

MIDSTREAM

Monitor

SEPT. 23, 2016 | VOLUME 34 | ISSUE 38

FEATURES



Shell President Talks LNG, Climate Change, No-Wind Scenarios

By **DARREN BARBEE**, Hart Energy

The “keep it in the ground” movement has echoed from Sen. Bernie Sanders’ presidential bid to protests of pipelines, disruptions of federal lease sales and environmental groups demanding that oil, natural gas and coal remain buried.

The problem with the grounder movement is the calamity that would likely unfold with a world left in the dark, Bruce Culpepper, president of Shell Oil Co., told an audience at the Energy Tax Conference in Houston sponsored by Bloomberg BNA and Mayer Brown.

In 2015, fossil fuels were responsible for generating 67% of U.S. electricity.

Solar and wind combined to generate 5.3% of the 4 trillion kilowatt hours and all renewables together contributed 7%, according to the Energy Information Administration (EIA).

Continued on Page 3

20+ YEARS OF ENERGY EXPERTISE
630 ENERGY TRANSACTIONS
\$170 BILLION IN TRANSACTION VALUE
30+ DEDICATED PROFESSIONALS
164 COMPANIES COVERED

1 FULL-SERVICE INVESTMENT BANK

THE INSIGHT YOU WANT. THE RESOURCES YOU NEED.

Raymond James Energy Investment Banking offers the deep expertise of a team dedicated to the energy sector, backed by the comprehensive services and strength of a leading investment bank – and we focus all of that power on finding the best solution for your company's needs.

**MICHAEL
CHEVALIER-WHITE**
Energy Services &
Equipment

**STEPHEN
CLARK**
Midstream

**MARK
HUHDORFF**
Midstream

**JIMMY
MURCHISON**
Exploration &
Production

**CHIP
VAN OS**
Exploration &
Production

RAYMOND JAMES®

RJENERGYBANKING.COM

214.720.1314

SHELL from Page 1

Culpepper said Shell believes in addressing climate concerns, but he's not up for the industry being painted as "a bunch of bad guys who just need to leave it in the ground." Shell Oil Co. is the U.S. affiliate of Royal Dutch Shell Plc (NYSE: **RDS.A**) and employs about 20,000 people, mostly in the Houston and Gulf Coast area.

Click here

to read more of
this story online.



"If we were to do that, guess what, everybody that consumes energy, their prices would go up or they're going to go without energy," he said. "That impacts the people with the lowest incomes the hardest."

And it would be impractical. For those committed to the idea of abandoning fossil fuels, Culpepper suggested finding a cozy spot

for resettlement.

"I say we find a place where they can live and be comfortable when the lights go off because the sun doesn't shine or the wind doesn't blow," he said.

Shell is actively addressing climate change and how to best respond. Part of the company's reasoning behind February's \$70 billion purchase of BG Group Plc was the allure of BG's expansive LNG trading portfolio.

The acquisition of BG Group makes Shell the largest player in the LNG space. Shell is now more weighted to natural gas than oil and regards gas as a natural bridging fuel as the world struggles to manage growth while also curbing greenhouse emissions.

The company has already started to talk about itself not as just an oil and gas company, but as an energy company.

"I'd say we're drifting more toward gas and drifting more toward a broader range of energy solutions over time," Culpepper said. ■



Culpepper



**IF YOU BUILD IT,
THEY WILL READ ABOUT IT.**

Downloadable Excel sheet of project updates

on the *Midstream Business* site.

<http://www.midstreambusiness.com/construction-project-updates>

Deloitte Survey: Midstream Companies Consider Combos

While MLPs have largely gone dormant in the current market, many Deloitte survey respondents expect a moderate level of midstream consolidation in 2016 and 2017.

Click here

to read more of
this story online.



“Consolidation is increasingly seen as a strategy for growth where building new pipe has become harder to execute with opposition and regulations that have delayed getting projects getting off the ground,” Ray Ballotta, M&A transaction services partner at Deloitte, said at the recent oil and gas conference in Houston.

Notably, the Dakota Access Pipeline received all required approvals to add 1,172 miles of line before protestors briefly won an injunction to stop construction. On Sept. 9, after a U.S. district judge ruled that the Dakota Access project was in compliance with U.S. rules and regulations the Department of Justice, Department of the Army and Department of Interior put a halt to the pipeline anyway. —**DARREN BARBEE**, Hart Energy

MIDSTREAM CONNECT



Centurion Midstream CEO Tom Ramsey compares the relative strengths of the Delaware Basin and the Eagle Ford Shale in this month’s online video, hosted by Hart Energy’s Heather Rosenbaum.

Click **here** or on the photo to view.

Unit Hunting Stack Midstream

Life maybe returning to Unit Corp. (NYSE: **UNT**).

Unit is pursuing opportunities to extend its midstream assets into the Stack play in Oklahoma, Seaport Global Securities said in a Sept. 15 report.

“The company noted that parts of its Oklahoma infrastructure are near enough to the Stack to potentially see opportunities for growth,” Seaport said.

Click here

to read more of
this story online.



In first-quarter 2016, Unit shut down drilling at its E&P operations due to commodity prices. Unit said that if commodity prices hold, the company is likely to resume drilling in late 2016.

The company also said in a call with Seaport that it is continuing to streamline its E&P assets and has sold assets as well as added to its core basins, though “nothing by itself is a large transaction.” The company’s upstream operations include the Mississippian, Hoxbar and Wilcox Liquids Play. —**DARREN BARBEE**, Hart Energy

FRAC SPREAD

Off The Beaten Path And Beaten Down

By JOSEPH MARKMAN, Hart Energy

It's not just the U.S. presidential election that has strayed from the path of predictability—energy commodity prices have as well.

The shale boom wreaked havoc on the formerly reliable NGL-to-crude ratio, Kelly Van Hull of RBN Energy

LLC wrote this week, a phenomenon that could ultimately cut into margins at the petrochemical crackers now under construction.

RBN defines the ratio as the weighted average of Mont Belvieu NGL prices divided by CME/Nymex front-month crude oil futures prices. RBN's NGL mix is 42% ethane, 28% propane, 11% butane, 6% isobutane and 13% C₅. By comparison, Hart Energy's mix is 36% ethane, 30% propane, 12% butane, 6% isobutane and 16% C₅.

NGL supply growth spurred by the shale boom strangled NGL prices, which led to a steep decline in the ratio. From 2007 to 2012, RBN calculated a ratio that was typically around 60%. Since that time, it has hung around the 40% mark.

Shifts in supply and demand indicate that the ratio has bottomed out, Van Hull wrote. NGL production growth will slow and then flatten between now and 2021 as prices rise for West Texas Intermediate crude oil and Henry Hub natural gas.

RBN forecasts an increase in the average benchmark Henry Hub natural gas price to \$3.50 per million British thermal units (MMBtu) in 2022. Other estimates have U.S. natural gas at \$3.90/MMBtu in 2020 (World Bank); \$3.30/MMBtu in 2021

CURRENT FRAC SPREAD (CENTS/GAL)				
SEPTEMBER 23, 2016	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	17.63		20.59	
Shrink	20.49		20.75	
Margin	-2.86	18.55%	-0.16	-53.74%
Propane	44.75		49.64	
Shrink	28.30		28.67	
Margin	16.45	4.20%	20.97	2.14%
Normal Butane	60.42		65.10	
Shrink	32.04		32.46	
Margin	28.38	0.27%	32.64	0.37%
Isobutane	71.30		70.73	
Shrink	30.78		31.17	
Margin	40.52	4.26%	39.56	12.31%
Pentane+	94.90		96.05	
Shrink	34.27		34.71	
Margin	60.63	-4.96%	61.34	-6.04%
NGL \$/Bbl	19.74	2.46%	20.90	2.02%
Shrink	11.29		11.43	
Margin	8.45	-1.70%	9.47	-0.64%
Gas (\$/mmBtu)	3.09	5.82%	3.13	4.33%
Gross Bbl Margin (in cents/gal)	18.55	-1.56%	21.49	-0.34%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	0.97	4.01%	1.13	5.37%
Propane	1.55	5.22%	1.72	3.40%
Normal Butane	0.65	3.14%	0.70	2.31%
Isobutane	0.44	4.93%	0.44	8.65%
Pentane+	1.22	-1.33%	1.24	-2.54%
Total Barrel Value in \$/mmbtu	4.84	2.95%	5.24	2.61%
Margin	1.75	-1.75%	2.11	0.15%

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. (International Monetary Fund); and \$3.60 in 2019 (Economist Intelligence Unit). Prices at Henry Hub closed north of \$3/MMBtu this week.

In a more bullish perspective, Bernadette Johnson of Ponderosa Advisors LLC said at the recent Midstream Texas conference in San Antonio she expected \$4/MMBtu gas in 2017..

The hypothetical NGL barrel rose in the past week to 11-week highs of nearly \$21 at Mont Belvieu, Texas, and \$20 at Conway, Kan. This was echoed by 11-week highs for ethane at both hubs. ■

[Click here](#)

to read more of
this story online.



TOP STORIES

UK Will Receive First Shipment Of Gas Hydraulically Fractured In US

The first shipment of natural gas hydraulically fractured from U.S. shale will arrive in Britain next week, increasing pressure on Scotland to reassess its opposition to fracking.

Chemicals giant Ineos will be importing ethane, obtained from rocks fractured at high pressure, in a foretaste of larger deliveries of LNG from U.S. shale set to reach Europe in 2018.

Click here

to read more of
this story online.



The shipment of ethane, used to make plastics, antifreeze and detergents, will arrive in Scotland's Firth of Forth on Sept. 27, accompanied by a lone Scots piper at sunrise, the company said.

Zurich-based Ineos opposes a Scottish moratorium on fracking. It is Britain's biggest shale gas company in terms of acreage and it has promised to share 6% of future shale gas revenue with local residents.

Chairman Jim Ratcliffe, one of Britain's wealthiest men, argues he is offering the potential from shale fracking to create tens of thousands of jobs, putting pressure on the Scottish government grappling with an economy expected to be weakened by Britain's decision to leave the EU. —REUTERS

ExxonMobil To Pay \$12M In Mont. Spill Settlement

ExxonMobil Corp. (NYSE: **XOM**) has agreed to pay \$12 million to Montana and the U.S. government to restore natural resources damaged or destroyed by a pipeline rupture in 2011 that spilled oil into the Yellowstone River, according to a settlement proposed on Sept. 21.

ExxonMobil Pipeline Co.'s Silvertip pipeline burst July 1, 2011 at a crossing beneath the flood-swollen Yellowstone River near Billings, Mont., about 150 miles (241 km) downstream from Yellowstone National Park.

The release of 1,500 barrels of crude oil affected 85 miles of a river known for its near pristine waters, wealth of wildlife and world-class fisheries.

Under the agreement unveiled Sept. 21, funds from ExxonMobil would be used to mitigate harm caused by the spill to fish, wildlife, migratory birds and aquatic habitat.

A restoration plan drafted by the state and federal governments would, among other things, seek to restore riparian and terrestrial habitats, stabilize river banks and expand fishing access in and around the river. —REUTERS

Tribal Leaders, Obama To Discuss Disputed Pipeline At Conference

The leaders of hundreds of Native American tribes will meet with President Barack Obama at his eighth and final Tribal Nations Conference at the White House during the week of Sept. 26, while thousands of activists are encamped on the North Dakota prairie protesting the \$3.7 billion Dakota Access oil pipeline.

The conference, designed to improve the relationship between Washington and the tribes, offers the last chance for this administration to hear from tribal leaders about the shortcomings of the current consultation system, which has been a source of conflict over the Dakota Access Pipeline and other projects. —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

ORDER TODAY!

Call: 1-713-260-4630 | Fax: 1-713-840-1449

HART ENERGY

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

Copyright 2016. All rights reserved. Reproduction of this newsletter, in whole or in part, without prior written consent of Hart Energy is prohibited. Federal copyright law prohibits unauthorized reproduction by any means and imposes fines up to \$100,000 for violations. Permission to photocopy for internal or personal use is granted by Hart Energy provided that the appropriate fee is paid directly to Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923. Phone: 978-750-8400; Fax 978-646-8600; E-mail: info@copyright.com.