MIDSTREAM Monitor

JULY 15, 2016 | VOLUME 34 | ISSUE 28

FEATURES

Kinder Morgan Sells Half Of Pipeline For $1.5 Billion

The deal will lower KMI's debt while keeping it in play for power generation needs in the southeastern U.S.

By **DARREN BARBEE**, Hart Energy

Southern Co. (SO), the largest customer of Kinder Morgan Inc.'s (KMI) Southern Natural Gas (SNG) pipeline is buying a 50% stake in the line for $1.47 billion cash, the companies said July 10.

The joint venture (JV) puts the value of the SNG line at about $4.15 billion. SNG is a 7,600-mile natural gas pipeline system that serves multiple states and will help Southern continue to supply hydrocarbons to gas-powered power generation in the southeast.

Continued on Page 3

MIDSTREAM *Interactive*

Déjà Boom?

Our multimedia exploration of the Permian's core reveals how the legendary basin continues to produce through a downcycle.

Click here.

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.

MIKE AMES
Managing Director & Co-Head of Energy Investment Banking

ALLEN LASSITER
Managing Director & Co-Head of Energy Investment Banking

MICHAEL CHEVALIER-WHITE
Energy Services & Equipment

STEPHEN CLARK
Midstream

MARK HUHNDORFF
Midstream

JIMMY MURCHISON
Exploration & Production

CHIP VAN OS
Exploration & Production

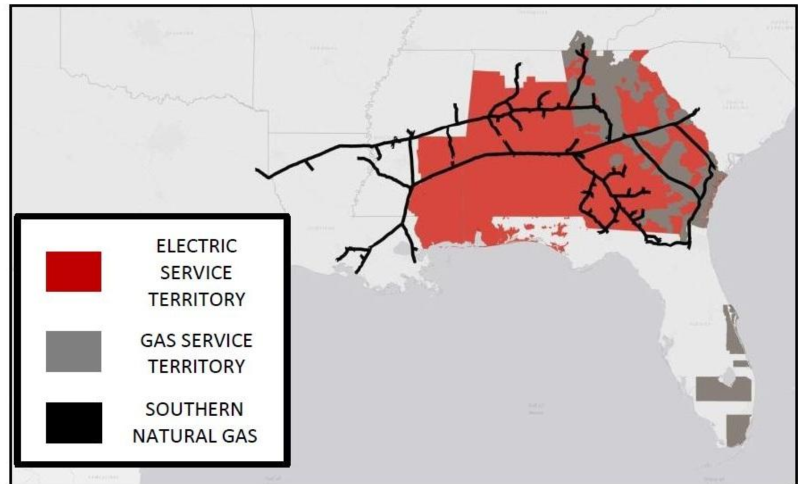
RAYMOND JAMES®

RJENERGYBANKING.COM 214.720.1314

©2016 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC 16-ECMEnergy-0173 VC 5/16

KINDER MORGAN from Page 1

SOUTHERN COMPANY | KINDER MORGAN



The geography of Southern Natural Gas aligns with the Southeast region served by Southern Company's electric and natural gas operating companies.

SNG connects natural gas supply basins in Texas, Louisiana, Mississippi, Alabama and the Gulf of Mexico to markets in Louisiana, Mississippi, Alabama, Florida, Georgia, South Carolina and Tennessee.

SNG is a principal transporter of natural gas to Alabama, Georgia and South Carolina, which are part of one of the fastest-growing natural gas demand regions in the U.S.

Click here to read more of this story online.

Richard Kinder, KMI's executive chairman, said the strategic partnership with Southern commits the companies to expansion of the system over the next few years.

"This is actually accretive to KMI in terms of distributable cash flow and EBITDA, while allowing us to substantially improve our balance sheet," Kinder said on a July 11 conference call.

Sanchez Adds To War Chest With Eagle Ford Midstream Sale

By **EMILY MOSER**, Hart Energy

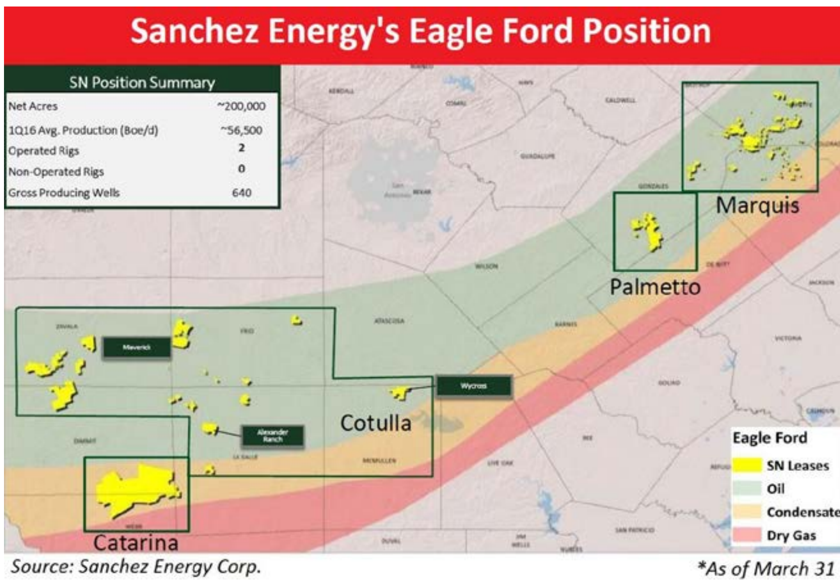
Sanchez Energy's recent midstream divestiture provides the Houston company additional firepower to expand its territory in the Eagle Ford.

Sanchez Energy Corp. (NYSE: SN) is stockpiling cash to pry away assets in the Eagle Ford, or perhaps elsewhere, provided the right deal comes along.

The Houston company recently cashed in some of its Eagle Ford midstream assets in a July 5 sale worth about $44 million. As a result, the company's liquidity is expected to increase to about $664 million, consisting of $364 million cash and $300 million from an undrawn revolver.

Sanchez Energy CEO Tony Sanchez III said proceeds from the deal provide the company with additional firepower to expand its territory in the Eagle Ford.

"This liquidity creates a key competitive advantage for Sanchez Energy that allows us to pursue asset acquisitions and an organic growth strategy that stems from our extensive inventory of drilling opportunities that are highly economic at today's commodity price levels," he said in a statement.



Source: Sanchez Energy Corp. *As of March 31

As for where Sanchez is looking to add acreage, some other basins are fair game, Sanchez told Hart Energy. However, any purchase would have to make economic sense to justify diverting capital and resources away from the company's core assets in the Eagle Ford.

Sanchez Energy has about 2,900 net drilling locations across 200,000 net acres in the Eagle Ford in South Texas. The company also has about 62,000 net acres in the Tuscaloosa Marine Shale in Louisiana and Mississippi tucked away in its portfolio.

Since its IPO in December 2011, Sanchez Energy has increased its production output by 9,177%, to about 56,500 barrels of oil equivalent per day (boe/d) in March from 609 boe/d. The company's upstream budget for 2016 is between $200 million and $250 million, down from $600 million to $650 million in 2015.

Click here to read more of this story online.

US Closes In On Net Natural Gas Exports For First Time In 60 Years

Exports to Mexico and global LNG shipments could help gas producers.

By **DARREN BARBEE**, Hart Energy

U.S. shale producers have been obstinately effective at pumping out natural gas, even as winter and summer weather has been almost maliciously mild.

The result is an ever-crammed storage locker of methane that isn't needed. Natural gas working inventories were 3,179 billion cubic feet (Bcf) on July 1, the U.S. Energy Information Administration (EIA) said. That's despite natural gas inventories in March ending at 2,494 Bcf, the highest end-of-withdrawal-season level on record.

What the U.S. needs is escape valves. Federal administrators say that slowly, those valves are opening. By next year, gas inventories will be markedly different.

"For the first time since 1957, the United States is on track to export more natural gas than it imports," said EIA administrator Adam Sieminski. "This will occur during the second half of next year as more liquefied natural gas export capacity comes online."

The EIA's equation combines exports to Mexico and LNG shipments.

EIA's estimated natural gas production in June averaged 79.1 Bcf/d, which is down roughly 1 Bcf/d from the record daily average production in February.

EIA expects production to rise through 2016 and 2017 in response to forecast price increases and increases in LNG exports.

EIA expects natural gas production to rise by 1% in 2016 and by 2.4% in 2017.

Click here to read more of this story online.

Getting Gas Out Of The Marcellus/Utica

The Marcellus and Utica shale plays have vast amounts of natural gas available, so how can midstream companies create the necessary takeaway capacity?

By **LEN VERMILLION,** Hart Energy

PITTSBURGH—There's little doubt that the mix of operators, financial analysts and service providers at Hart Energy's recent DUG East Conference & Exhibition were anxious to look past the obstacles of the present and embrace the opportunities that might await them in the very-near future.

That juxtaposition of anxiety and anticipation was probably felt equally by the gathered midstream executives also in attendance, as they currently look for ways to get the vast amounts of natural gas out of the Marcellus and Utica and into domestic and global markets.

Columbia Midstream Group's Michael Huwar addressed attendees at Hart Energy's DUG East conference. (Source: Hart Energy)

Click here

to read more of this story online.

That, of course, means pipelines, and according to Michael Huwar, vice president of marketing at Columbia Midstream Group, there are "some great opportunities" in the region for pipeline operators as early as 2017.

In the last five years, the Marcellus and Utica has become the leading U.S. natural gas growth play. Huwar pointed out that production in the region has climbed to more than 23 billion cubic feet per day (Bcf/d), representing a 300% growth rate from 2011 data. In the same period, the rest of the U.S. production has declined.

"This is the reason to build pipelines [in the Marcellus/Utica]," Huwar said. "That's why the region is so important to us and the industry. It has the gas. It's available. It's ready for consumers in huge markets."

Texas may be the nation's second largest state. But when it comes to oil and gas activity, it is the undisputed upstream, midstream and downstream leader. With **280,000+ miles of crude oil and natural gas pipelines**, the Lone Star State's extensive midstream network connects prolific plays like the Permian Basin and the Eagle Ford to the world's largest complex of refineries along the Gulf Coast. This September, Hart Energy's **MIDSTREAM *Texas*** conference and exhibition gives you an in-depth look at midstream activity across the state.

Join Us In San Antonio!

FRAC SPREAD

Prices Sag As The Rally Ends

Crude prices aren't expected to have an uptick for several months, but prices shouldn't get much lower.

By **FRANK NIETO**, Hart Energy

NGL prices fell this week as the crude price rally looks to have ended with West Texas Intermediate (WTI) prices falling two straight weeks, ending the week at about $45 per barrel (/bbl). Unfortunately, it appears unlikely crude prices will have much of an uptick for the next several months. The good news is that prices aren't expected to drop much lower.

"Crude markets have shifted to the 'sell the rally mode' as fears build that extremely high crude and product inventories will not subside this summer before the shoulder demand period begins in September. In the short-term there are no bullish catalysts to drive oil prices higher," En*Vantage said in its July 14 *Weekly Energy Report*.

The firm did note that the long-term fundamentals for crude prices are very strong with non-OPEC production consistently decreasing with global demand increasing with only 1.5 MMbbl/d of global spare capacity, according to the International Energy Agency.

Click here

to read more of this story online.

"The biggest obstacles to any sustained rally in oil prices will be a function of how quickly high oil and product inventories decline and that will take time. In the interim, we feel any serious breach of the $45/bbl level will be brief and that the most likely scenario is that WTI prices will continue to trade in the mid-$40/bbl range for the next several months," the report said.

While crude struggles, gasoline demand remains strong due to low prices. This has helped maintain steady demand for butane for blending at refineries and lessened the blow to heavy NGL prices, which experienced the smallest decreases at both Mont Belvieu and Conway.

CURRENT FRAC SPREAD (CENTS/GAL)				
JULY 15, 2016	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	15.44		19.29	
Shrink	18.23		17.97	
Margin	-2.79	-100.00%	1.32	-66.77%
Propane	45.46		49.06	
Shrink	25.19		24.82	
Margin	20.27	-12.98%	24.24	-10.35%
Normal Butane	60.38		60.38	
Shrink	28.52		28.10	
Margin	31.86	-11.60%	32.28	-11.62%
Isobutane	66.62		65.90	
Shrink	27.39		26.99	
Margin	39.23	-15.92%	38.91	-7.32%
Pentane+	95.40		94.35	
Shrink	30.50		30.05	
Margin	64.90	-6.96%	64.30	-7.12%
NGL $/Bbl	19.37	-7.86%	20.14	-6.73%
Shrink	10.05		9.90	
Margin	9.32	-15.90%	10.24	-11.88%
Gas ($/mmBtu)	2.75	1.10%	2.71	-0.73%
Gross Bbl Margin (in cents/gal)	20.71	-16.35%	23.41	-12.12%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.85	-19.79%	1.06	-12.64%
Propane	1.58	-5.70%	1.70	-5.73%
Normal Butane	0.65	-6.02%	0.65	-6.86%
Isobutane	0.41	-9.67%	0.41	-4.73%
Pentane+	1.23	-4.52%	1.22	-5.18%
Total Barrel Value in $/mmbtu	4.73	-8.69%	5.04	-7.21%
Margin	1.98	-19.54%	2.33	-13.74%

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.

The fundamentals aren't as strong for light NGL prices as ethane and propane inventories are both very high. Ethane prices fell 13% to 19 cents per gallon (/gal) at Mont Belvieu, their lowest level since the beginning of April. Conway prices experienced an even larger decline as they were down 20% to 15 cents/gal, the lowest they've been since the beginning of May. This has resulted in widespread rejection and negative margins throughout much of the country. It should be noted that not all ethane volumes are rejected due to contract requirements and pipeline specifications, but in the current market if it isn't required to produce ethane it is highly unlikely producers would do so for the foreseeable future until inventory overhangs are worked off.

Propane is in in a similar boat, although margins are still positive. However, margins may take a dip in the coming months due to the high inventory levels and slowing export market for LPG. Even with more LPG export capacity set to come online in the next few weeks, it is likely that the market will continue to stutter due to limited demand with reports of cancelled cargo loadings along the Gulf Coast.

Overall the theoretical NGL barrel fell 8% to $19.37/bbl at Conway with a 16% decline in margin to $9.32/bbl. The Mont Belvieu barrel was down 7% to $20.14/bbl with a 12% drop in margin to $10.24/bbl. The most profitable NGL to make at both hubs was C5+ at 65 cents/gal at Conway and 64 cents/gal at Mont Belvieu. This was followed, in order, by isobutane at 39 cents/gal at both hubs; butane at 32 cents/gal at both hubs; propane at 20 cents/gal at Conway and 24 cents/gal at Mont Belvieu; and ethane at negative 3 cents/gal at Conway and 2 cents/gal at Mont Belvieu.

Natural gas storage levels rose by 64 billion cubic feet (Bcf) to 3.243 trillion cubic feet (Tcf) the week of July 8, up from 3.179 Tcf the previous week, according to the latest information from the U.S. Energy Information Administration. This was 19% greater than the 2.736 Tcf posted last year at the same time and 22% greater than the five-year average of 2.657 Tcf. Cooling demand should remain strong and help limit storage builds in the next week as the U.S. National Weather Service's forecast anticipates hotter-than-normal temperatures throughout the country.

TOP STORIES

US Regulators Propose Information-sharing Rule For Trains Carrying Crude

Click here

to read more of this story online.

U.S. regulators on July 13 proposed a rule on trains carrying crude that requires railroads to share information on the shipments with local governments and emergency responders, a month after a fiery derailment of an oil train along Oregon's scenic Columbia River gorge. The rule proposed by the Transportation Department's Pipeline and Hazardous Materials Safety Administration and the Federal Railroad Administration (FRA) would require railroads to provide monthly reports to state and tribal firefighter commissions and emergency responders.

Valero Buys Out Kinder Morgan's Stake In Pipeline

Valero Energy Corp. (NYSE: VLO) said on July 12 it bought Kinder Morgan Inc.'s (NYSE: KMI) 50% stake in Parkway Pipeline LLC, previously a joint venture between the two companies. The move will give Valero increased access to the eastern U.S. by connecting the pipeline to Colonial Pipeline Co.'s system that runs from Houston to New York Harbor.

Magellan Will Build Refined Products Marine Terminal Along Houston Ship Channel

Magellan Midstream Partners LP will construct a new high-capacity marine terminal for refined petroleum products along the Houston Ship Channel in Pasadena, Texas, the company said July 14. Products handled will include various grades of gasoline and diesel fuel, and renewable fuels. Magellan initially plans to build a terminal with capacity for 1 million barrels of refined products and ethanol storage on almost 200 acres of recently acquired land, and a new marine dock capable of handling Panamax-sized ships or barges with up to a 40-ft draft.

Shell , LNG Canada Partners Delay Decision On Building British Columbia LNG Terminal

Royal Dutch Shell Plc (NYSE: RDS.A) and its LNG Canada partners have once again pushed back the timing of a decision on building a British Columbia LNG terminal, the latest setback for the Canadian province's energy ambitions. The proposed project, which would be located on British Columbia's rugged northern coastline, was one of the frontrunners in a now-slowing race to build Canada's first LNG export terminal.

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, Susan Klann, Richard Mason, Emily Moser, Frank Nieto, 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

HARTENERGY
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 photo-copy 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.