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FEATURES

Senate Clears $1.1-Trillion Spending Bill; Awaits Obama's Signature

By **BRYAN SIMS**, Hart Energy

By a 65-33 vote on Dec. 18, the U.S. Senate passed a combined $1.1-trillion spending bill and a $680-billion tax extenders package that funds the government through September 2016 and lifts the 40-year-old ban on U.S. crude oil exports.

The combined bill—which also extends or makes permanent scores of tax incentives for corporations and individuals—now goes to President Barack Obama's desk for signature.

On Dec. 17, the House of Representatives voted separately to approve the tax extenders package, and voted earlier Dec. 18 on the spending bill. Enactment of the spending and tax extender bills effectively brings to an end legislative business for the year.

Lifting the crude oil exports ban was a major priority for Republicans. The historic bipartisan agreement was reached in exchange for several Democratic concessions, including a five-year extension to wind and solar tax breaks.

The American Petroleum Institute (API), which represents a majority of upstream operators, lauded passage of the bills.

“Today, the American people can cheer the House and now the Senate for putting the nation’s energy needs ahead of politics,” API President and CEO Jack Gerard said. “This is a historic moment in our energy renaissance. Lifting this ban will help put downward pressure on gas prices, create jobs, grow our economy and lower our trade deficit. We now urge the president to follow Congress’ lead and sign this legislation into law.

“With the administration’s push to allow Iran to export its oil to the global market, it’s time for U.S. producers to have the same opportunity. Our allies around the world are eager to reduce their reliance on energy from less friendly nations,” he said.

U.S. Northeast lawmakers also secured a new tax break designed to help independent petroleum refiners in the region offset Jones Act shipping costs. Independent refiners (defined as refiners with no upstream production operations) will be able to count 75% of the cost of transporting crude oil toward an existing manufacturing tax deduction.

The goal is to help refiners that serve the Northeast remain competitive with those overseas and minimize the potential for higher energy costs in the region caused by crude oil exports. The bill also allows President Obama to freeze exports for up to a year under certain circumstances, such as a supply shortage or a significant increase in U.S. oil prices vs. the global market.

However, a group of Northeast refiners—collectively named Consumers and Refiners United for Domestic Energy (CRUDE) Coalition—have expressed disappointment that the crude export ban will be lifted, arguing that while newfound, abundant supplies of U.S. crude oil have lessened the impact of OPEC-sourced oil, the country is "far from achieving energy independence or security."

"Advocates of lifting the ban ignore the reality that the U.S. still imports 7 million barrels of oil per day to meet domestic demand, so for every barrel that is exported, a barrel will have to be imported, potentially from an unstable source," according to the group, which consists of Alon USA, Monroe Energy, PBF Energy and Philadelphia Energy Solutions.

"There are numerous policy and regulatory constraints that put U.S. refiners at a distinct disadvantage in the marketplace and Congress fails to address those issues in its rush to overturn current law," the group noted. Obama has previously opposed lifting the ban but will likely sign the legislation.

In October, the Office of Management and Budget (OMB) signaled he would veto lifting the ban on crude exports because exports were "not needed at this time." Congress should have instead focused on supporting a low-carbon economy.

White House Press Secretary Josh Earnest said on Dec. 16 that "frankly, we still don't support it."

Earnest said the administration is not overly concerned with lifting the oil export ban because the U.S. already exports 4.3 million barrels a day (Mbbl/d) of refined petroleum products.

"The fact is there was already substantial petroleum products, both refined and unrefined, that were already being exported," he said.

Obama supports the legislation because he is now satisfied with pinning down wind industry tax credits and securing a five-year tax credit for the solar industry.

The investment firm noted that the potential for oil exports in the near-term will also be hampered by the decline in U.S. production as well as the increased demand from domestic refiners for light crude.

If nothing else, opening up the export market will help create a floor for WTI prices in the near-term and potentially provide a boost to heavy NGL prices, which have a close relationship to crude.

Analysts Saw Cheniere Showdown Coming

By **JOSEPH MARKMAN,** Hart Energy

Analysts following Cheniere Energy Inc. expressed surprise at the timing of Charif Souki's departure from the company he built, but not at the outcome of the inevitable confrontation with Carl Icahn, the company's largest investor, given the conflicting outlooks of the two industrial titans.

Yesterday, analysts spoke with Hart Energy about Souki's ouster, and today more analyst are weighing in.
"I frankly was not anticipating this," Sunil Sibal, senior analyst at Seaport Global Securities told Hart Energy. "I felt there might have been a little bit of tension between Icahn's team and Charif, considering that they were trying to bring in very different kinds of approaches. Carl Icahn is more about returning cash to the shareholders. Charif, on the other hand, is a big visionary who did not have returning cash to the shareholders as his first priority."

William Frohnhoefer, managing director of BTIG LLC, also saw a showdown coming, with Icahn's board members pushing for a tighter focus on balance sheet management and cash return to shareholders. He did not expect such an abrupt change.

"I was more assuming that there was going to be a debate with an eventual meeting of the minds and compromise on both sides," he told Hart Energy. "Apparently there was a lot less room for compromise than I thought in the attitudes of the two parties."
Souki's free-wheeling approach to spending put him on a collision course with Icahn, but it was the struggles of the commodity markets that brought the conflict to a head. Cheniere's stock price, down 42% this year, echoes the woes of many in the industry.

"I think the weakness in the shares today is probably based more on two things: the fear of Fed action coming up soon, and also the poor performance of oil in the world market today," Frohnhoefer said. "The feedback that we've gotten so far from shareholders has been quite positive in the sense that they want to see a CEO who a) is not selling shares, which really kind of rubbed them the wrong way; and b) someone who they think will be more focused on either returning cash or paying down debt or doing other battening-the-hatches kinds of work in the current pretty rough energy environment."

In just the second half of this year, as Cheniere's stock continued to fade, Souki sold stock worth around $37 million. He was not alone among Cheniere officers to sell. Greg W. Rayford, senior vice president and general counsel, sold about $3.7 million of stock. Other significant sales, particularly in August, were made by R. Keith Teague, executive vice president; Katie Pipkin, senior vice president; Jean Abiteboul, senior vice president; Meg Gentle, executive vice president; and Michael Wortley, senior vice president and CFO.

Under Souki, Cheniere was the antithesis of a company that played it safe. It was moving forward on a plan to build a $550 million stabilizer at its Corpus Christi complex to be able to export processed condensate. That drift from the core business of liquefaction and operating LNG export facilities riled some shareholders, but Souki's plan was always to pursue future opportunities.

"Unlike building a pipeline or building a storage facility in this country, building an LNG facility is a five-year plan," he told attendees at a meeting of the Houston Producers' Forum last month. "It takes a lot of capital and it takes a lot of time in order to move this. In this business, in this industry—in this country and the rest of the world—you don't get five years of visibility on a very accurate basis. We're in an industry where we're making investments that are supposed to last 20 years, but the business changes every five years. You have to be very nimble, very quick and keep your optionality as much as you can. We're all familiar with this. We all know what we need to do in order to get there. It's not easy to get it done."

Cheniere's board apparently decided that he was not the one to do it.

"What the company needs is somebody who can execute on Charif's grand plan with the assets that are already under construction—basically their Sabine Pass terminal as well as the Corpus Christi terminal," said Sibal. "To the extent that they will bring somebody on board to execute that, I would view it as positive, frankly."

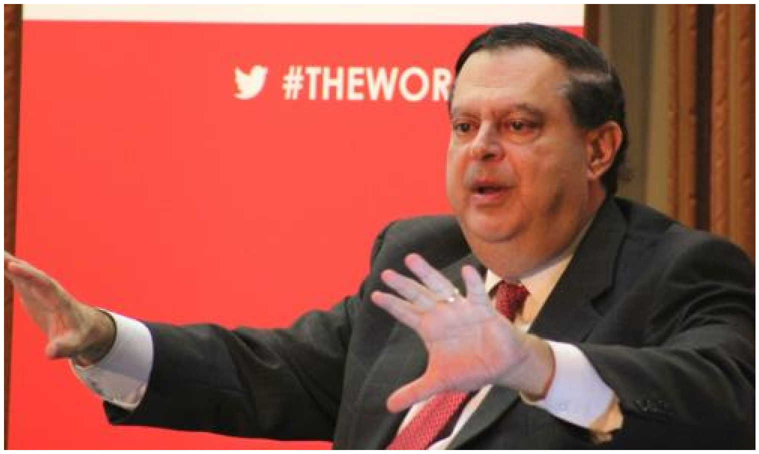
Former Energy Chief: Price Perception Sets This Downturn Apart

By **JOSEPH MARKMAN**, Hart Energy

Commodity down cycles are nothing new to industry veterans, former U.S. Energy Secretary Spencer Abraham told a crowd of executives and observers at *The Economist*'s recent "The World in 2016 Breakfast" in Houston. It's the nature of this particular downturn, especially the shifting perception of price, which sets it apart.

"The interesting thing about the cycle, unlike any that I'm familiar with, is that from the standpoint of the United States, we have spent decades in which as a matter of public policy, as a matter of politics, all of the political community has been excited when the prices of commodities were low," Abraham said. "When I was energy secretary just 10 years ago, we regarded creeping prices of gasoline as a bad political signal for the American electorate."

The last decade of rapidly increasing oil and production from the exploitation of shale plays has enabled a dramatic sea change, he said.



“We’ve gone from a country where low commodity prices were considered to be very positive for the economy to a situation where there’s a much different feeling about it today,” said Abraham, who served under President George W. Bush and also served as a U.S. senator from Michigan. “Now in Texas, stronger prices have always been pretty good news, but for American politics that’s not been the case.”

Abraham, now chairman and CEO of The Abraham Group, a Washington-based strategic consulting firm, also sees significant shifts in OPEC’s approach from building a floor under prices to maintaining its grip on market share. Saudi Arabia, in particular, has altered its philosophy in reaction to increases in oil production in the U.S. and Russia, and the potential for increased output elsewhere.

“I don’t think the Saudis in particular or OPEC as a group are prepared to back off of their policy,” he said.” My feeling is that their hope is—and it’s already happening—you’ve seen significant reductions in capital expenditures among the major oil companies around the world. You’ve seen some of the high-cost projects, particularly the offshore type projects, curtailed.”

A number of other factors on the demand side are the reverse of just a few years ago, Abraham said. Rising global demand has been hindered by a weakened European economy and slower, though still relatively strong, growth in China. The regulatory environment—particularly environmental regulations—hinder increased production, he said.

Abraham took issue with a suggestion by *Economist* Executive Editor Daniel Franklin that OPEC was no longer able to act effectively as a cartel.

“I think it’s behaving very much like a cartel,” he said. “People who are saying that OPEC’s dead are exactly dead wrong. What OPEC has done is just evolved—they’ve evolved with the change in the global marketplace.”
OPEC members’ priorities have shifted, he said, from maintaining a limited amount of volatility of prices and stability, to taking advantage of their roles as low-cost producers and force higher-cost producers to make significant cutbacks in their investments.

The strategy “is perfectly consistent with a cartel,” he said. “It’s just a cartel that’s adapted to the times.”
The times have seen a slump in commodity prices that might appear inevitable to old hands in the oil patch, but have stunned relative newcomers whether in the corporate, investment or analyst communities, Abraham said.

“Veterans of the industry realize that, understand that they have to have a hedge policy, but also the need to weather the storm and I think Houston has proven itself to be extremely resilient in terms of weathering these storms,” he said. “The good news is that as the global community continues to grow, the kinds of products that are manufactured here in Texas are going to be highly sought-after products. And if the United States were to ultimately lift the ban on exporting crude, it would make a very positive change.”

Which Abraham believes will happen, he said in response to a question from Franklin. The trigger, he believes, will be the nuclear deal with Iran.

“It’s going to be very hard for political figures to maintain a policy that says Iran is capable of exporting its crude oil and Texas isn’t,” he said. “It doesn’t hold up politically now. One of the advantages of the low-price environment is that it’s a little easier to make the case.”

Stuck In A Glut: Rating Service Downgrades Oil, Gas

By **DARREN BARBEE**, Hart Energy

The shorthand of Moody’s Investors Service outlook for oil, gas and its producers is 2016 will be a new, but fairly unhappy year.

Oil is likely to stay oversupplied in 2016 and Moody’s tamped down on already low prices in a report released Dec. 15.

Moody’s made changes to its forecasts for prices and segments of the oil and gas industry due to market events, including various reports that oil demand won’t grow to match production in 2016. The firm expects financial pressure to hit E&Ps, drilling and oilfield service companies and integrated corporations.

"OPEC oil producers continue to produce without restraint as they compete for market share, exacerbating the currently saturated markets," said Terry Marshall, a Moody's senior vice president. "Russia has also greatly increased production, and the possibility that sanctions will be lifted on Iran in 2016 could flood the market with even more supply."

Moody's significantly lowered its 2016 price assumptions for crude and natural gas as high levels of production globally have significantly exceeded growth in oil consumption. Brent prices fell 19%, West Texas Intermediate (WTI) by 17% and Henry Hub by 18%.

Moody’s said the integrated oil and gas sector will grapple with negative free cash flow through the year and companies will need to further trim capex despite a 20% cut in 2015, according to a report, "Global Oil & Gas 2016 Outlook: All Regions and Sectors Facing Lower-for-Longer Environment."

Moody’s rated the E&P sector’s outlook negative. EBITDA is expected to decline by up to 25% in 2016 as commodity prices bottom and the pace of recovery remains uncertain. Production growth will stall and should decline in 2016. Despite cost reductions, evaporating price hedges will add to cash flow woes, the rating service said.

Oil and Gas Outlooks By Segment, Through 2016

	Integrated Oil and Gas	E&P	Drilling/Oilfield Services	Midstream/MLPs
EBITDA:	Modest recovery in 2016 from 2015 lows.	Declines 20-25% in 2016.	Declines by at least 20%in 2016.	Growth will flatten.
Stressors:	Negative free cash flow across group.	Commodity price bottom and recovery pace uncertain.	NAM activity weak, international activity softening.	Weak NGL, natural gas prices pressure G&P volumes and margins.
Cash Flow:	Negative free cash flow across group.	Commodity hedges rolling off, adding to pressure.	Overcapacity, weak demand puts heavy pressure on service, drilling companies.	Growth capital spending is slowing.
Costs:	Further capital spending cuts.	Cost reductions being realized.	N/A	Weak equity markets making de-leveraging more costly.
Rating:	Negative	Negative	Negative	Stable

Source: Moody’s Investors Service Global Oil and Gas 2016 Outlook

However, medium-term price assumes return to an environment that supports development of all but most expensive oil plays along with lowered cost structure, Moody’s said.

E&Ps will need to see a change in oil supply dynamics before prices stabilize.

Natural gas producers will also continue to see weak prices with storage levels at record peaks and an extremely cold weather needed to make them budge.

Some help will emerge in 2016, though none are game changers, Moody’s said.

- North American LNG exports and petrochemical plants will develop slowly;
- Long-term coal-to-gas switching for power generators;
- Industrial demand improving; and
- Commercial transportation and other users of gasoline/diesel starting to convert to natural gas.

Until then, E&Ps are headed for credit, cash and production challenges.

Revenue will shrink in 2016 as E&Ps look to their sweet sports to avoid declines in production with drastically lower capex. Companies that have improved their capital efficiency and lowered oilfield service costs should be able to support their cash flow profile, despite commodity prices.

"Low commodities prices and uncertainty about the pace of their recovery will continue to limit exploration and production activity in 2016, leading to spending cuts, stalled production growth and volume declines," said Steve Wood, Moody's managing director of the oil and gas team. "These cuts will in turn lead to lower revenue for drilling and oilfield services companies, which will face persistent equipment overcapacity and need to minimize capital expenditures just to operate near break-even cost levels."

Across the board, companies will face a tricky 2016, starting with the slow leak in E&Ps’ “liquidity cushion.”

Reserve Decline

Moody’s expects borrowing bases for many E&Ps to shrink as banks reduce their price assumptions for oil and natural gas prices.

Several other factors will reduce borrowing bases, including asset impairments, the E&P industry’s cutbacks in exploration operations, drilling reductions and generally lower hedges on production in 2016, said James Wilkins, senior analyst at Moody’s.

Creditors review E&Ps’ borrowing ability semi-annually. Prolonged, lower commodity prices will only serve to weaken the liquidity of many lower-rated North American companies.

Reduced borrowing bases will force some companies to seek to enhance liquidity either by finding alternate sources, improving margins or limiting capital spending,” Wilkins said.

“A few companies have RBL facilities that mature in 2016, including Ultra Petroleum Corp. (NYSE: UPL), heightening their refinancing risk at a time when some lenders may be trying to reduce exposure to the oil and gas industry,” Wilkins said.

However, the pain from declining price desks will only stress a limited number of companies, Wilkins said. “Borrowing bases that exceed commitments or fast growth in reserves [from relatively young entrants in the E&P space] can limit the impact of lower commodity prices,” he said.
However, several E&Ps appear likely to face a challenge in meeting their debt covenants.

“Many companies amended their credit agreements in 2015 to relax existing financial covenants or to substitute different test metrics for an interim period,” Wilkins said.

“A few E&P companies may still need to seek covenant relief,” he said. “However, we expect some amendments will be forthcoming for companies that have adequate collateral coverage for their outstanding debt.”

Without Restraint
Oil prices seem set to be lower for much, much longer.

Chiefly, global oversupply will be extended as Saudi Arabia and Russia reach their highest production levels since early 1990s. Lower Chinese oil demand and the coming exports from Iran will also pose challenges. "OPEC and many non-OPEC oil producers continue to produce without restraint as they battle for market share," Marshall said. "Increased production has vastly exceeded growth in oil consumption, including from major consumers like China, India and the U.S."

Moody's lowered its prices across the board for Brent and WTI crudes, natural gas and NGL.

Moody's Oil and Natural Gas Price Assumptions, 2016-18

	2016	Previous 2016	2017	Previous 2017	2018	Previous 2018	Medium Term	Previous
WTI:	$40	$48	$45	$55	$50	$63	$60	$70
Brent:	$43	$53	$48	$60	$53	$68	$63	$75
Henry Hub:	$2.25	$2.75	$2.50	$3.00	$2.75	$3.25	$3	$3.50
NGL:	$12	$18	$13.50	$20	$15	$22	$18	$25

Source: Moody's Investors Service

Moody's said that increases in OPEC oil production have offset global demand growth by about 1.2 million barrels per day (MMbbl/d) and led to rapidly filling oil inventories.

In October, inventories in the Americas, Asia and Europe stood at 4.4 billion barrels according to Energy Intelligence, compared with 3.8- to 3.9 billion barrels in the past five years, Moody's said.

"Although capital spending has dropped substantially and the U.S. rig count has declined by more than half, U.S. production has only recently begun to decline," the firm said.

FRAC SPREAD

Frac Spread: Near-Term Struggles Continue

By FRANK NIETO, Hart Energy

As 2015 staggers to a close, a confluence of events has combined to lower crude, NGL and natural gas prices. The prime culprits in dragging prices down are a mild fall and winter that has limited heating demand, and multiple production gluts that are being exacerbated by OPEC continuing at current production rates.

It remains to be seen whether the bottom has been reached or is close to being reached, but the current market dynamics are likely to improve outside of the near- to short-term, according to Barclays Capital.

CURRENT FRAC SPREAD (CENTS/GAL)				
DECEMBER 18, 2015	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	13.70		15.02	
Shrink	11.07		12.20	
Margin	2.63	49.59%	2.82	-3.19%
Propane	32.50		38.50	
Shrink	15.30		16.85	
Margin	17.20	-8.03%	21.65	-9.39%
Normal Butane	54.52		56.42	
Shrink	17.32		19.08	
Margin	37.20	-6.46%	37.34	-10.75%
Isobutane	60.66		56.92	
Shrink	16.63		18.33	
Margin	44.03	-3.61%	38.59	-11.40%
Pentane+	92.86		94.16	
Shrink	18.52		20.41	
Margin	74.34	3.28%	73.75	1.38%
NGL $/Bbl	16.90	-5.33%	17.77	-6.35%
Shrink	6.10		6.72	
Margin	10.80	-0.68%	11.05	-5.02%
Gas ($/mmBtu)	1.67	-12.57%	1.84	-8.46%
Gross Bbl Margin (in cents/gal)	23.96	-0.88%	25.03	-5.35%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.75	-4.99%	0.83	-7.51%
Propane	1.13	-10.22%	1.34	-8.98%
Normal Butane	0.59	-8.49%	0.61	-9.99%
Isobutane	0.38	-6.24%	0.35	-10.47%
Pentane+	1.20	-0.32%	1.21	-0.93%
Total Barrel Value in $/mmbtu	4.05	-5.86%	4.34	-6.86%
Margin	2.38	-0.49%	2.50	-5.64%

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.

"The post-OPEC oil price decline is less a function of deteriorating long-term fundamentals and more a function of short-term sentiment, momentum, and weather, in our view. In that sense, we see the 2008 low Brent price of $36 per barrel (/bbl) as a target that could be met or exceeded either in the next couple weeks or in the first quarter, though this is not our base case," the investment firm said in Dec. 14 research note.

"To remain stable for the next several weeks at or below a mid-$30/bbl Brent price, some of the following factors would need to emerge: 1) veritable indications that distillate stock capacity is brimming; 2) a January implementation day for Iran and a surge in oil exports; 3) a resolution of the local conflict in Libya that would unlock southwest fields, including El Sharara and El Feel; 4) a continued high negative beta between oil and the U.S. dollar; and 5) little to no U.S. production adjustments or evidence of such through the first quarter. Any of these factors could bring oil to a new bottom and keep it in that range, but in our view these developments are not likely enough to include in our base case," Barclays Capital continued.

One of the positives for NGL prices is that its value relative to West Texas Intermediate (WTI) crude is improving at close to 50% due to export demand for propane, butane, isobutane and C5+. Should the U.S. ban on crude exports be lifted, WTI prices should improve quicker than some forecasts suggest.

This isn't to say that NGL prices are improving, but they are falling at a slower rate than the WTI price. Pentanes-plus (C5+) prices have had the smallest drop in value at both hubs as the Conway price held firm at 93 cents per gallon (/gal) and the Mont Belvieu price dropped 1% to 94 cents/gal.

NGL PRICES						
Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Dec. 9 - 15, '15	15.02	38.50	56.42	56.92	94.16	**$17.77**
Dec. 2 - 8, '15	16.24	42.30	62.68	63.58	95.04	**$18.97**
Nov. 25 - Dec. 1, '15	17.22	42.77	64.47	66.67	98.73	**$19.61**
Nov. 18 - 24, '15	17.07	41.28	60.40	60.92	96.96	**$18.92**
November '15	17.42	42.69	62.15	62.99	99.61	**$19.47**
October '15	19.60	44.85	61.25	61.31	100.33	**$20.02**
3rd Qtr '15	18.26	40.99	54.16	55.19	100.10	**$18.80**
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**
Dec. 10 - 16 '14	16.30	54.06	67.68	69.16	115.94	**$22.21**
Conway, Group 140	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Dec. 9 - 15, '15	13.70	32.50	54.52	60.66	92.86	**$16.90**
Dec. 2 - 8, '15	14.42	36.20	59.58	64.70	93.16	**$17.85**
Nov. 25 - Dec. 1, '15	14.97	37.70	60.70	69.67	97.60	**$18.61**
Nov. 18 - 24, '15	14.52	37.76	58.22	66.10	94.26	**$18.10**
November '15	14.46	39.04	59.60	67.26	96.71	**$18.51**
October '15	16.68	41.60	58.28	64.61	99.19	**$19.20**
3rd Qtr '15	15.47	36.28	48.59	54.34	99.10	**$17.59**
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**
Dec. 10 - 16 '14	15.05	52.36	76.36	78.00	115.90	**$22.66**

Propane continues to have the most volatile prices as market dynamics remain in flux with strong export demand levels and improving heating demand being countered by record storage levels. Ethane prices are being taken down a bit by depressed propane prices as it is forced to compete with propane and butane as the most preferred ethylene feedstock.

The most profitable NGL to make at both hubs was C5+ at 74 cents/gal at both hubs. This was followed, in order, by isobutane at 44 cents/gal at Conway and 39 cents/gal at Mont Belvieu; butane at 37 cents/gal at both hubs; propane at 17 cents/gal at Conway and 22 cents/gal at Mont Belvieu; and ethane at 3 cents/gal at both hubs.

RESIN PRICES – MARKET UPDATE – DECEMBER 18, 2015					
TOTAL OFFERS: 16,872,724 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	3,629,176	0.52	0.62	0.51	0.55
HDPE - Blow Mold	3,496,900	0.52	0.585	0.495	0.535
PP Copolymer - Inj	2,193,472	0.6	0.73	0.585	0.625
HDPE - Inj	2,027,104	0.53	0.6	0.495	0.535
LDPE - Film	1,672,300	0.545	0.635	0.53	0.57
PP Homopolymer - Inj	1,530,552	0.58	0.665	0.57	0.61
LLDPE - Inj	973,196	0.48	0.65	0.515	0.555
HMWPE - Film	763,196	0.53	0.565	0.505	0.545
LDPE - Inj	586,828	0.48	0.63	0.535	0.575

Source: Plastics Exchange – www.theplasticsexchange.com

Natural gas storage decreased by 34 billion cubic feet to 3.846 trillion cubic feet (Tcf) from 3.88 Tcf, according to the most recent data from the U.S. Energy Information Administration. This was 16% greater than the 3.305 Tcf posted last year at the same time and 9% greater than the five-year average of 3.524 Tcf. Unfortunately heating demand is expected to remain weaker as the National Weather Service's forecast for the week of Dec. 23 anticipates warmer-than-normal temperatures throughout most of the country.

MORE TOP STORIES

Genesis Energy, Tesoro Logistics To Join Alerian Energy Infrastructure Index

Alerian announced that following the close of business on Dec. 18, Genesis Energy LP (NYSE: GEL) and Tesoro Logistics LP (NYSE: TLLP) will be added to the Alerian Energy Infrastructure Index (CME: AMEI).

Genesis Energy's operations include onshore and offshore pipeline transportation, refinery services, marine transportation and supply and logistics. Tesoro Logistics is a logistics company that owns crude oil and refined products truck and marine terminals, storage tanks, natural gas processing complexes, and one fractionation facility.

Exterran Corp. (NYSE: EXTN) will be removed from the index following the close of business on Dec.18.
The constituents of the index will be rebalanced in accordance with the existing index methodology. Constituent additions to and deletions from the index do not reflect an opinion by Alerian on the investment merits of the respective securities.

Energy Capital Partners Concludes Strategic Review Of Summit

Summit Midstream Partners LLC said Dec. 11 that Energy Capital Partners has concluded its strategic review process regarding Summit Investments, which the private equity firm controls.

The firm has concluded that its continued ownership in Summit Investments is the most attractive option for enhancing the value of its venture in Summit Investments and Summit Midstream Partners LP (NYSE: SMLP).

Summit Investments will provide support to SMLP to execute dropdowns in a manner that is expected to eliminate any need for equity issuance in 2016.

Summit Investments is expected to materially accelerate the timing of its previously announced plan to execute $400- to $800 million of dropdown transactions each year through 2017.

SMLP could acquire all, or a portion of, the dropdown assets as early as the first quarter of 2016, according to the release.
Summit Investments has also been authorized by Energy Capital Partners to initiate a program to acquire up to $100 million of SMLP units via open market purchases.

Summit Investments indirectly owns a 43.8% limited partner interest in SMLP and indirectly owns and controls the general partner of SMLP, which has sole responsibility for conducting the business and managing the operations of SMLP.

Summit Investments owns, operates and is developing various natural gas, crude oil and produced water-related midstream energy infrastructure assets in the Utica and Bakken shales and the Denver-Julesburg (D-J) Basin.

IEA Warns Of Worsening Oversupply, Oil Slides To New 7-Year Low

Crude oil prices hit fresh seven-year lows on Dec. 11 as the International Energy Agency (IEA) warned global oversupply could worsen in the new year.

Brent slipped below $39 per barrel for the first time since December 2008 as the IEA, which advises developed nations on energy, warned that demand growth was starting to slow.

“The technicals and the fundamentals are singing from the same hymn sheet,” said Tamas Varga, oil analyst with PVM Associates. “We will not see support until we hit the lows of 2008.”

Brent crude futures were down 50 cents at $39.23 a barrel at 1334 GMT, bouncing slightly from a session low of $38.90.

West Texas Intermediate (WTI) U.S. crude futures were at $36.41 per barrel, down 35 cents after touching $36.12, their lowest since February 2009. In 2008, Brent fell as low as $36.20 per barrel and $32.40 per barrel for WTI.

Prices have tumbled this month after OPEC failed to impose a ceiling on output. OPEC producers pumped more oil in November than in any month since late 2008, some 31.7 million barrels per day (MMbbl/d).

“Consumption is likely to have peaked in the third quarter and demand growth is expected to slow to a still-healthy 1.2 [MMbbl/d] in 2016, as support from sharply falling oil prices begins to fade,” the IEA said in its monthly report.

Should sanctions on Iran be lifted, its exports could rise, adding to the market's oversupply.

“The next quarter is going to be particularly tough as we go from a high-demand to a low-demand quarter,” said Richard Gorry, director of consultancy JBC Energy Asia.

“Can you rule out $20 per barrel? No, you can't,” he said, although adding that prices would not likely fall that far.

Banks such as Goldman Sachs have said oil prices could fall to as low as $20 per barrel as the world might run out of capacity to store unwanted oil.
The IEA said the pace of stock-building should roughly halve next year and that it was very unlikely that global storage capacity would be filled.

“Concerns about reaching storage capacity limits appear to be overblown,” it said. The IEA said it expects a decline in non-OPEC production in 2016, as U.S. light tight oil shifts into contraction, and it that further spending cuts could spur deeper output declines.

“There is evidence the Saudi-led strategy is starting to work,” the IEA said, referring to the producer group’s decision to maintain high output to safeguard market share.

U.S. shale oil production, the main driver of non-OPEC supply growth, is expected to fall for a ninth consecutive month in January, a forecast from the U.S. Energy Information Administration showed this week.

– REUTERS

WesPac Scraps California Oil Terminal On Low Prices

WesPac Energy LLC has scrapped plans to build a San Francisco-area oil terminal because too few customers were willing to commit to volumes with crude prices at seven-year lows, the project manager said on Dec. 10.

"Without the customers, the economics just weren't there," Art Diefenbach said about WesPac Midstream LLC's project in Pittsburg, California, near Tesoro Corp.'s (NYSE: TSO) 166,000 barrels per day (bbl/d) Golden Eagle refinery in Martinez.

On Dec. 10 U.S. crude futures settled at $36.76 a barrel, down 65% from mid-2014.

WesPac first proposed the project in 2011 to receive, store and transfer crude between trains, vessels and pipelines at a new $200 million terminal. The cost fell to $150 million this year when WesPac cut rail out of the project on safety concerns voiced by opponents after multiple fiery crude train crashes.

Even so, railed crude might not have worked in the current market. As prices fell in the last year and a half, discounts of North Dakota Bakken and other inland crudes to U.S. oil prices narrowed, siphoning oil-by-rail's profitability.

According to the California Energy Commission, California oil-by-rail shipments hit a high of 20,075 bbl/d in May 2014 and were down by 61% to 7,801 bbl/d in September this year.

Even after WesPac eliminated rail from the project and re-submitted permit applications earlier this year, the continued oil rout diminished customer interest.

Diefenbach said customers were not willing to make long-term commitments to WesPac's terminal, given uncertainty of where crude prices will go given global oversupply.

And California projects—WesPac's and others—have faced years-long reviews and environmental impact studies. Oil markets changed in those intervening years after OPEC declined to cut output a year ago and again last week.

WesPac had an option to buy the land and tanks for the terminal from NRG Energy Inc. (NYSE: NRG), but it would expire "at some point," Diefenbach said. WesPac could not just put the project aside to resurrect at its discretion without owning the property.

"We just decided it was time to move on," Diefenbach said.

– REUTERS

Coastal GasLink Pipeline Signs Project Agreements With First Nations in BC

TransCanada Corp. announced Dec. 10 that its Coastal GasLink Pipeline Project has signed long-term project agreements with the Burns Lake Indian Band, Blueberry River First Nations (a participant in the historic Treaty 8), and Lheidli T'enneh First Nation. These agreements outline financial and other benefits and commitments that will be provided to these communities for as long as the pipeline project is in service, according to TransCanada.

"These agreements are a reflection of the meaningful way Aboriginal groups are choosing to participate in the long-term development of B.C.'s natural gas industry," said Rick Gateman, Coastal GasLink Pipeline Project president. "Their important contributions to our project allow us to incorporate their local knowledge into our planning and pipeline design, which is a priority for us. Their participation in these agreements makes Coastal GasLink a better project, and enables them to participate in the significant benefits coming from the project."

The Coastal GasLink project now has nine project agreements with Aboriginal groups. TransCanada said it has taken a "comprehensive approach to working with Aboriginal groups on opportunities related to B.C.'s emerging liquefied natural gas (LNG) industry, including developing skills training, employment and utilizing Aboriginal businesses in local contracting opportunities."

"The project agreement reflects that we can collaborate with companies like Coastal GasLink, and participate in the many benefits of the project," said Chief Dan George of Burns Lake Indian Band. "It's important to us to find ways to balance the economic opportunity with environmental protection."

"We believe the pipeline project will benefit our members today and for future generations, both financially and in terms of employment for our members," said Chief Marvin Yahey of Blueberry River First Nation. "The relationship we have established with TransCanada is just as important as the agreement, and we are confident that the relationship we have built will continue to the benefit of both parties for years to come."

"We welcome the opportunity to be an active partner of Coastal GasLink," said Chief Dominic Frederick of Lheidli T'enneh. "We look forward to our members further participating in skills development and environmental stewardship opportunities that form part of the comprehensive agreement."

To date, the Coastal GasLink has had almost 15,000 interactions and engagements with Aboriginal communities along the proposed pipeline route, and a quarter of the more than 333,000 hours of fieldwork on the project has been conducted by Aboriginal people, TransCanada said.

The company said an estimated 32 per cent of the more than $4.8 billion capital project will be spent locally in British Columbia. The project has already spent over $41 million in the northern part of the province, as well as more than $1.9 million in community investments along the route, the company said.

Coastal GasLink is proposing to construct and operate a 670-km natural gas pipeline from the Groundbirch area near Dawson Creek, B.C. to the proposed LNG Canada liquefied natural gas export facility near Kitimat, B.C. The project is a key component of TransCanada's capital growth plan, which includes more than $13 billion in proposed natural gas pipeline projects which support the emerging liquefied natural gas industry on the B.C. Coast.

NuTech Energy Resources Adds Wyoming Pipeline Assets

NuTech Energy Resources Inc. (OTC: NERG) said Dec. 10 it has acquired more than 400 miles of pipeline assets in Wyoming from an unnamed seller. The value of the transaction wasn't disclosed.

The acquisition includes 40 miles of pipeline designed to connect adjoining fields, four dehydration stations, four compression stations, and an expanse equipped with pipeline ranging from 4-14 inches in diameter.

The structure will enable NuTech to connect multiple fields to existing stations where gas is currently being transported, according to the release.

The company will continue to focus on adding to the current inventory of its coalbed methane wells in the Powder River Basin of Wyoming, with plans to convert them into "profitable producing assets," the release said.

NuTech is currently working on closing a deal for 7,000 wells on state and federal land in Wyoming. The company has already purchased about 2,000 wells in the region.

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