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Crude By Rail Helps Make Up West Coast Oil Shortfall

By Paul Hart, Hart Energy

Crude oil production in PADD 5—the western U.S.—continues a slow decline and crude-by-rail shipments are helping to make up the difference, according to the U.S. Energy Information Administration (EIA). West Coast oil imports also are increasing, the agency said.

The PADD 5 oil production drop differs markedly from the rest of the nation, where rising production from unconventional plays has turned around a decades-long fall in crude output that began in the early 1970s. U.S. crude production increased by 3.2 million barrels per day (MMbbl/d) from 2012 to 2014, EIA statistics show.

In comparison, PADD 5 output dropped by 100,000 bbl/d in the same four-year period, primarily due to a decline in Alaska North Slope (ANS) crude production. North Slope output peaked at 2 MMbbl/d in 1988 and has declined steadily since, averaging 479,000 bbl/d last year. The drop has created operating problems for the giant Trans-Alaska Pipeline that moves North Slope crude 800 miles south to the ice-free port of Valdez, Alaska. The crude is then shipped primarily to West Coast refineries. The 48-inch pipeline has an operating capacity of slightly more than 2 MMbbl/d.

North Slope production for March, the most current monthly number available, ticked up slightly to 491,580 bbd/d, the EIA reported. No major pipelines link West Coast refiners with oil-producing regions east of California.

That regional production drop off has left the three major West Coast refining centers—Puget Sound, San Francisco and Los Angeles—in a feedstock bind. Crude imports to the West Coast were fairly rare 20 years ago but now average 1.1 MMbbl/d, primarily from Saudi Arabia, Canada, Ecuador, Iraq and Colombia, according to EIA.

The other major response to the shortfall has been growing rail shipments, which were unknown just a few years ago. Government figures show crude by rail provided just 23,000 bbl/d to West Coast refiners in 2012, rising to 157,000 bbl/d last year, a 61.6% CAGR.

"Of the crude by rail moving to the West Coast, nearly 90% came from the Midwest (PADD 2), an average of 140,000 b/d in 2014," the EIA said in a report. Blocking even greater rail-borne volumes has been a lack of West Coast unloading infrastructure.

"The increase in crude-by-rail movements was possible only after crude-by-rail unloading infrastructure was significantly expanded on the West Coast," the report noted. "However, completion of these projects has not been equally distributed across the region. Currently, almost all operating facilities capable of unloading unit trains consisting of 80-120 tank cars, or an average of 70,000 bbl. of crude oil, are in the Pacific Northwest."

West Coast crude-by-rail growth could have grown even more sharply.

"In California, regulatory and permitting problems have delayed construction of, or forced a cessation of, operations at several crude-by-rail unloading facilities," the EIA said. In May, "the Plains-All American facility in Bakersfield, Calif., which unloads crude-by-rail shipments and then flows the oil via pipeline to California refineries, was given notice of air permit violations by the (U.S.) Environmental Protection Agency."

Another challenge to westward rail shipment has been crude type. West Coast refiners spent billions of dollars to tool their plants to run most efficiently on ANS. The Alaskan oil is a comparatively heavy crude. ExxonMobil's standard for ANS is 31.4º API gravity and just under 1% sulfur. Also, much of California's in-state production is still heavier.

"The types of domestic crude oil most commonly transported by rail—Bakken from the Midwest and Niobrara from the Rocky Mountains—are light sweet crudes," the EIA report noted. "Typically, Washington state refineries process lighter and sweeter crudes compared with the slate at California refineries, which are configured to run heavy sour crude oil similar to what is produced in California."

It noted a large share of California-bound crude-by-rail shipments have been from PADD 4, primarily Utah and Wyoming. However, increasingly tight state regulatory standards have brought much of that traffic to a standstill.

"With rail access to domestic light sweet crude oil and pipeline and rail receipts of heavy Canadian crude, Washington state refineries have begun to replace declining production of ANS crude oil. Trade press reports indicate that refineries are blending light-sweet crude oil such as Bakken, with a heavier API crude oil, such as Western Canadian Select, to create a crude mix with characteristics similar to ANS," EIA said.

The future for westbound rail shipments remains uncertain, EIA said.

"Several facilities in Washington and Oregon have the capability to unload crude-by-rail trains as well as to load the crude oil onto marine vessels," it added. "Thus, domestic crude oil can be delivered to refineries along the coast in Washington and California via coastwise-compliant marine vessels. Additionally, some crude oil production in California has been transported by rail to refineries within California, albeit in limited quantities.

"Future increases of crude by rail to West Coast refineries will depend on the economic viability of crude by rail versus imported crude oil, the flexibility of refineries to modify their crude oil slate, and the regulatory outcomes for new or existing crude by rail facilities," it concluded.

Hess Unlocks Value Of Bakken Midstream Assets With JV

By Emily Moser, Hart Energy

The Bakken hasn't lost its appeal for some in the oil and gas industry despite the low commodity price environment.

Hess Corp. (HES) said June 11 that it's selling half of its Bakken midstream assets in a joint venture (JV) deal that will form a premier midstream company in the play valued at $5.35 billion.

Hess, based in New York, reached a JV agreement with Global Infrastructure Partners (GIP) to form the Bakken-focused Hess Infrastructure Partners with plans to launch a MLP IPO following the closing of the transaction.

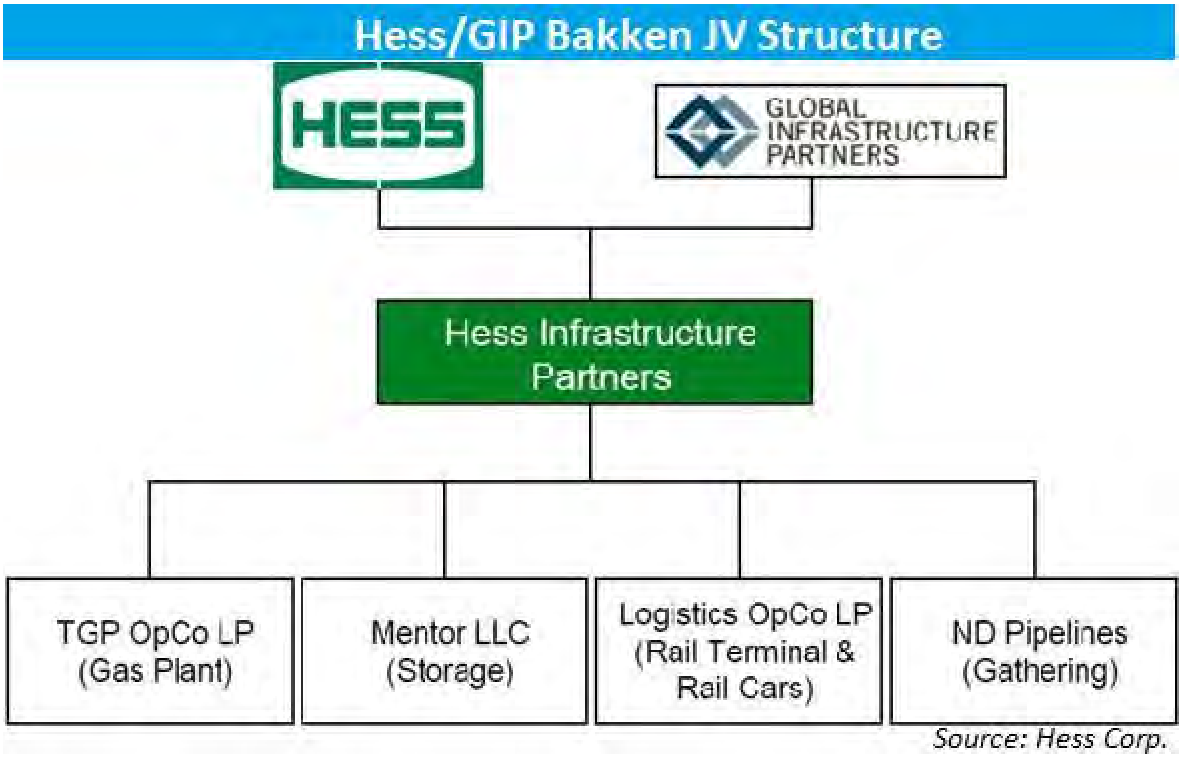
As part of the agreement, Hess will sell a 50% interest in its Bakken midstream assets to GIP for $2.675 billion in cash.

Hess and GIP will each own 50% of the midstream JV. However, Hess will retain control of the midstream assets' operations and annual budgeting process, giving it control of day-to-day decisions.

"The scale of this monetization is dramatically larger than we could have envisioned, making it an extremely bullish deal from Hess' standpoint, in our view," said Pavel Molchanov, senior vice president and equity research analyst at Raymond James Equity Research, in a report.

According to Molchanov, the valuation for the Hess/GIP JV is "very rich." Based on forward EBITDA guidance of $290-300 million, the transaction multiple is 18x EBITDA, which is "lofty even for publicly traded MLPs, to say nothing of private transactions," he said.

Combined with borrowing by the JV, total cash proceeds to Hess, on an after-tax basis, will be $3 billion. This equates to "16% of the entire company's market cap as of yesterday's close," Molchanov said.



Proceeds will be used to strengthen the company's balance sheet, providing room to continue investing above cash flow, and for potential share buybacks.

Molchanov said he projects outspending for Hess of $1.6 billion in 2015 and $0.9 billion in 2016.

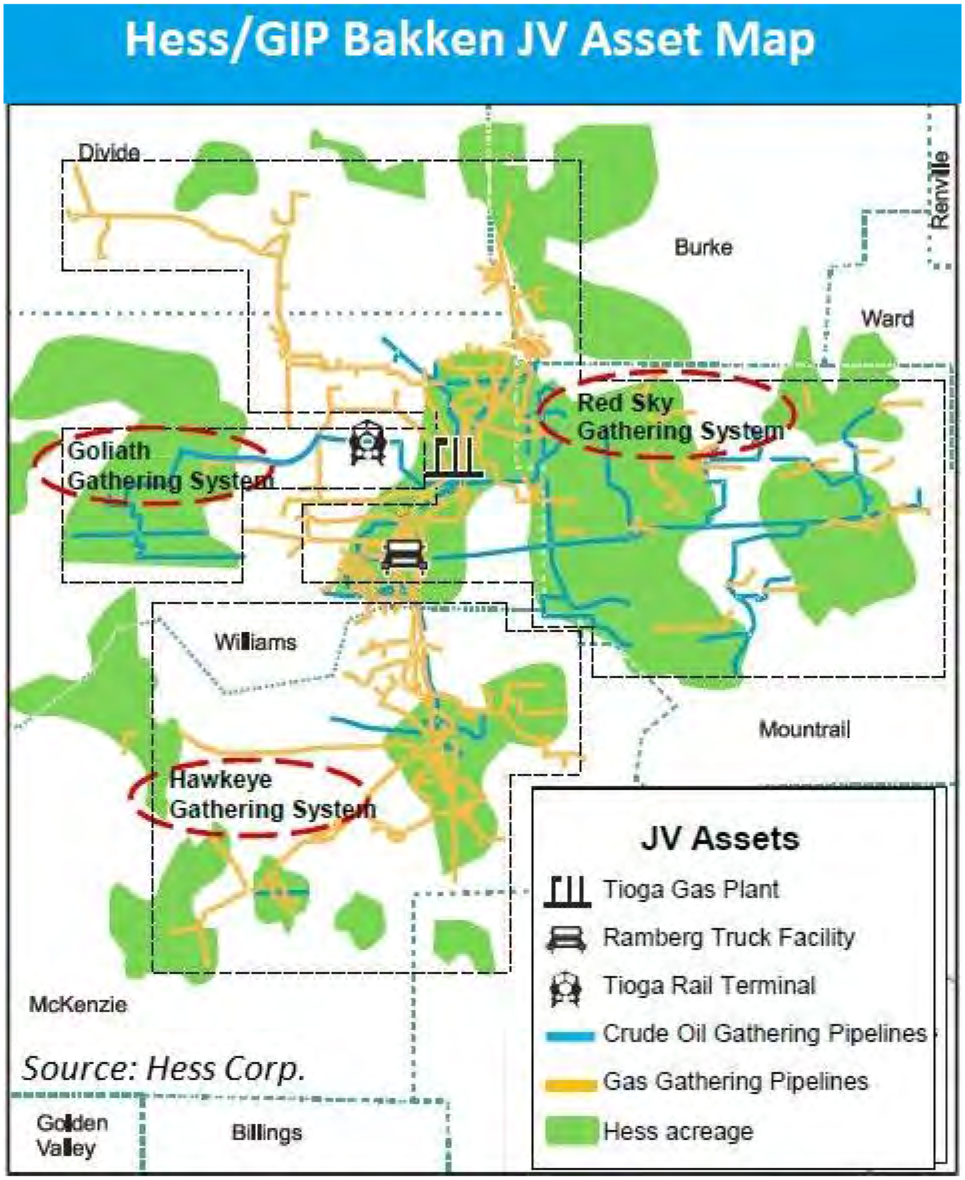
Bakken Midstream JV

The board of directors for Hess Infrastructure Partners will be composed of six directors, with three members elected by Hess and three by GIP.

Hess, through its elected directors, will retain control of the midstream assets' operations and annual budgeting process. Other decisions, such as capital structure, debt and equity offerings, and new contracts will require joint approval by the elected directors form both companies.

"The joint venture with its strategically located assets will be one of the largest midstream operators in the Bakken," said John Hess, CEO, in the release.

The JV is composed of processing and storage, logistics and gathering assets serving Bakken producers. The assets include:



Gas Processing and Storage Assets

- Tioga Gas Plant; and
- Mentor, Minn., Propane Storage Terminal.

Logistics

- Tioga Rail Terminal and crude oil rail cars; and
- Ramberg Trucking Facility.

Gathering

- Red Sky Gathering System;
- Hawkeye Gathering System; and

- Goliath Gathering System.

The Tioga Gas Plant is the single largest cryogenic plant in North Dakota. The plant has processing capacity of 250 million cubic feet per day (MMcf/d) and NGL extraction capacity of 60,000 barrels per day (bbl/d). It is also the only plant with ethane extraction, which is sold under long term contract to Nova Chemicals Corp.

Hess said it is currently evaluating a capacity upgrade to the Tioga Plan to 300 MMcf/d from 250 MMcf/d.

The gathering assets have a combined current throughput of 205 MMcf/d and 33 Mbbl/d, which the company said are strategically positioned to capitalize on third-party growth. The company forecasts capacity expansion to about 330 MMcf/d and 205 Mbbl/d to support growth in the play.

Hess will operate the assets owned by the JV as a contract service provider. Employees who currently work in the assets will remain Hess employees.

The JV will incur $600 million of debt, upon closing of the transaction, through a five-year loan facility with proceeds distributed equally to both partners. Additionally, the JV will have independent access to capital, including a $400 million five-year senior revolving credit facility that is fully committed.

"By capitalizing on the financial strength and midstream energy experience of Global Infrastructure Partners, the joint venture will be in a strong position to fund future energy infrastructure investments and continue to grow its midstream business," Hess said in the release.

The transaction is expected to be completed early in the third quarter of 2015, subject to customary closing conditions.

Hess E&P Outlook

Hess will have a highly advantaged liquidity position compared to its peer group following the closing of the transaction. Together with the proceeds from the transaction, cash on hand and an untapped $4 billion revolving credit facility, the company will have around $8 billion of liquidity.

The company plans to use some of that liquidity in bolstering its E&P operations in the Bakken.

"This team's experience and contributions will be key to maximizing the value not only from the JV, but also from the Hess upstream assets," said Greg Hill, COO and president of E&P at Hess, in a conference call.

Hill said the company has one of the best portfolios in the Bakken that is competitively advantageous in a number of ways, including its infrastructure, acreage position in the core of play and manufacturing capabilities.

"We know from bench marking that we're delivering some of the highest return wells in the play," he said.

During the first quarter of 2015, Hess operated an average of 12 rigs, compared with 17 rigs at year-end 2014. The company brought 70 gross operated wells on production in the first quarter. Drilling and completion costs per operated well average $6.8 million in the first quarter of 2015, down from $7.5 million in first-quarter 2014.

As of April, the company is operating eight rigs and plans to continue at that level for the remainder of 2015.

The company will continue to work toward its long term goal of reaching about 175,000 thousand barrels of oil equivalent per day (Mboe/d) of net production by 2020 as oil prices recover.

"We still have a robust well inventory, with more acreage in the core than any other operator," he said.

Puzzler: Anadarko Cash Machine Rings Up Midstream Equity Offering

By Darren Barbee, Hart Energy

A minor mystery lurks behind Anadarko Petroleum Corp.'s (APC) upcoming equity offering: Why does a company sitting on roughly $3 billion in cash need to raise money?

Anadarko's total liquidity, including $4.5 billion in an undrawn credit facility, is $7.5 billion.

On June 3, Anadarko announced it would sell its midstream MLP along with interest potentially tied to its own shares, Simmons & Co. International said. The offerings would raise $450 million to $520 million before fees and expenses, analysts said.

Anadarko said the proceeds from the offering will be used for general corporate purposes.

The company is selling units in two Anadarko subsidiaries: Western Gas Equity Partners LP (WGP), formed to own partnership interests; and Western Gas Partners LP (WES), formed to acquire, own, develop and operate midstream energy assets.

The offerings are separate public offerings and neither offering is contingent on the completion of the other.

“While APC had previously indicated that they would methodically sell down their interest in WGP, the transaction is a bit surprising as a portion of the offering is potentially tied to APC's shares,” said David Kistler, co-head of E&P research, Simmons & Co.

Anadarko will sell, in total, 8.5 million units in Western Gas affiliates, with 6.5 million tangible equity units at $50 and 2 million WGP units that aren’t yet priced. Anadarko retains the right to deliver shares of its own common stock in lieu of WGP common units, said Andrew Coleman, analyst, Raymond James.

Following the 2 million WGP secondary offering, Anadarko will retain about 88% ownership of WGP, which had a $13 billion market cap as of June 4.

“While we believe the deal marks a move by Anadarko to unlock WGP value at the current market price, overall liquidity sees only a slight improvement for the company. As such, the deal is not a particularly material event for Anadarko,” Coleman said.

Western Gas Partners capex is estimated at up to $690 million in 2015, according to Anadarko.

Anadarko continues to be one of the prime E&P players with a 2015 capex of up to $6.4 billion. In April, the company closed its enhanced oil recovery (EOR) properties to Fleur de Lis Energy in the Powder River and Green River basins of Wyoming. In securities filings, Anadarko said proceeds for the sale were $703 million.

In March, the company also gained $1.5 billion from $2.64 billion in sale proceeds for the divestiture of a 10% working interest offshore Mozambique.

J.P. Morgan Securities LLC will serve as sole book-running manager for the TEU offering and lead book-running manager for the WGP secondary offering.

Following Midstream Divestiture, Pioneer Offers Colorado Acreage

By Emily Moser, Hart Energy

Bringing it closer to becoming a pure play Permian company, Pioneer Natural Resources Co. (PXD) has put a block of about 640,000 net acres in southeast Colorado on the market.

The announcement follows Pioneer's sale of its Eagle Ford Shale midstream business to Enterprise Products Partners LP (EPD) on June 1 for $2.15 billion. The proceeds are planned to be allocated to Pioneer's operations in the Permian Basin.

Pioneer's sale in southeast Colorado is another move along those same lines for the Irving, Texas-based company, said Gabriele Sorbara, vice president of E&P/energy research at Topeka Capital Markets.

"Considering Pioneer's tremendous running room in the emerging Wolfcamp shale plays, we believe this asset would likely be monetized to fund the growth in the Permian Basin," Sorbara said.

Sorbara said the company already has a strong liquidity position, with about $1.3 billion pro forma on the cash.

"They're in good shape; they have good assets," he said. "Pioneer is going to be able to weather this downturn better than anybody."

Pioneer's acreage in southeast Colorado is located in Bent, Cheyenne, Crowley, Elbert, Kiowa, Kit Carson, Lincoln, Prowers and Washington counties.

The company acquired the position in 2013 for about $75 per acre, he said. Shortly after, the land was going for north of $300 per acre.

The company's acreage offsets impressive results in the Mississippian zone from Chama Oil & Minerals LLC and Nighthawk Energy Plc. Pioneer has permitted six vertical wells in the area to test various concepts, but the results haven't been disclosed, Sobara said.

He said the package could go for anywhere between $100-200 an acre, equating to a $64 million to $128 million sale. However, there is potential for a pleasant surprise given the amount of private equity money currently floating around the industry.

"There could be a team that wants to really get this asset and could come in and pay a premium for it because it is a good starter company type package," he said.

In this case, the acreage could go for more than of $200 per acre—a nice return on its investment, Sorbara said.

The proceeds would be put to work in the Midland Basin and Eagle Ford, where rates-of-return are above 50% at current commodity prices, he said.

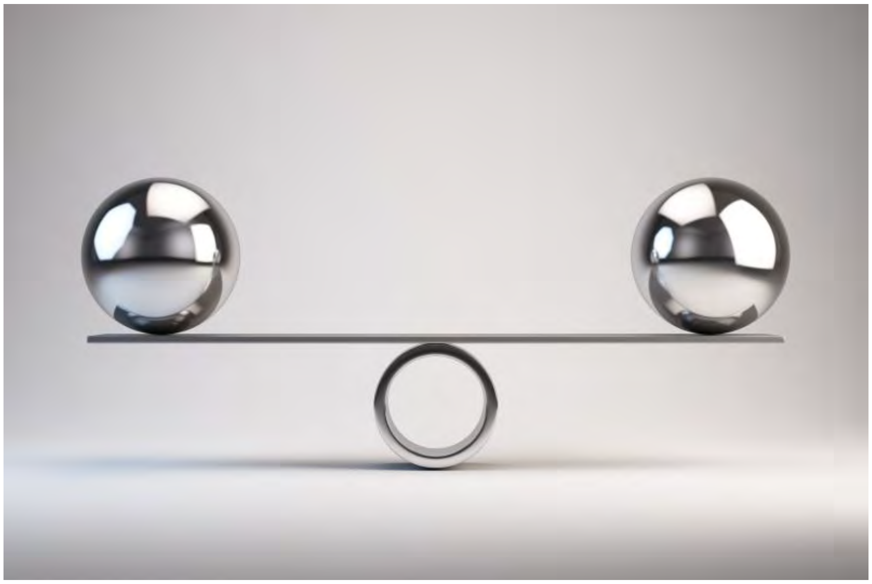
"We like the Pioneer story for its position in the Midland Basin and Eagle Ford Shale, and believe nothing is priced into shares for this asset, which could turn out to be a surprise source of funds with the growing interest in the area," he said.

According to Sorbara, other publicly traded operators with exposure or adding acreage to the stacked pay targets in southeast Colorado include Anadarko Petroleum Corp. (APC), Chesapeake Energy Corp. (CHK), Devon Energy Corp. (DVN), Newfield Exploration Co. (NFX) and Southwestern Energy Co. (SWN).

Meagher Energy Advisors has been retained by the company to handle the sale.

Frac Spread: NGL Prices Continue To Lag Behind Crude, Gas

By Frank Nieto, Hart Energy



Natural gas and West Texas Intermediate (WTI) crude oil continued to show slight improvements the second week of June, but NGL prices failed to follow a similar path as they fell across the board. The lone NGL to show any strength was once again C_{5+} due to its close relationship to crude. However, these gains were marginal at only 1% at Mont Belvieu and 2% at Conway.

While crude has improved over the last month and OPEC officials cited these improvements as signs that the market is rebalancing, Barclays Capital stated these could be false winds as OPEC doesn't have a way to handle additional supplies from Iran and Iraq.

"Saudi oil minister Ali al-Naimi summed up the mood prior to the meeting when he said, 'Demand is picking up…supply is slowing…it is going in the right direction.' In fact, the bulk of incoming oil supply and demand data fail to support that view. A more accurate verdict on the data, in our opinion, would be 'demand is not picking up very much, supply growth has barely slowed at all and things are still heading in the wrong direction for OPEC,' " the investment firm said in a June 8 research note.

Though fundamentals may be a bit weak for Brent crude prices, WTI crude improvements are strong due to tighter balances in Canada and West Texas while storage levels are declining at the Cushing, Okla., hub and in the Rockies, according to PIRA Energy Group.

One thing that will be interesting to follow is whether the recoupling between WTI crude and NGL prices will continue if crude prices keep growing. Thus far, the theoretical NGL bbl has begun to trend downward as the WTI bbl has improved. The silver lining to such movements is that a focus on crude production will help tighten the NGL and gas markets, which will eventually help drive up prices.

In the meantime the NGL that makes up the bulk of the theoretical NGL bbl, ethane, does not have a great outlook in the short term. The price plateaued at around the 20 cents per gallon (/gal) mark at Mont Belvieu and has fallen below this threshold for the last three weeks.

“We don’t have a lot of material demand coming online for ethane,” Kendall Puig, senior energy analyst with Bentek Energy, told *Midstream Business* at Platts’ Benposium. “We imagine ethane prices will be close to the natural gas equivalent floor,” she said while noting there is some room for improvement in the Northeast due to exports coming online in the second-half of this year. Puig said that until more ethane crackers are brought online in late 2017 and early 2018, prices are unlikely to have much upward potential.

Instead the industry’s policy of ethane rejection is likely to continue, especially in regions further away from markets such as the Williston Basin. “Essentially all of the ethane being produced in North Dakota is being rejected with the exception of some production on the Vantage Pipeline going up to Western Canada,” she said.

The news is worse for propane, which hit new 13-year lows at both hubs as the Mont Belvieu price fell 8% to 37 cents/gal and the Conway price dropped 15% to 32 cents/gal. It is very possible that prices could tumble further throughout the summer and into the winter heating season as storage levels are approaching record levels. There is the possibility that as prices creep downward that LPG exports could grow, but so far solid export levels have not had a positive impact on the market.

The theoretical NGL bbl was down 4% to $18.28/bbl with an 18% decline in margin to $8.53/bbl at Conway and 3% to $19.73/bbl with a 14% decline in margin to $9.35/bbl.

The most profitable NGL to make at both hubs was C_{5+} at 92 cents/gal at Conway and 93 cents/gal at Mont Belvieu. This was followed, in order, by isobutane at 23 cents/gal at Conway and 26 cents/gal at Mont Belvieu; butane at 19 cents/gal at Conway and 23 cents/gal at Mont Belvieu; propane at 7 cents/gal at Conway and 11 cents/gal at Mont Belvieu; and ethane at negative 3 cents/gal at Conway and negative 1 cent/gal at Mont Belvieu.

The U.S. Energy Information Administration reported that natural gas storage levels rose by 111 billion cubic feet to 2.344 trillion cubic feet (Tcf) the week of June 5 from 2.233 Tcf the previous week. This was 47% greater than the 1.591 Tcf posted last year at the same time and 2% greater than the five-year average of 2.3 Tcf. Cooling demand should be up this coming week as the National Weather Service’s forecast anticipates warmer-than-normal temperatures throughout the country.

CURRENT FRAC SPREAD (CENTS/GAL)				
June 12, 2015	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	15.23		17.57	
Shrink	17.70		18.83	
Margin	-2.47	-412.88%	-1.26	-251.55%
Propane	31.70		36.98	
Shrink	24.46		26.01	
Margin	7.24	-52.27%	10.97	-34.96%
Normal Butane	46.22		52.38	
Shrink	27.69		29.45	
Margin	18.53	-23.96%	22.93	-17.43%
Isobutane	49.92		53.76	
Shrink	26.59		28.29	
Margin	23.33	-24.50%	25.47	-16.98%
Pentane+	121.50		124.18	
Shrink	29.61		31.50	
Margin	91.89	-1.20%	92.68	-1.63%
NGL $/Bbl	18.28	-4.41%	19.73	-2.61%
Shrink	9.75		10.37	
Margin	8.53	-17.67%	9.35	-13.94%
Gas ($/mmBtu)	2.67	11.25%	2.84	10.51%
Gross Bbl Margin (in cents/gal)	18.06	-20.06%	20.43	-15.41%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.84	-1.30%	0.97	-1.68%
Propane	1.10	-14.69%	1.28	-8.47%
Normal Butane	0.50	-6.17%	0.57	-3.75%
Isobutane	0.31	-8.91%	0.33	-4.48%
Pentane+	1.57	1.57%	1.60	1.19%
Total Barrel Value in $/mmbtu	4.32	-5.26%	4.75	-3.14%
Margin	1.65	-23.64%	1.91	-18.15%

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 NGPL Midcontinent zone, Mont Belvieu based on Houston Ship Channel.

NGL PRICES						
Mont Belvieu	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
June 3 - 9, '15	17.57	36.98	52.38	53.76	124.18	**$19.73**
May 27 - June 2, '15	17.87	40.40	54.42	56.28	122.72	**$20.25**
May 20 - 26, '15	18.81	41.58	53.74	55.30	124.60	**$20.60**
May 13 - 19, '15	19.28	48.34	58.74	61.04	131.34	**$22.35**
May '15	18.69	46.42	58.02	59.80	127.69	**$21.72**
April '15	17.06	54.84	64.36	66.38	127.64	**$22.97**
4th Qtr '14	20.22	76.90	96.73	98.28	149.25	**$30.10**
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	**$40.27**
2nd Qtr '14	29.26	106.55	124.12	130.23	222.81	**$42.31**
1st Qtr '14	34.50	129.51	137.62	141.49	212.60	**$46.16**
June 4 - 10, '14	28.98	101.34	121.80	128.42	216.08	**$41.02**
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
June 3 - 9, '15	15.23	31.70	46.22	49.92	121.50	**$18.28**
May 27 - June 2, '15	15.43	37.16	49.26	54.80	119.62	**$19.13**
May 20 - 26, '15	15.00	37.64	48.04	54.60	119.84	**$19.06**
May 13 - 19, '15	15.20	42.50	52.64	60.58	125.60	**$20.46**
May '15	15.15	40.99	51.78	58.32	122.34	**$19.95**
April '15	15.75	48.18	59.30	63.67	119.72	**$21.26**
4th Qtr '14	18.69	78.64	102.72	113.19	146.37	**$30.77**
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	**$40.18**
2nd Qtr '14	26.26	105.44	121.26	163.00	221.62	**$42.62**
1st Qtr '14	25.46	169.48	132.08	147.10	216.86	**$49.93**
June 4 - 10, '14	26.18	99.74	119.14	148.40	214.06	**$40.92**

RESIN PRICES – MARKET UPDATE – JUNE 12, 2015					
TOTAL OFFERS: 14,633,956 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	3,449,612	0.68	0.75	0.64	0.68
HDPE - Inj	3,218,716	0.635	0.72	0.63	0.67
HDPE - Blow Mold	2,294,600	0.68	0.72	0.62	0.66
LDPE - Film	1,434,116	0.7	0.78	0.66	0.7
HMWPE - Film	1,058,208	0.67	0.735	0.65	0.69
PP Homopolymer - Inj	983,656	0.61	0.7	0.63	0.67
LLDPE - Inj	881,840	0.71	0.71	0.64	0.68
LDPE - Inj	705,472	0.68	0.77	0.66	0.7
PP Copolymer - Inj	607,736	0.7	0.76	0.65	0.69

Source: Plastics Exchange – www.theplasticsexchange.com

Report: Global Gas Trade Via Pipeline Declined In 2014

Bloomberg

Global trade of natural gas via pipelines fell the most on record last year as Russia halted exports to Ukraine and shipments declined from the Netherlands, the European Union’s biggest producer, according to BP Plc, Bloomberg said June 10.

Exports of the fuel through pipelines fell by more than 6 percent last year, the biggest drop since the oil major started compiling the data in 1989, BP said in its annual Statistical Review. It’s only the second time global gas trade retreated. Russian shipments declined by 12 percent, while those from the Netherlands tumbled 30 percent, according to the data.

Russia halted supplies to Ukraine for six months last year due to a price dispute between the two nations. Gas production in the Netherlands fell the most of all the EU nations last year as the country’s government decided to limit output from the Groningen field, Europe’s biggest, after earthquakes caused by gas extraction damaged buildings in its most northern province.

“The weakness in pipeline gas trade was compounded by the dispute between Russia and Ukraine, which resulted in Russia’s gas exports to Ukraine being turned off between June and December last year,” said Spencer Dale, BP’s chief economist. “Lower exports to EU and Ukraine caused Russia’s gas production to fall by over 4 percent.”

Pipeline exports also dropped as consumption in the EU fell 11.6 percent last year, the biggest decline on record, BP said. Reduced demand in the 28-member nation bloc dragged down global consumption, which grew by 0.4 percent compared with a 10-year average of 2.4 percent.

Production Rises

While last year’s demand growth was the lowest in almost 20 years, with the exception of the financial crisis, global production gained 1.6 percent, causing prices to drop across the globe, BP said. Northeast Asian spot liquefied natural gas prices fell 45 percent in 2014, as U.S. gas on Henry Hub slipped 32 percent and U.K. fuel on the National Balancing Point fell 28 percent, the most since 2009, according to exchanges and World Gas Intelligence.

“This general weakening in gas prices also coincided with a further narrowing of the differential between regional gas prices, reflecting the increasing integration of global gas markets,” Dale said. “The main exception to this story of global gas weakness was, of course, the U.S., where gas production increased by over 6 percent.”

KCS Subsidiary Will Build Sasol’s Louisiana Ethane Cracker Rail Yard

The Kansas City Southern Railway Co. (KCSR) will build a long-lease storage in transit (SIT) rail yard to support integrated energy and chemical company Sasol Chemicals (USA) LLC’s new ethane cracker and derivatives project in Lake Charles, La., under an agreement with Sasol, parent transportation holding company Kansas City Southern (KCS) said June 8.

The final investment decision for the $8.1 billion ethane cracker and derivatives complex was announced by Sasol in October 2014. The ethane cracker will produce 1.5 million tonnes of ethylene per year. There are six chemical manufacturing plants. An additional $800 million will support infrastructure and utility improvements and land acquisition. The Lake Charles location will become a multi-asset site, KCS said. Construction is underway, and the facility is scheduled to be operational in 2018.

"We are very pleased to expand our relationship with Sasol by entering into this long-term lease agreement," said Patrick J. Ottensmeyer, KCS' president. "In addition to serving Sasol's needs in Lake Charles for many years to come, this investment will better position KCSR to serve the growing petrochemical industry and other customers in the Lake Charles area."

"KCS has been a key partner in ensuring safe and reliable delivery of our products to our customers for decades," said Mike Thomas, senior vice president of U.S. operations for Sasol. "We are delighted to extend our relationship with KCS as we increase the number and volume of products we manufacture at our Lake Charles site over the next several years."

KCSR will also replace and expand the Mossville, La., rail car classification yard.

Kansas City Southern is based in Kansas City, Mo.

Sasol is based in South Africa.

Gravity Midstream Buys Corpus Christi Crude Oil Terminal

Gravity Midstream Corpus Christi LLC closed the acquisition of a 44-acre crude oil logistics terminal on the Corpus Christi Ship Channel, parent company Gravity Midstream LLC said June 8. Gravity Oil Terminal at Corpus Christi (GOTAC) will serve traders, producers and refiners of crude oil and condensate from the Eagle Ford and Permian Basin.

Gravity acquired the terminal from Trigeant Ltd. for $100 million in a Chapter 11 plan approved by a Florida bankruptcy court in May 2015. Kaye Scholer LLP was Gravity's legal counsel.

GOTAC is scheduled to go into service in September, and will be fully permitted. The terminal's existing infrastructure includes 800,000 barrels (Mbbl) of tankage. There is access to an additional 2MMbbl of tankage. There is deepwater dock access, a crude processing unit (CPU) that can handle 25Mbbl/d of heavy crude, and rail and truck loading and unloading facilities.

Gravity plans to convert the CPU into a stabilizer that can handle of 35Mbbl/d of condensate, or a condensate splitter. Gravity might build a second stabilizer or splitter so up to 100Mbbl/d could be processed, depending on customer demand, the company said.

GOTAC has current pipeline connectivity to neighboring CITGO and Valero refineries, and there are plans to connect it to major supply pipelines beginning in the Eagle Ford and Permian Basin by mid-2016. The adjacent deepwater block will serve Aframax crude tankers.

Arthur J. (A.J.) Brass, president of Gravity, emphasized that GOTAC's storage, processing and throughput services cover the four major modes of connectivity.

EnCap Flatrock Midstream is based in San Antonio.

Gravity Midstream LLC is based in Houston.

Prism Will Build Bedrock Facility For Permian Liquids

Business Wire

Prism Midstream LLC will begin building the Bedrock liquids handling facility for NGL in Crockett County, Texas, in June, the company said June 8. Permian Basin NGL and condensate—on-spec and off-spec—will handled, the company added.

Initially, 5,500 barrels per day (bbl/d) of off-spec product will be handled at the facility, which is scheduled to be operational by the end of first-quarter 2016. The capacity for off-spec product could expand to 11Mbbl/d.

The facility will have five truck racks, and could expand to 12. It will be north of Ozona, Texas, with access to U.S. Highway 190 to received trucked-in liquids. Off-spec issues—color, corrosion, carbon dioxide and methane—will be treated. NGL that meets pipeline specifications, and condensate with Reid vapor pressure of 9 pounds per square inch less than 10 parts per million of sulfur content, will be delivered.

Prism executed agreements with Enbridge Liquids Transportation & Marketing LP (ELTM) for firm capacity at the Bedrock facility and is negotiating additional commitments. ELTM purchases on-spec and off-spec NGL and condensate in the Permian, and has trucks and trailers to transport them to Bedrock.

Doug Coleman, vice president of new ventures, said the liquids facility that handles both NGL and condensate is valuable to E&Ps and midstream companies, because production of crude oil, NGL and condensate has increased.

Prism Midstream LLC is based in Dallas.

ETP Enters Gathering, Processing Agreements For Marcellus Pipeline

Business Wire

Energy Transfer Partners LP (ETP) entered into long-term gas gathering, processing and fractionation agreements with EdgeMarc Energy, the company said June 8 as it provided details on its Revolution Pipeline project in the Marcellus and Upper Devonian shales.

To enter the agreements, ETP bought about 20 miles of high-pressure pipeline from EdgeMarc and will build a new cryogenic gas processing plant, a new fractionator and additional gas gathering pipelines.

About 100 miles of high-pressure, 24-inch and 30-inch rich-gas pipeline will be built for Revolution, which will handle more than 440 million cubic feet per day of capacity, the company said. Revolution Pipeline will begin in Butler County, Pa., and will run to ETP's new Revolution cryogenic gas processing plant that will be built in western Pennsylvania. The plant is scheduled to be in service by second-quarter 2017.

Additional third-party gas will be able to be processed there in the future, ETP added. The residue gas will go to downstream markets through ETP's Rover interstate pipeline, and the NGL will go to Sunoco Logistics' Mariner East Pipeline system for delivery to domestic and export markets.

The fractionation facility will be built Sunoco's Marcus Hook Industrial Complex in Marcus Hook, Pa., and is scheduled to be in service by 2017's second quarter.

The total cost for the Revolution Pipeline system and the facilities is about $1.5 billion, ETP said. Long-term fee-based agreements will support the cost.

Edgemark's CEO, Chuck VanAllen, said Revolution Pipeline will provide gathering and processing for the company's roughly 500 laterals that will be drilled to access the shale gas in Butler County, Pa. Residue gas and NGL will go to "highly coveted" markets, he added.

Energy Transfer Partners LP is a midstream MLP based in Dallas.

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