prices have to drop to incentivize coal to gas switching and other demand. Once winter shows up the problem is pretty much alleviated," she said.

For this reason, Ponderosa Advisors anticipates that gas prices can drop to $2.50 per million Btu (/MMBtu) or below to incentivize switching. As of early August, prices were closer to $3.00/MMBtu, which indicates that a price correction would be likely around Labor Day in order to ensure storage capacity isn't reached.

The NGL market has a similar story: Storage is very full, which has had a significant impact on propane. Propane is the NGL with the largest seasonal demand, and it is awaiting winter heating demand to arrive to work off volumes. Ethane is tracking closer to natural gas as the market is also awaiting structural demand to arrive since it isn't a seasonal product, but instead dependent on the petrochemical.

"While we're waiting for crackers to come online in the next few years, I think prices could hover around 18-20 cents per gallon (/gal) until the cracker demand shows up or gas prices increase and bring ethane prices up with it," Johnson said. She added that the upside for ethane prices is likely to be capped at a high of 25-29 cents/gal until more cracking capacity comes online in 2018 since the market is so long. These prices would cover transportation and fractionation costs to Mont Belvieu and see more ethane being recovered.

While ethane prices will begin their slow recovery this year, natural gas prices will have the most volatility this year, according to Johnson. "Long term, we don't think that $2.50/MMBtu or $2.80/MMBtu gas is the answer since it won't supply enough gas when its structural demand comes online later this decade," she said while noting that drilling would become profitable in the northeast Marcellus, Haynesville or Fayetteville at $5.25/MMBtu in the long-term.

The Marcellus and Utica shales that are exceptions to the rule that gas drilling is not a focal point for producers as the proximity to the Northeast markets, in addition to the tremendous drilling economics in the region, are keeping these plays profitable and active. Not only are the Marcellus and Utica expected to hold firm in production, they are expected to increase production. Gas wells in the Appalachian Basin are proving to be more profitable than condensate and crude wells in other parts of the country.

The crude market is a combination of what is being seen with gas and liquids as there are concerns about storage and infrastructure holding prices back. There had been some optimism surrounding crude prices as they gained steam in the spring, pushing past $60 per barrel (/bbl), but since that time they've slipped to the low $40/bbl range as summer drew to a close.

"Crude stock levels are really high, typically you don't see storage builds in the summer and we did. It's a similar story to gas where we're approaching pretty significant storage levels and we have maintenance downtime for refineries in the fall as they retool for their winter blends. That takes a lot of refinery run capacity offline, which will lead to further builds, and we don't have a lot of room in storage to absorb it. It is likely that prices stay at current levels until we get through the maintenance season," Johnson said.

The demand that crude is waiting on is also different as it is global rather than domestic. Though this provides more opportunities, there are additional headwinds. China's economy isn't growing as fast as it had been, which is troublesome since much of the growth is coming from Asia. "If China's growth is slower than we thought just a few months ago, that's not a good sign for the long-term outlook," Johnson said.

The situation is different for NGL prices, which are being influenced on a demand level by crude and gas markets more so than their own markets. Consequently, the bottom is being created by the next lowest product in the barrel for liquids.

“Ethane will remain at parity with natural gas prices because we have such large volumes of ethane supplies. If ethane exports take off this will increase prices by 5-10 cents/gal, which covers fractionation and transport costs to Mont Belvieu. This would allow for more ethane recovery,” Johnson said.

There will be more recovery, but ethane rejection will still continue until more cracking capacity comes online. Since ethane can be left in the gas stream when rejected, it doesn’t need to drop any lower than the gas parity price. Though propane can’t be rejected since it can’t be left in the gas stream, it does work off of this aspect as it will almost always be valued greater than ethane.

“Propane could drop as low as ethane, but that would be a short-term thing. Propane will generally be priced above ethane because they’re substitutes in the petrochemical sector. When propane prices drop low enough crackers chose to crack propane instead of ethane because of its higher content value,” Johnson said.

Even if there is a cold winter with strong heating demand, propane prices will not experience a corresponding increase since the storage level is expected to be a record 96 million bbl. this fall. This past winter was certainly a difficult season for both gas and propane prices as they failed to experience the highs of the previous winter and its very cold temperatures, but things could have been far worse for propane without LPG exports.

“Exports saved the day for propane for a while by giving the market some relief until supply grew so much that even exports weren’t enough to absorb the extra volumes. All that exports did was allow us to send butane and propane to the global market, but at the end of the day demand is still the deciding factor. If there’s not enough international demand to soak up our incremental volumes, we’re going to see really low prices,” Johnson said.

She noted that exports are not the silver bullet that some were hoping for when they took off two years ago, but instead they are just a piece of the puzzle as commodities become more globally linked. Natural gas will begin to become more exposed to global prices as U.S. LNG exports grow. The same holds true for LPG, ethane and condensate exports out of the U.S.

On a long-term basis, exports will help the market perform better as volumes will be directed to areas with greater demand for certain production quantities and qualities, while re-directing other forms of production to markets better able to handle it.

Since ethane prices will work as the floor for propane, they will help the rest of the NGL barrel improve as propane serves as the floor for butane and isobutane, which will in turn serve as the floor for natural gasoline prices. Ponderosa Advisors doesn’t anticipate NGL prices returning to their traditional oil-linked levels in the near-term because of how long the industry is on supplies.

This oversupply situation will cause WTI crude prices to remain challenged at $40-50/bbl levels throughout the remainder of 2015. Johnson noted that these prices aren’t high enough to support any global crude production growth and therefore is not the long-term answer for the industry.

“We know there will be global crude demand growth, and to meet this growth we will need prices higher than $50/bbl,” she said. As such, Ponderosa Advisors anticipates a ceiling of $75/bbl combined with a gas price ceiling of $5.25/MMBtu with NGL prices somewhere in the middle.

The November issue of Midstream Business will feature a more detailed outlook for commodity prices and storage levels.

Don’t Stop Thinking About Tomorrow

By **JOSEPH MARKMAN**, Hart Energy

With the sector weaving through the downturn’s stormy skies like a nimble fighter jet trying to reacquire a target, it might be time to remember that, before the dawn of the iPhone, midstream wasn’t cool.

The shale boom was still the stuff of bedtime stories for George Mitchell’s great-grandkids in those dreary days of the mid-2000s, and onshore oil and gas activity in the U.S. was well into its second decade of decline. A midstream asset was politely referred to as “mature,” a low-growth link in the value chain, and large integrated companies were divesting them or spinning them off.

Which explains, from the midstreamers’ point of view, why the revolution started without them.

“The combination of under-investment, disaggregation and a move toward entities that were intended to focus on harvesting the cash flow of mature assets meant that many participants were not equipped to capitalize on the investment opportunities created by the shale revolution,” wrote KPMG LLP experts in a report, “Building the Midstream Company of the Future.” Many of the companies in the sector were small and unable to fund major capital investment, and many others simply lacked the internal capabilities like project management, risk management and business development necessary to leap into the fray.

But with the initial boom in the rearview mirror, companies are preparing for the next cycle.

“As you look at what companies are really going after during this time, it’s a lot of expanding capabilities,” said Brandon Beard, KPMG partner, financial due diligence, during a recent webinar discussing the report. “They are trying to acquire the people and the project pipeline that you need to go into new areas of the country or to gain new capabilities.”

The ready availability of debt financing creates an M&A friendly environment, he said. “Particularly in 2015, we see M&A continuing to increase in deal volume and in average size per deal, despite the short-term downturn.”

That said, KPMG’s strategists warn that neither consolidation, in and of itself, nor organic growth represent an effective long-term business strategy. They argue that what is needed to respond to what a presentation from The Williams Cos. called a “once in a generation industry super-cycle” is a series of actions that will result in a differentiated set of assets and capabilities.

An example is the acquisition last year of Oiltanking Partners LP by customer Enterprise Products Partners LP. Beard pointed out two strategic elements of that deal:

- It broadened Enterprise’s midstream services by giving it access to waterborne markets; and
- It reduced the company’s risk by taking control of a critical partner.

Enterprise managers “filled in a particular gap in a particular value chain to make them even more effective,” said Chris Click, KPMG’s principal, oil and gas strategy lead, during the webinar. But value chain isn’t the only option, he said. Other companies have taken a geographical approach to M&A, instead of simply using the tactic as a way to get larger.

MarkWest Energy, for example, leveraged its experience in the natural gas and NGL areas to develop a premier position in the Marcellus and Utica plays, then capitalized on its strong customer relationships in those plays to establish a presence in the Permian and other basins.

“We think midstream has a bright future leading to purposeful growth,” said Andy Steinhubl, KPMG principal and energy and natural resources strategy practice lead, who moderated the webinar. But only for those companies that make the right moves.

“To capitalize on the opportunities facing the industry,” KPMG authors wrote in their report, “companies need a dedicated focus on building advantaged capabilities, making the right business model choices and adaptations, and creating operating model flexibility to create sustainable, long-term competitive advantage.”

After A Long Silence, Clinton Speaks Out Against Keystone Pipeline

By **REUTERS**

Democratic U.S. presidential candidate Hillary Clinton, who has long avoided a firm position on the Keystone XL pipeline, broke her silence on Tuesday and said she opposed it.

"I have a responsibility to you and other voters," Clinton, a former secretary of state, said at a town hall event in Iowa about TransCanada Corp's project to bring Canadian oil to refineries on the Gulf of Mexico via Nebraska.
A decision on Keystone that has been pending for seven years is important as it has become "a distraction from the important work we have to do to combat climate change," she said.

"Therefore, I oppose it," she said.

Environmental activists close to Clinton's campaign said the timing of her remarks was driven by her desire to make clear her opposition before the Oct. 13 Democratic debate.

Senator Bernie Sanders, a rival for the Democratic presidential nomination, opposes the pipeline and had urged her to take a position.

Sanders said in a statement he was glad Clinton "finally has made a decision and I welcome her opposition to the pipeline.” It would be "absurd to encourage the extraction and transportation of some of the dirtiest fossil fuel on the planet," he said.

Clinton told the *Des Moines Register* editorial board she would release a plan in the next few days for a clean energy agreement among the United States, Canada and Mexico. She said the plan would create jobs.

Clinton has walked a fine line on supporting or opposing the pipeline, which puts two key Democratic constituencies at odds: organized labor and environmentalists.

Many labor unions have pushed for approval of the pipeline, saying it would create thousands of construction jobs. Environmental activists have opposed it as delaying the transition to cleaner forms of energy and increasing emissions of greenhouse gases by speeding development of Canada's oil sands.

The State Department has said the pipeline would directly create 3,900 construction jobs for the year or two it was being built, and would create 35 full-time jobs once completed, along with 15 temporary contractor positions.
Jeb Bush, a Republican presidential candidate, tweeted that Clinton's stance on Keystone means she "favors environmental extremists over U.S. jobs."

Keystone watchers have been eager to learn Clinton's opinion about the pipeline since 2010. Then, as secretary of state, she said she was inclined to approve it. Asked repeatedly about the project since she entered the race in April, she has declined to state her stance.

Accused by some of being evasive out of political expediency, Clinton has said she refrained from taking a stand because did not want to "second-guess" her former boss, President Barack Obama.

Obama is expected to decide on Keystone in coming months. The White House declined to comment on Clinton's position.

The State Department, which will make a recommendation to Obama when it is finished with a review of the project, said there is no timeline for the completion of that review.

Canada's conservative Prime Minister Stephen Harper is a strong proponent of the pipeline approval of which could breathe life into Alberta's oil fields. Harper said through a spokesman that Canada knows "the American people support the project."

TransCanada spokesman Davis Sheremata said the company remains focused on securing a permit for the project.
In another development, TransCanada on Sept. 24 announced plans to cut 20% of its senior management positions as a result of the continuing slump in oil prices.

We don't have an exact number for reductions at the senior level as the process is continuing but when transitions out of the company and retirements are complete, we expect about a 20 percent reduction in senior leadership positions," spokesman James Millar said in a statement.

"Falling oil prices and the current environment are having a profound impact on our customers and we must do all we can to drive down costs and pursue our projects more efficiently and strategically."

Santos Hits GLNG Milestone Ahead Of Start-Up

By **LAUREN BARRETT**, Hart Energy

Santos has produced its first LNG from the GLNG project on Queensland's Curtis Island, on schedule and within budget.

LNG is currently being produced from train one ahead of the first cargo, which is expected to be shipped to Asian markets in the coming weeks.

Santos said work on the second train was continuing to progress well, with train 2 expected to be ready for start-up by the end of the year.

Outgoing Santos managing director and chief executive David Knox said the development was the most significant milestone to date for the company's first operated LNG project.

"We said we'd produce first LNG around the end of the third quarter, and that's exactly what we've done," he said.

"Our upstream facilities are fully operational and performing well, we're producing LNG on Curtis Island, and we're now looking forward to safely delivering our first LNG cargo in the coming weeks.

"I would like to thank our joint venture partners, Petronas, Total and Kogas for their support in the successful delivery of this major milestone."

The Santos operated GLNG project is one of the three developments on Curtis Island that will convert CSG to LNG.

It involves gas field development in the Surat and Bowen basins, a 420km gas transmission pipeline and a two-train LNG plant on Curtis Island, near Gladstone which will have the capacity to produce 7.8 million tonnes of LNG per year when fully operational.

Santos will be delivering 11 per cent of Korea's gas needs in the next 20 years, and 9 per cent of Malaysia's, once GLNG hits full production.

Santos shares fell 0.9 per cent to $4.80.

FRAC SPREAD

Surprising Inventory Declines Improving Prices

By **FRANK NIETO**, Hart Energy

NGL prices surprisingly continued to improve on the back of some positive news, led by declines in U.S. crude and propane inventory levels. Propane stock levels were reported to have fallen by 710,000 barrels (bbl) to just under 93 million bbl, while crude stocks fell for the second straight week.

This helped raise propane prices 5% to 46 cents per gallon (/gal) at Mont Belvieu, its highest price since mid-May, and 4% to 44 cents/gal at Conway, its highest level since the last week of April. Propane also continues to benefit from consumers securing early supplies at attractive prices ahead of the demand season.

CURRENT FRAC SPREAD (CENTS/GAL)

SEPTEMBER 25, 2015	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	16.22		18.60	
Shrink	16.64		16.71	
Margin	-0.42	63.01%	1.89	104.43%
Propane	43.98		46.24	
Shrink	22.99		23.08	
Margin	20.99	11.89%	23.16	14.68%
Normal Butane	54.16		59.26	
Shrink	26.03		26.13	
Margin	28.13	17.66%	33.13	15.13%
Isobutane	61.70		59.86	
Shrink	25.00		25.10	
Margin	36.70	7.93%	34.76	13.43%
Pentane+	96.66		96.44	
Shrink	27.84		27.95	
Margin	68.82	2.94%	68.49	0.67%
NGL $/Bbl	18.95	3.19%	19.62	2.83%
Shrink	9.17		9.21	
Margin	9.78	8.96%	10.42	9.10%
Gas ($/mmBtu)	2.51	-2.33%	2.52	-3.45%
Gross Bbl Margin (in cents/gal)	21.79	9.51%	23.71	9.74%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.89	2.01%	1.02	2.03%
Propane	1.53	3.97%	1.61	4.85%
Normal Butane	0.58	7.12%	0.64	6.12%
Isobutane	0.38	3.52%	0.37	5.69%
Pentane+	1.25	1.36%	1.24	-0.56%
Total Barrel Value in $/mmbtu	4.64	3.22%	4.89	3.05%
Margin	2.13	10.66%	2.37	11.01%

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.

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Sept. 16 - 22, '15	18.60	46.24	59.26	59.86	96.44	**$19.62**
Sept. 9 - 15, '15	18.23	44.10	55.84	56.64	96.98	**$19.08**
Sept. 2 - 8, '15	17.90	43.17	55.57	56.30	97.73	**$18.95**
Aug. 26 - Sept. 1, '15	17.93	38.98	52.00	53.38	90.80	**$17.72**
August '15	18.55	37.35	50.57	51.80	94.58	**$17.76**
July '15	17.59	40.40	53.80	54.94	108.91	**$19.20**
2nd Qtr '15	17.93	46.30	58.11	59.66	126.14	**$21.48**
1st Qtr '15	18.38	53.01	66.35	67.81	110.53	**$21.94**
4th Qtr '14	20.22	76.90	96.73	98.28	149.25	**$30.10**
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	**$40.27**
Sept. 17 - 23, '14	23.71	107.98	127.00	128.44	203.42	**$40.41**
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Sept. 16 - 22, '15	16.22	43.98	54.16	61.70	96.66	**$18.95**
Sept. 9 - 15, '15	15.90	42.30	50.56	59.60	95.36	**$18.36**
Sept. 2 - 8, '15	15.87	40.60	49.83	59.17	99.17	**$18.37**
Aug. 26 - Sept. 1, '15	14.63	35.64	46.66	55.50	93.26	**$16.91**
August '15	15.71	33.52	44.88	51.94	93.63	**$16.67**
July '15	14.51	32.64	47.53	49.40	106.60	**$17.32**
2nd Qtr '15	15.50	40.55	52.40	56.80	121.50	**$19.89**
1st Qtr '15	17.81	49.00	66.13	76.84	106.32	**$21.49**
4th Qtr '14	18.69	78.64	102.72	113.19	146.37	**$30.77**
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	**$40.18**
Sept. 17 - 23, '14	22.23	106.00	126.18	138.56	196.16	**$39.90**

Not all of the news was rosy as propane is still expected to hit a record level this fall, which will limit the growth that prices can achieve this heating and crop-drying season. In addition, demand for crude and NGL volumes may be hampered by underachievement out of China as it was reported that September manufacturing activity fell to a six-and-a-half year low.

The stability in West Texas Intermediate (WTI) crude prices that have kept them in the mid-$40/bbl range for the past month is also having a positive impact on heavy NGL prices with butane and isobutane values increasing at both hubs. The Conway C5+ price rose 1%, but the Mont Belvieu price was down slightly this week.

Ethane remains perhaps the NGL with the most positive outlook going forward as prices and frac spread margins continue to slowly improve. The Mont Belvieu price increased 1% to 19 cents/gal, its highest price in six weeks, and boasted a marginally positive frac spread margin for the sixth straight week. Conway margins have improved to a nil value. Clearly there is much more room for improvement in the market, but with inventory levels decreasing it is likely that improved prices are on the way.

RESIN PRICES – MARKET UPDATE – SEPTEMBER 25, 2015					
TOTAL OFFERS: 20,778,224 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Inj	6,450,512	0.55	0.64	0.51	0.55
LDPE - Film	4,591,980	0.57	0.67	0.54	0.58
LLDPE - Film	2,993,128	0.57	0.675	0.52	0.56
HDPE - Blow Mold	2,601,428	0.56	0.58	0.51	0.55
PP Homopolymer - Inj	1,236,392	0.58	0.685	0.58	0.62
HMWPE - Film	1,234,576	0.555	0.59	0.53	0.57
LDPE - Inj	688,644	0.55	0.66	0.59	0.63
LLDPE - Inj	542,736	0.57	0.64	0.57	0.61
PP Copolymer - Inj	438,828	0.63	0.74	0.6	0.64

Source: Plastics Exchange – www.theplasticsexchange.com

While the ethane market is set for improvement, the natural gas will likely face some headwinds this winter. According to Barclays Capital, the oversupplied global LNG market will make New England home to the highest premium for natural gas globally. However, the investment firm warned in its Sept. 18 *Gas and Power Kaleidoscope* that this region could also become oversupplied this winter due to increased cargo deliveries.

"We think the market is focusing on continued pipeline constraints into [New England] and not factoring in increased LNG imports and potentially lower residential and commercial demand as meteorologists call for a more mild winter… If winter demand does not materialize, pipeline volumes and LNG will be competing for limited premium demand," the report said. Barclays Capital noted that it was likely that New England prices would still trade at a premium to Henry Hub this winter, but at levels below those from the past few winters.

This does not bode well for the short- to mid-term if the most bottlenecked demand center in the world can be facing an oversupply of natural gas this winter. Long-term, gas demand will grow and the U.S. LNG segment will help to meet many of these demands, but the introduction of increased LNG export capacity in the next year may take longer to balance the gas market.

As gas prices continue to stutter along, the theoretical NGL bbl value grows incrementally with the Conway and Mont Belvieu price up 3% each. The Conway bbl was $18.95/bbl with a 9% gain in margin to $9.78/bbl, while the Mont Belvieu price was $19.62/bbl with a 9% gain in margin to $10.42/bbl.

The most profitable NGL to make at both hubs was C5+ at 69 cents/gal at both hubs. This was followed, in order, by isobutane at 37 cents/gal at Conway and 35 cents/gal at Mont Belvieu; butane at 28 cents/gal at Conway and 33 cents/gal at Mont Belvieu; propane at 21 cents/gal at Conway and 23 cents/gal at Mont Belvieu; and ethane at nil at Conway and 2 cents/gal at Mont Belvieu.

The U.S. Energy Information Administration reported that the natural gas storage injection rate was high the week of Sept. 18 as it increased 106 billion cubic feet to 3.44 trillion cubic feet (Tcf) to 3.334 Tcf the previous week. This was 16% greater than the 2.974 Tcf posted last year at the same time and 5% higher than the five-year average of 3.292 Tcf.

MORE TOP STORIES

BSG Pipeline System Begins Initial Service

Navigator Energy Services LLC began initial service on its Big Spring Gateway Pipeline System (BSG System) on Sept. 24.

The system can deliver 40,000 barrels per day (bbl/d) of crude oil into the West Texas Gulf Pipeline and the Permian Express 2 owned by Sunoco Logistics. The system, serving Permian Basin customers, is scheduled to be in full service in December with 160,000bbl/d throughput capacity.

The system is about 450 miles long, spanning parts of Martin, Howard, Glasscock, Midland and Mitchell counties, Texas. Once completed, the system will have more than 250 miles of gathering pipeline, 200 miles of six- to 16-inch transportation mainline and 410,000bbl/d of storage capacity.

The system will also deliver into Alon’s Big Spring Refinery and the BridgeTex Pipeline, linking to Texas Gulf Coast and Midcontinent market centers. The system will also include five truck stations.

Navigator Energy Services LLC is based in Dallas. **– BUSINESS WIRE**

PennEast Pipeline Submits Construction Application To FERC

PennEast Pipeline Co. LLC submitted its application to the Federal Energy Regulatory Commission (FERC) for a permit to construct the proposed PennEast Pipeline, the company said Sept. 24.

AGL Resources, an Atlanta-based energy services holding company, forms PennEast Pipeline Co. along with NJR Pipeline Co., PSEG Power LLC, SJI Midstream, Spectra Energy Partners and UGI Energy Services. UGI is the project manager and operator.

PennEast requested a certificate of public convenience and necessity, which would authorize it to construct, install, own, operate and maintain the roughly-118-mile, 36-inch pipeline.

The underground pipeline would deliver about 1 billion cubic feet per day of natural gas. Had the PennEast Pipeline been in service during the 2013 to 2014 winter, natural gas and electric consumers in eastern Pennsylvania and New Jersey would have saved more than $893 million in energy costs, according to an analysis by Concentric Energy Advisors.

New Jersey, New York and Pennsylvania public utilities, electric generation companies and other market entities have the pipeline’s capacity under long-term contracts.

PennEast’s construction is scheduled to begin in 2017 pending regulatory approval and issuance of a FERC certificate.

Valero Acquires Corpus Christi Terminal Services Business In Dropdown

Valero Energy Partners LP (VLP) said Sept. 23 it has acquired the Corpus Christi Terminal Services Business in a dropdown from a subsidiary of Valero Energy Corp. (VLO).

The transaction is expected to close effective Oct. 1, and is valued at $465 million.

The business to be acquired includes two terminals that support Valero's Corpus Christi East and West refineries. The assets consist of 134 tanks with 10.1 million barrels of storage capacity for crude oil, intermediates, and refined petroleum products.

Upon closing, the partnership plans to enter into a 10-year terminaling agreement with a subsidiary of Valero. The business to be acquired is expected to contribute about $50 million of EBITDA in its first full year of operation.
"With transactions totaling $1.14 billion, we've exceeded our $1 billion target for acquisitions in 2015," said Joe Gorder, CEO of VLP's general partner, in a statement.

The partnership is on course to deliver year-over-year distribution growth in excess of 25%, he added.

The partnership expects to finance the acquisition with $395 million in borrowings under a subordinated loan agreement with Valero and the issuance of additional common units and general partner units to Valero subsidiaries. The newly issued units, valued at $70 million, will be allocated in a proportion allowing the general partner to maintain its 2% general partner interest.

The terms of the transaction were approved, subject to the execution of definitive documentation, by the board of directors of the general partner, following the approval and recommendation of the board's conflicts committee.
The conflicts committee is composed of independent directors and was advised by Evercore Group LLC, its financial adviser, and Akin Gump Straus Hauer & Feld LLP, its legal counsel.

Energy Capital Partners Seeks Buyers For Summit Midstream Stake, Sources Say

Private equity firm Energy Capital Partners is looking for buyers for its interest in Summit Midstream Partners LP (SMLP), a deal that would include a minority stake in the pipeline operator as well as ownership of its general partner, Bloomberg reported Sept. 23.

The sale would also include some oil and gas gathering and processing operations in North Dakota, Colorado and Ohio owned by an affiliate of Summit Midstream, Bloomberg reported, citing people familiar with the matter.

Energy Capital is working with Barclays Plc to find a buyer for the assets, which could fetch at least $2 billion, Bloomberg reported, citing one of the persons.

Energy Capital owns about 44% limited partnership interest in Summit Midstream Partners LP through an entity called Summit Investments.

The firm may also consider taking the assets public if offers are too low, the report said.

Summit Midstream and Energy Capital were not immediately available to comment, while Barclays declined to comment.

Texas-based Summit Midstream's stock was down 12.6% at $18.71 in afternoon trading in a weak broader market. **- REUTERS**

Continental Signs Ethane Supply Agreement In Bakken Shale

Badlands NGLs LLC said Sept. 23 it has entered into an agreement with Continental Resources Inc. (CLR) for a long-term ethane supply to its North Dakota plastics project.

The project is a world-scale NGL sourced ethane gas to polyethylene (PE) manufacturing facility. It was originally announced by North Dakota Governor Jack Dalrymple and the North Dakota Industrial Commission in October 2014.

"We believe that by creating an indigenous demand for ethane in North Dakota, large ethane producers like Continental will realize increased 'net back' for their ethane," said William Jeffrey Gilliam, CEO of Badlands, in a statement.

"It's a great vote of confidence for our project that a highly respected company like Continental will be a supplier," he added.

During the past several weeks, Gilliam said Badlands has signed licensing agreements and finalized other agreements with both North Dakota and Western Canadian NGL sourced ethane feedstock suppliers. As a result, Badlands will increase the size of its planned North Dakota facility to 2 million annual metric tons (4.4 billion annual pounds) from 1.53 million annual metric tons of PE.

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