

MIDSTREAM

Monitor

SEPT. 30, 2016 | VOLUME 34 | ISSUE 39

FEATURES

Delays Choke Pipeline Takeaway Projects In Northeast



By **JOSEPH MARKMAN**, Hart Energy

HOUSTON—It's the red dotted line that first catches the eye. That's the indicator on the chart tracking the immense increase in natural gas pipeline capacity in the Northeast—about 15 billion cubic feet per day (Bcf/d)—that is scheduled to come into service from third-quarter 2016 through third-quarter 2017.

Problem is, most of it won't.

Luke Jackson, senior analyst for S&P Platts, watched growth in gas production from the Marcellus and Utica plays and realized that the regional bottleneck is going to worsen into a long-term

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NORTHEAST from Page 1

headache despite a host of projects launched to relieve it.

“Delays are at the forefront and the Northeast simply cannot grow without additional infrastructure being put into place,” he said at the recent **S&P Global** Energy Symposium. “You’re also starting to see basis differentials tighten up compared to Henry Hub.”

Stewart Glickman, sector head of energy and materials at S&P Global Market Intelligence, echoed Jackson’s concerns about getting projects to fruition. Of the 42 projects that the firm’s analysts are tracking, 21 are categorized as early development. That means that the permitting process has started but nothing has been approved; there is no financing in place and contractors have not yet been signed up.

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“There are lots of reasons why getting from A to B is not a simple procedure,” he said.

One is the historical structure of midstream pipeline companies, which has tended to be the MLP. These companies offered generous yields to attract investors who would fund their aggressive growth projects.

That worked until late 2014, when the price of oil began to plunge, taking other commodity prices and the bullishness of the industry along with it.

“A lot of pipelines have found religion at this point,” Glickman said. “The MLPs and the GPs that support them—you’re seeing what used to be chronic overspending starting to move in the direction of these companies really trying to do a better job of living within their means.”

S&P’s forecast for U.S. gas production is relatively flat for the rest of 2016, Jackson said, but 2017 will show significant growth of about 2 Bcf/d, the bulk of it coming from the Northeast. Some will also come from the Southeast, with Texas and the Midcontinent picking up in the latter part of the year. ■



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Experts Advise On How To Traverse Tough Times In Texas

SAN ANTONIO—The process of emerging from the downturn provides an extra opportunity to revisit key business principles that can help midstream players: stay engaged with customers, the industry and your team.

That was the message from Stephen Morgan, vice president of **TransTex Treating** as he recapped factors contributing to the energy downturn for attendees at Hart Energy’s recent Midstream Texas conference. Ahead of the commodity crash, companies levered up balance sheets by outspending cash flow as Wall Street rewarded aggressive growth with high trading multiples, he said.

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Principles to abide by in order to weather the storm include focusing on core competencies, gaining and retaining recurring business revenue streams and employing disciplined financial management, he said. These principles helped TransTex in that it “lost only one employee” in the downturn.

And keeping close to customers is critical—and easier—now that so-called gate guards have less traffic to handle, according to Morgan. “They’re saying that no one’s coming by,” he said. “But now, more than ever, we need to be increasing our face time with our customers.” —**CHRIS SHEEHAN, Hart Energy**

GPA Midstream Adds Regulatory Focus

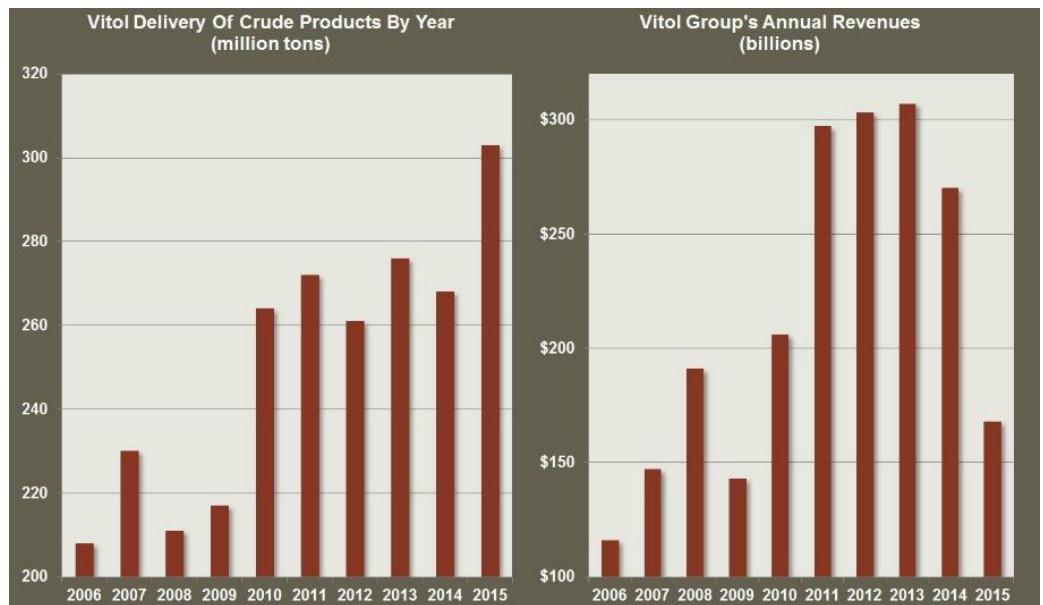
SAN ANTONIO—The midstream’s leading advocacy group has evolved and added multiple roles in its 95-year history to meet the needs of its members. Today, that means a focus on regulatory matters.

Mark Sutton, president and CEO of the **GPA Midstream Association**, told attendees at Hart Energy’s 2nd annual Midstream Texas conference that the association now stands as “the only trade group that advocates for a midstream position” with the federal and state governments in major producing regions.

—**PAUL HART, Hart Energy**

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Source: Vitol Group, Hart Energy

Vitol Bucks Trend, Backs Out Of Permian

The Permian Basin may be the sole U.S. shale oil play charging ahead through this downcycle, but The Netherlands-based Vitol Group has decided to pull out.

Vitol agreed to sell its Permian crude oil system, including its 50% interest in SunVit Pipeline LLC, to Sunoco Logistics Partners LP (NYSE: **SXL**) for \$760 million on Sept. 26. Other components of the deal include a 2 million barrel (MMbbl) crude oil terminal in Midland, Texas, and crude inventories related to Vitol’s West Texas purchasing and marketing operations.

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—**JOSEPH MARKMAN, Hart Energy**

FRAC SPREAD

NGL Price Up But Winter Of Discontent Approaches

By JOSEPH MARKMAN, Hart Energy

The hypothetical NGL barrel rose for the third straight week to its highest weekly average in three months and second-highest point for the year at both hubs tracked by Hart Energy.

With the fourth quarter upon us, what does that mean for price trends going forward? “Not out of the woods yet” was the theme expressed by Peter Fasullo, co-founder and principal of **En*Vantage**, in a recent presentation to Morgan Stanley.

CURRENT FRAC SPREAD (CENTS/GAL)				
SEPTEMBER 30, 2016	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	18.20		21.65	
Shrink	18.56		20.55	
Margin	-0.36	-80.03%	1.10	9.10%
Propane	47.80		52.43	
Shrink	25.65		28.39	
Margin	22.15	23.93%	24.04	6.43%
Normal Butane	64.03		67.65	
Shrink	29.04		32.14	
Margin	34.99	16.67%	35.51	3.00%
Isobutane	73.97		73.53	
Shrink	27.89		30.87	
Margin	46.08	9.52%	42.66	3.26%
Pentane+	96.20		98.85	
Shrink	31.05		34.37	
Margin	65.15	4.47%	64.48	1.87%
NGL \$/Bbl	20.54	4.08%	21.80	4.28%
Shrink	10.23		11.32	
Margin	10.31	14.35%	10.48	3.56%
Gas (\$/mmBtu)	2.80	-4.57%	3.10	4.94%
Gross Bbl Margin (in cents/gal)	23.00	15.57%	23.89	3.75%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	1.00	3.23%	1.19	5.15%
Propane	1.66	6.82%	1.82	5.62%
Normal Butane	0.69	5.97%	0.73	3.92%
Isobutane	0.46	3.74%	0.46	3.96%
Pentane+	1.24	1.37%	1.27	2.92%
Total Barrel Value in \$/mmbtu	5.05	4.33%	5.48	4.51%
Margin	2.25	17.99%	2.38	3.95%

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.

pressure on export spreads unless customers in Asia and Europe are experiencing cold winters as well.

So let's turn to the weather report: “Winter will be colder than normal on average, with slightly above-normal precipitation and near-normal snowfall.”

Granted, the preceding U.S. Northeast forecast is generated by *The Old Farmer's Almanac*, but it aligns with expectations from **AccuWeather**, which also warns of potential citrus crop damage in the Southeast during a harsh January.

In general, though, weather predictions for fall and winter are “less confident” this year, Tony Barnston, chief forecaster at **Columbia University**, told CNBC, because of a weakening La Niña pattern. Strong weather patterns give forecasters something to work with. Weak ones mean the weather will be subject to random events and influenced by other variables that can't be anticipated months in advance. ■

“Not out of the woods yet” was the theme expressed by Peter Fasullo, co-founder and principal of **En*Vantage**, in a recent presentation to Morgan Stanley.

To get an idea of how dense these woods are, consider the slowing growth in U.S. NGL extraction capability, which soared between 2010 and 2014. Fasullo acknowledged that the supply side should be helped by this, but surplus NGL supplies complicate matters overall.

He expects NGL extraction to peak in 2017, but noted that data could ultimately show that the peak occurred in 2016. If crude prices remain steady, Fasullo said, he would alter his forecast to reflect lower extraction over the next four to five years.

Much about the short term depends on the weather. Avoiding high inventories of propane in spring 2017 requires a normal winter with healthy exports. That's important, because the drawdown of 30 million barrels (MMbbl) to 35 MMbbl of propane from inventories won't be enough by itself.

But Fasullo expects a sharp drop in propane exports for winter 2016-2017 compared to 2015-2016. That's because the spread is so shallow that customers like Japan can buy it much cheaper elsewhere.

But let's say the U.S. endures a cold winter. In all likelihood, propane prices will go up and drawdowns will increase, but those higher prices will put

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TOP STORIES

OPEC Agrees To Stop The Bleeding At 32.5 Million Bbl/d

OPEC agreed on Sept. 28 to reduce its oil output to 32.5 million barrels per day (MMbbl/d) from the current production levels of around 33.24 MMbbl/d, two **OPEC** sources told *Reuters* Sept. 28.

The producing group will agree to concrete levels of production by each country at its next formal meeting in November, the sources said. One source also said that once production targets were reached, OPEC would reach out to non-OPEC producers for cooperation.

In third-quarter 2014, just as oil began its fall, OPEC output averaged 31.46 MMbbl/d, according to the International Energy Agency (IEA).

Crude futures moved \$1/bbl higher by 11:30 a.m. CT as indications began to point to OPEC action.

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**Calls For Vigilance
On Cost Control**

SAN ANTONIO—Midstream players were urged to maintain a tight grip on costs amid low natural gas prices by speakers at Hart Energy's recent Midstream Texas conference.

The midstream sector should maintain "vigilance in driving down costs" as it expands demand-driven natural gas infrastructure needs, attendees heard from John Poarch, vice president, commercial & business development, Williams Cos.

And midstream players and equipment suppliers "need to find ways to significantly reduce the cost of pipelines and processing facilities to remain competitive in today's low cost price environment," said Carlos Conerly, vice president, ISII Plant Services.

Conerly, for instance, pointed to the need for the midstream sector to follow upstream companies' example of having reduced days-to-drill a well by as much as 61%. He cited data showing how wells in northeast Appalachia are being drilled in 10 days, down from over 25 days earlier.

—CHRIS SHEEHAN, Hart Energy

—DARREN BARBEE, Hart Energy

**Midstream A&D Pipes Up:
48 Hours, \$3.8 Billion In Deals**

After a relatively quiet 2016 for midstream transactions, the sector wrenched out multiple pipeline deals in a two-day span as the third quarter comes to a close.

Midstream deals totaled more than \$3.8 billion in the last week of September.

Among them: Detroit utility **DTE Energy** said it would pay \$1.3 billion to purchase midstream assets that connect the southwest Marcellus and dry Utica to markets in Michigan, Ohio, Chicago and Ontario, Canada.

DTE's purchase includes all interest in M3 Midstream's Appalachia Gathering System in Pennsylvania and West Virginia. DTE also agreed to buy M3's 40% interest and Vega Energy Partners' 15% stake in Stonewall Gas Gathering (SGG) in West Virginia.

—DARREN BARBEE, Hart Energy

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