

MIDSTREAM

Monitor

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FEATURES



Source: Hart Energy

Enbridge's crude oil pipeline system in Jones Creek, Texas.

Enbridge Buys Spectra For \$28B

By **JOSEPH MARKMAN**, Hart Energy

A \$28 billion all-stock deal will meld Calgary, Alberta-based Enbridge Inc.'s (NYSE: **ENB**) 17,150 miles of North American crude oil pipelines with Houston-based Spectra Energy Corp.'s (NYSE: **SE**) 17,100 miles of long-haul natural gas pipelines. This allows the new company, to be called Enbridge Inc., to instantly become a gas-transporting powerhouse at a time when resistance from environmentalists has added to the typical challenges of organic growth.

Spectra represents an "extension of the runway," Enbridge CEO Al Monaco said during a conference call with analysts. "We all know it's pretty difficult to execute projects these days."

Continued on Page 3

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ENBRIDGE from Page 1

Monaco will be CEO of the combined company, which would have a market capitalization of about \$69.5 billion and be based in Calgary. Spectra CEO Greg Ebel will serve as chairman.

The transaction, if approved as expected in first-quarter 2017, will unite the Nos. 6 and 7 companies on Hart Energy's **Midstream 50** list, which ranks the sector's players based on previous year's EBITDA. Enbridge's EBITDA for 2015 was \$2.8 billion; Spectra's was \$2.75 billion.

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Based on The Midstream 50, the new company's total assets will be about \$94 billion, surpassing Kinder Morgan Inc.'s (NYSE: **KMI**) roughly \$84 billion to lead the ranking.

In market cap and enterprise value, the new Enbridge would not only lead all public companies in the midstream, but would become the fourth-largest Canadian company and the ninth-largest energy company in the world, according to an investor presentation. ■



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Dakota Access Pipeline Protests Erupt In Violence

Ongoing protests against the Dakota Access Pipeline took a violent turn Sept. 3, with local and out-of-state demonstrators crashing through a fence where vehicles were working. In the fracas, demonstrators and private security were injured.

Separately, a federal judge ordered Sept. 6 that some construction on the pipeline be halted, though other parts may proceed. The Morton County (N.D.) Sheriff's Department reported private security officers were assaulted Sept. 3 after about 300 protesters broke down a wire fence and broke into the pipeline construction area, which is on private property. Protesters climbed on construction vehicles to halt work.

"Any suggestion that this was a peaceful protest is false. This was more like a riot than a protest," said Morton County Sheriff Kyle Kirchmeier. "Individuals crossed onto private property and accosted private security officers with wooden posts and flag poles. While no arrests were made at the scene, we are actively investigating the incident and individuals who organized and participated in this unlawful event," he said in a Facebook post. —**DARREN BARBEE**, Hart Energy



Morton County Sheriff's Department

Deputies remove a protester from construction equipment at the Dakota Access Pipeline work site.

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Santos To Cut Production

Faced with brutal market conditions and an \$18.5-billion price tag on its Gladstone LNG plant, Santos has announced the almost unprecedented move to cut production at its brand new Australia facility. After bringing the export terminal online less than a year ago, Santos management said that it would look to operate both trains at a reduced capacity to stay as competitive as possible. In addition, the cash-strapped company said that it would opt to source more of its gas supply from third parties as opposed to drilling more coal seam gas wells.

—**STRATAS ADVISORS**

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Excelerate Energy Completes LNG Ship-To-Ship Transfer Milestone

The Woodlands, Texas-based Excelerate Energy LP recently announced that it completed its 1,000th commercial ship-to-ship (STS) transfer of LNG on Aug. 31 in Escobar, Argentina, at GNL Escobar LNG import terminal.

Using Excelerate Energy's floating storage regasification unit (FSRU) *Expedient* and a conventional LNG carrier, 83,767 cubic meters of LNG were transferred using the double-banked LNG transfer system.

"We are pleased that this achievement was accomplished with both Enarsa and YPF in Argentina," said Excelerate Chief Development Officer Daniel Bustos.

"Argentina was one of the first adopters of floating regasification. Their early confidence in our technology and STS process helped prove the inherent benefits of FSRU terminals, and ultimately enabled the market to grow," he said.

—**BRYAN SIMS**, Hart Energy

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FRAC SPREAD

Price Rebound Will Be Better Latte Than Never

By JOSEPH MARKMAN, Hart Energy

Sometime around this summer's debut of the Caramel Waffle Cone Frappuccino, NGL prices themselves began to waffle within a 9% range. The July-August average for the hypothetical barrel fell 9.3% at the Mont Belvieu, Texas, hub and 13% at Conway, Kan., compared to the average in May-June.

CURRENT FRAC SPREAD (CENTS/GAL)				
SEPTEMBER 9, 2016	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	15.75		17.86	
Shrink	18.50		18.50	
Margin	-2.75	-17.36%	-0.64	-18.20%
Propane	39.16		45.03	
Shrink	25.56		25.56	
Margin	13.60	-0.60%	19.47	-4.93%
Normal Butane	55.25		59.49	
Shrink	28.93		28.93	
Margin	26.32	4.00%	30.56	3.34%
Isobutane	63.00		61.17	
Shrink	27.79		27.79	
Margin	35.21	-1.83%	33.38	-2.18%
Pentane+	90.31		92.52	
Shrink	30.94		30.94	
Margin	59.37	-13.99%	61.58	-12.00%
NGL \$/Bbl	17.96	-6.13%	19.15	-5.51%
Shrink	10.19		10.19	
Margin	7.77	-6.63%	8.95	-6.68%
Gas (\$/mmBtu)	2.79	-5.74%	2.79	-4.45%
Gross Bbl Margin (in cents/gal)	16.94	-6.22%	20.26	-6.49%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	0.87	-3.37%	0.98	-3.88%
Propane	1.36	-4.02%	1.56	-4.66%
Normal Butane	0.60	-1.34%	0.64	-0.60%
Isobutane	0.39	-3.60%	0.38	-3.23%
Pentane+	1.16	-11.33%	1.19	-9.61%
Total Barrel Value in \$/mmbtu	4.38	-5.58%	4.76	-5.17%
Margin	1.59	-5.29%	1.97	-6.16%

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.

Butane was down 8.5% during July-August at Mont Belvieu and 13% at Conway. With winter driving season approaching, demand typically rises as refiners blend more butane into gasoline to ensure that engines start on cold days.

But Kelly Van Hull's analysis this week in RBN Energy LLC's report questioned whether that will happen. The spread between reformulated blendstock for oxygenate blending (RBOB) and butane was so thin at the end of August that the economics of adding butane to gasoline is the weakest since 2010.

Arbitrages have weakened between Mont Belvieu and markets in Europe, Africa and Asia, which has cut into exports since March, Van Hull wrote. How this plays out remains to be seen. ■

Will Starbucks' caffeine-laden offerings like Pumpkin Spice Latte and the beloved Salted Caramel Mocha give prices an autumn perk-me-up, or will we simply witness another fall?

In fact, there is no confirmed statistical correlation between consumption of coffee and market trends, although individuals employed both inside and outside of the energy industry have experienced massive growth linked to the S'mores Frappuccino (500 calories, 180 calories from fat, with 75 carbs in the grande version).

Only C₅₊ escaped the Frappuccino season relatively unscathed and it has suffered a beating in the past two weeks after a swift rise in mid-August. The rest of the NGL endured sharp setbacks during the two-month period.

Ethane led the retreat, its price dropping 23.9% at Mont Belvieu and 15.7% at Conway. The average price in August was 10.6% lower than in July at Mont Belvieu and 11.1% lower at Conway.

North American propane, with Asian markets seeking better deals from the Middle East, dropped 11.9% at Mont Belvieu and a whopping 19.9% at Conway. While propane rallied in the spring, it languished in the 30 cent per gallon (gal) range for much of the two-month period and, after the first week of September, was 22.8% below its high for the year set in May.

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TOP STORIES

Noble Midstream Expects To Raise Up To \$263 Million In IPO

Noble Midstream Partners LP expects to raise as much as \$263 million in its IPO after withdrawing plans to go public earlier.

The wholly owned unit of Noble Energy Inc. (NYSE: **NBL**) said on Sept. 7 it expects to price the offering of 12.5 million common units at between \$19 and \$21.


The Houston-based company shelved its plan to go public in November due to a slump in oil prices. It first filed for an IPO on Oct. 22.

This year marks a rough patch for IPOs. Freeport-McMoRan Inc.'s (NYSE: **FCX**) oil and gas business withdrew its IPO in May as weak oil prices dented valuations of oil producers.

Only two or three oil and gas producers are expected to start trading by the end of 2016, sources had told *Reuters*. —**REUTERS**

US Advances Oil Reserve Revamp Plan

The Obama administration has sent Congress a plan to modernize the country's emergency oil reserve, a step that could set in motion a sale of about 8 million barrels (MMbbl) from the stash later this year to help pay for the revamp, the Energy Department said on Sept. 7.

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Under the \$1.5 billion to \$2 billion revamp plan, three dedicated marine terminals would be added to the Strategic Petroleum Reserve (SPR), a string of 60 heavily-guarded underground caverns on the Texas and Louisiana coasts.

Also, aging equipment for oil processing, firefighting and security would be fixed or replaced at the SPR, which was last updated in the late 1990s.

"This equipment today is near, at, or beyond the end of its design life," the plan said.

Congress created the SPR in 1975, after the Arab oil embargo spiked oil prices and spurred shortage panics. It now holds 695 MMbbl of crude, the amount the country burns in about five weeks. —**REUTERS**

Rangeland Energy's RIO Pipeline Begins Service

Rangeland Energy said Sept. 7 that its RIO Pipeline is now in commercial service for all shippers transporting crude oil and condensate to market from the Delaware Basin.

The 110-mile, 12-inch pipeline originates at the RIO State Line terminal in Loving County, Texas, a gathering hub at the Texas-New Mexico state line in the heart of the Delaware Basin. The hub has tankage and truck unloading facilities.

The pipeline can transport more than 125,000 bbl/d from the State Line terminal to Rangeland's Geneva and Zurich terminals in Midland, Texas. The Geneva and Zurich terminals provide connectivity through Plains Pipeline LP's Midland terminals to other area terminals and interstate pipelines accessing Cushing, Okla.; East Texas and Gulf Coast markets.

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