

# MIDSTREAM *Monitor*

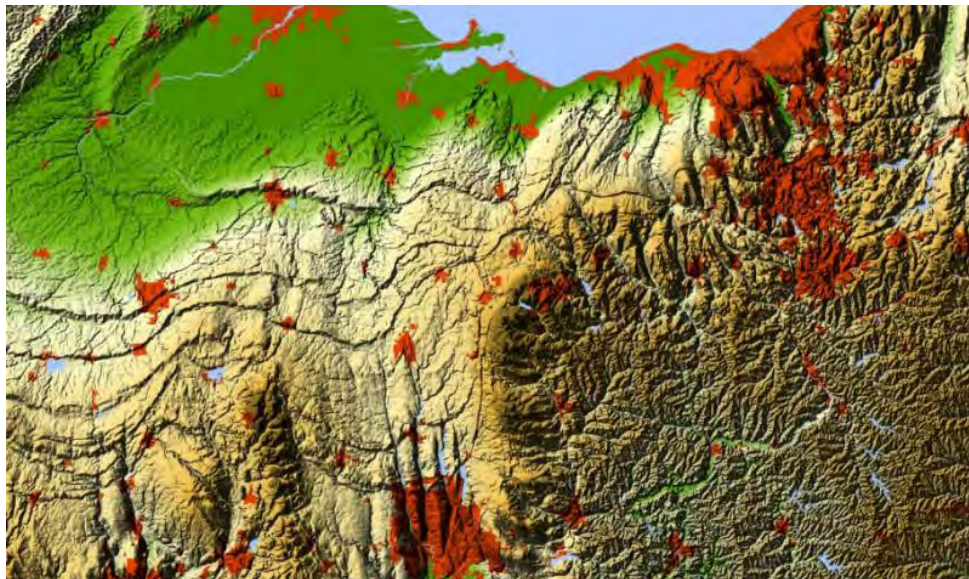
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## Study: Utica Holds 20x As Much Gas As Believed

*By Joseph Markman, Hart Energy*



A recently released report by West Virginia University sets recoverable gas reserves in the Utica Shale at more than 20 times the estimate of the U.S. Geological Survey (USGS).

The two-year study by the Appalachian Oil & Natural Gas Consortium concluded that the Utica possesses total recoverable resources of 782.2 trillion cubic feet (Tcf) of natural gas, far beyond the previous estimate of 38 Tcf. The neighboring Marcellus Shale is estimated to hold 500 Tcf to 800 Tcf of natural gas.

“The revised resource numbers are impressive, comparable to the numbers for the more established Marcellus Shale play, and a little surprising based on our Utica estimates of just a year ago which were lower,” Douglas Patchen, director of the consortium, said in a statement.

“But this is why we continued to work on the resource estimates after the project officially ended a year ago,” he said. “The more wells that are drilled, the more the play area may expand, and another year of production from the wells enables researchers to make better estimates.”

The study, “A Geologic Play Book for Utica Shale Appalachian Basin Exploration,” also estimates recoverable crude oil at 1.96 billion barrels (bbl), or about double the USGS estimate.

“The combination of a relatively shallow reservoir and the potential for liquids production has made this an attractive play,” researchers wrote.

Even if the study overestimates its natural gas figure by a factor of 10, the Utica would still possess more than two-and-a-half times the reserves of Australia, which is on the brink of leading the world in LNG exports.

Funded by 15 industry members of the consortium, the research team also included individuals from state geological surveys in Ohio, Kentucky, Pennsylvania and West Virginia; Washington University, St. Louis; Indiana University; Smith Stratigraphic LLC; the USGS; and the U.S. Department of Energy’s National Energy Technology Laboratory.

The study focused on the underlying Point Pleasant Formation, where drilling is concentrated in a north-south trend in eastern Ohio, although more recent drilling in the north has shifted toward the northeast and into northern Pennsylvania. As operators migrate their activities eastward into deeper drilling and higher maturation areas, they encounter dry gas.

“The level of thermal maturity in the Utica/Point Pleasant shows a progression in increasing bitumen reflectance from west to east, with a very steep increase occurring in eastern Ohio,” the researchers noted.

That could be a concern, as technically recoverable does not necessarily transition to economically viable.

As Gregory Wrightstone, owner of Wrightstone Energy Consulting told the Pittsburgh Tribune-Review: “The billion-dollar question is how far east it will prove to be profitable and productive.”

# Plus Or Minus, Regulation To Have Major Midstream Impact

*By Paul Hart, Hart Energy*



The direction of future federal and state government energy-industry regulation will have a significant impact on the midstream in the next two decades—either positive or negative. That’s the finding of a new Wood Mackenzie Inc. study prepared for the American Petroleum Institute.

“A Comparison of U.S. Oil and Natural Gas Policies” reviewed what could happen to the oil and gas industry overall by 2035. It plots the potential economic impact on the industry—as well as positives and negatives outcomes for job creation, the GDP, government revenues, household income and energy expenditures. The study plotted both upside and downside scenarios and compared them to a baseline forecast that excluded both pro-development policies and sharp regulatory constraints.

“Increases in U.S. oil and natural gas production are expected in all scenarios, but the regulatory environment is expected to have a very material impact on the pace of growth and the peak level achieved,” the Wood Mackenzie study said. “Pro-development policies could increase oil and gas production by 8 million barrels of oil equivalent per day (MMboed), whereas regulatory constraints could reduce it by 3.4 MMboed by 2035.”

In overall employment, the regulatory impact could swing as high as creation of 2.3 million additional U.S. jobs in the next 20 years, or go as low as eliminating 800,000 existing jobs, the report added.

“Midstream investment requirements are expected to be significantly impacted by the future regulatory environment,” the study emphasized. “Cumulative midstream capex is expected to be \$118 billion

higher through 2035 in the pro-development scenario and \$171 billion lower under regulatory constraints.”

One example the study considers is a pro-development regulatory policy that would allow open offshore exploration and production along all coasts of the Lower 48 states.

“The development of new offshore areas could require capex of more than \$500 billion by 2035 for gathering, processing, trunk-lines, and storage” overall, it said. That would include more than \$200 billion to support 1.6 million barrels per day (MMbbl/d) of new production along the Pacific Coast, a similar investment to handle 1.4 MMbbl/d of new production from the eastern Gulf of Mexico and more than \$100 billion for offshore East Coast production of an estimated 900,000 bbl/d.

Regulation designed to encourage development would also have equally positive midstream impacts, the study added. It pointedly considered the economic impact of contentious, Canada-to-Gulf Coast pipelines proposed in recent years.

“Wood Mackenzie estimates that construction of the northern portion of the Keystone XL Pipeline could result in up to \$3.4 billion of direct capex spending in the U.S.,” the report said. “Increasing capacity of the Enbridge mainlines via the Alberta Clipper project is expected by Wood Mackenzie to result in \$0.5 billion additional capex spend in the United States. Once construction is complete, revenue from throughput, ongoing operating expenses, and operational jobs contribute to economic benefits both locally and nationwide.”

On the opposite side of the question, the study found crude by rail traffic would be particularly hard hit by severe regulatory constraints. “Railcar modifications will increase the cost of leasing or purchasing railcars, while speed restrictions will result in a longer transit time to market,” it said. That would translate into higher costs for the energy industry.

Crude by rail tariffs could jump sharply from 2015 baseline rates by 2025 in that case, the study pointed out. Bakken shipments to Pacific Northwest refineries could rise an additional \$3/bbl. Rates could go up \$4/bbl to East Coast refineries while tariffs for shipments to the Gulf Coast would rise by \$3.50-4/bbl, depending on the delivery point, it said.

In the 151-page study report, Wood Mackenzie also analyzed potential oil and gas pipeline capacity availability for the major U.S. unconventional plays, according to pro-development, baseline or regulatory constraint assumptions. The study also considered regulatory impacts in the upstream and downstream sectors, as well overall economic impact on each state.

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# The New Rules For Propane

*By Frank Nieto, Hart Energy*



The NGL barrel (bbl) is a much different animal than its crude oil counterpart. For one thing there isn't really an NGL bbl, rather the bbl value is a weighted composite value of the five NGL streams in a 42-gallon bbl. Secondly, these streams are divided into two classes: light and heavy products.

While heavy NGL values are typically more closely related to West Texas Intermediate crude prices, light NGL values are a little different with ethane being closely aligned with natural gas prices. The other light NGL, propane, is influenced by both gas and crude prices.

This dual influence has historically helped propane maintain solid prices, but like many hydrocarbon markets in a post-shale gale world things have changed. Natural gas prices have traded in the \$3.00 per million Btu (/MMBtu) range for most of the last four years and crude prices have traded at \$60/bbl or lower for the past year. Despite a challenging price environment, gas and crude production hasn't dropped as fast as the rig count because of improved drilling efficiencies.

As a result, markets have been more difficult to forecast than in years past. This has especially been true for propane. It's hard to believe that after the polar vortex and arctic chills saw heating demand spike around the country, especially in the Northeast, and push propane and gas spot prices to record levels and that 18 months later propane storage would be at a record level of 110,000 bbl. This is despite LPG exports also being strong during the same timeframe.

In some ways producers have gotten too good at doing their job for their own good. Supplies can be replenished much faster than in the past and it is no longer seasonal heating demand that will drive propane prices, but exports that will do so.

Because propane is a seasonal product, it is hard to work off excess supplies outside of the peak demand season. The good news for propane is that unlike crude oil, NGL and condensate can be exported.

“We’ve reached the point where exports will have the biggest impact on propane prices,” Robert Hain, managing director, En\*Vantage Inc., said during Morgan Stanley’s recent “NGL State of the Union” webinar.

Hain noted that propane prices likely hit their bottom for the year earlier this summer when storage was at its peak. In addition, the market must adapt to this new reality of excess supply and new transportation flows.

As an example, he noted that the Edmonton, Canada, market has been the weakest for propane with the price being zero or below. “Some producers didn’t quite understand the situation with the Cochin Pipeline moving from propane to condensate. This made it so that rail was the only real way to transport propane out of the region. Those that were fully aware of the situation leased their rail cars early,” he said.

However, even this preparation has its own headwinds as the Hattiesburg, Miss., rail terminal embargoed incoming rail cars due to traffic congestion caused by increased propane cars. This could result in propane being burned as a fuel in Western Canada.

Unlike ethane, propane cannot be rejected, which means that the product does have the same safety mechanism built into the market. “I don’t think there’s a limit on how low propane prices can go because gas has to recover propane. So unless producers cut back or bypass gas, which I don’t think they’ll do, the price can only go lower if production is increased. It can trade as low as ethane, but I don’t think it will,” Hain said while noting that En\*Vantage anticipates prices improving from the current 30 cents per gallon (/gal) threshold to 50 cents/gal as heating demand begins in the fall.

*The October issue of Midstream Business will feature a more detailed outlook for natural gas and NGL prices.*

# Examining The MLP Index Decline

*By Caryn Livingston, Hart Energy*



Though MLPs have on the whole produced positive returns historically during periods of lower commodity prices and rising interest rates, year-to-date the Alerian MLP Index (AMZ) declined 17% on a price-return basis as of July 17. In contrast, the S&P 500 gained about 3% for the year. At the same time, distribution growth has increased year-over-year (YOY) in eight of 10 Yorkville MLP Indices, with only the natural resource index and E&P index cutting YOY distributions.

What is driving MLP underperformance in 2015? Most tend to point to a correlation of MLPs to other energy stocks and, in relation, commodity prices. However, according to a research note from analysts at Raymond James & Associates Inc., “We believe underperformance of this magnitude has to be explained by multiple drivers.”

Though investors have been concerned primarily with low crude, gas and NGL prices negatively affecting MLP performance, “analysis shows that crude oil prices do not solely drive returns across the midstream space,” the Raymond James note said. Rather, historical MLP performance has tracked closely with high-yield bonds.

Raymond James examined the correlation between the AMZ and a portfolio of high-yield bonds over both a one-year and five-year period and found a significant correlation, indicating that investors likely view MLPs and high-yield bonds as similar investment vehicles, with similar risks and returns.

“As such, our supposition is that high-yield bonds (and, by inference, MLPs) trade more like equities than investment grade, fixed income securities but also capture the sweeping impact of rising interest rates,” the Raymond James note said.

The relation between MLPs and high-yield bonds lead to concerns about rising interest rates leading to higher costs of capital, a higher discount rate on equity capital and a financial impact on entities with floating-rate debt.

“However, the combined impact of these factors is difficult to quantify and several MLPs have taken advantage of the accommodative, long-lasting, low-rate environment (~\$28 billion in debt financing in 2014, including 30-year bonds issued at nominal rates as low as ~5%),” the note said. “While we expect to eventually see a rising interest rate environment negatively impact MLPs, we believe the incremental impact is at least partially ‘baked in’ to the risk vs. reward at current valuations.”

According to July’s “Yorkville MLP Beat” from Yorkville Capital Management LLC, the view that rising interest rates negatively impact MLPs is widely held, but not necessarily supported by historical performance.

“MLPs produced positive returns across entire interest rate cycles, whether it was the 10-year or three-month U.S. treasury (UST) yields that were rising,” the note said. “In five out of six rising rate environments (10-year UST), MLPs produced positive returns averaging 18%,” while “during Fed tightening cycles, MLPs produced an average positive return of 9%.”

MLP returns increased overall during historical interest rate increases, but each period of rising interest rates began with short periods of negative returns, Yorkville’s note added.

This trend “appears to be more than a coincidence, occurring in five of six rising interest rate environments,” the Yorkville note said. “On average, MLPs initially pulled back 21 trading days into the cycle, these pullbacks lasted approximately 27 trading days, and MLPs averaged a decline of -8.9% during these periods.”

Despite the current investor uncertainty, it is unlikely MLPs will continue to trade at their current low levels for long.

“We remain confident that over the medium-term (i.e., 12+months out), MLPs will trade considerably higher than current levels as both organic and inorganic growth in the midstream/MLP sector drives investors to allocate capital to the companies/partnerships with the most visible pathway to creating long-term value,” the Raymond James note added.

*The September issue of Midstream Business will feature a more detailed analysis and outlook for midstream MLP performance.*

# Frac Spread: Is The Worst Over?

By Frank Nieto, Hart Energy



Since the commodity price downturn that started last year, crude oil and NGL prices have recoupled. This has largely been a negative for the NGL market with West Texas Intermediate (WTI) prices down more than 50% from last year. However, even as WTI has fallen in value the last two weeks NGL prices have posted gains.

According to En\*Vantage Inc., this may be indicative of NGL prices having hit their floor as long as WTI doesn't suffer another sharp drop in value for the remainder of the year. WTI crude hit its summer low of this week as it fell below \$50 per barrel (/bbl) while NGL prices were up across the board with Mont Belvieu propane hitting its highest price of the season at 41 cents per gallon (/gal). The Conway price hit its previous high for the summer at 34 cents/gal.

"Propane prices haven't dropped proportionately with crude prices. On June 24, crude was around \$60/bbl while propane was trading at 36.7 cents/gal at Mont Belvieu. On [July 22], when crude prices were trading around \$49/bbl, propane was at 39.4 cents/gal, an indication that propane was probably oversold. While it is true that we have too much propane in inventory, prices have already built that in, and it is hard to see propane prices getting any cheaper than we saw in the third week of June when propane was around 22% of WTI compared to 33% currently," the advisory and investment firm said in its July 23 *Weekly Energy Report*.

It is likely that propane prices will still face more trouble in the next year as current stock levels are more than 80 million bbl, compared to the five-year average of 65 million bbl for propane inventories heading into winter. The good news for propane is that more than 200,000 bbl/d of propane export capacity will be coming online in the next year. However, unless there is very high heating, crop-drying and export demand in the fall and winter, it is likely that propane will exit the 2016 heating season at record levels.

U.S. ethane cracking capacity is operating at full capacity, which helped support modest price gains at both Mont Belvieu and Conway. These gains weren't enough to turn frac spread margins positive, but prices are expected to increase before the end of the summer in order to attract volumes to the Gulf Coast. It is unlikely that margins will remain consistently positive until additional ethane cracking capacity is brought online in the next three years.

The theoretical NGL bbl price rose slightly at Conway to \$17.42/bbl with a 1% gain in margin to \$7.01/gal compared to a 1% gain at Mont Belvieu to \$19.51/bbl with a 1% gain in margin to \$8.92/bbl. Margins were able to improve at a greater rate this week due to flat natural gas prices caused by large inventory levels.

As a result margins were largely up with C<sub>5+</sub> once again leading the way as the most profitable NGL to make at 75 cents/gal at Conway and 78 cents/gal at Mont Belvieu. This was followed, in order, by isobutane at 21 cents/gal at Conway and 28 cents/gal at Mont Belvieu; butane at 19 cents/gal at Conway and 25 cents/gal at Mont Belvieu; propane at 7 cents/gal at Conway and 15 cents/gal at Mont Belvieu; and ethane at negative 5 cents/gal at Conway and negative 2 cents/gal at Mont Belvieu.

The U.S. Energy Information Administration reported that natural gas storage levels rose by 68 billion cubic feet to 2.828 trillion cubic feet (Tcf) the week of July 17 from 2.767 Tcf the previous week. This was 28% greater than the 2.206 Tcf posted last year at the same time and 3% higher than the five-year average of 2.747 Tcf. Cooling demand should remain strong the week of July 29, as the National Weather Service anticipates warmer-than-normal temperatures throughout the country.

<b>CURRENT FRAC SPREAD (CENTS/GAL)</b>				
<b>July 24, 2015</b>	<b>Conway</b>	<b>Change from Start of Week</b>	<b>Mont Belvieu</b>	<b>Last Week</b>
Ethane	14.28		17.65	
Shrink	18.90		19.23	
<b>Margin</b>	-4.62	1.70%	-1.58	16.20%
Propane	33.50		41.28	
Shrink	26.11		26.56	
<b>Margin</b>	7.39	6.02%	14.72	2.18%
Normal Butane	48.26		55.38	
Shrink	29.55		30.07	
<b>Margin</b>	18.71	-2.09%	25.31	3.46%
Isobutane	49.32		56.86	
Shrink	28.39		28.88	
<b>Margin</b>	20.93	4.60%	27.98	6.56%
Pentane+	106.62		109.78	
Shrink	31.61		32.16	
<b>Margin</b>	75.01	0.13%	77.62	-1.50%
NGL \$/Bbl	17.42	0.43%	19.51	1.25%
Shrink	10.41		10.59	
<b>Margin</b>	7.01	1.06%	8.92	1.08%
Gas (\$/mmBtu)	2.85	0.00%	2.90	1.40%
Gross Bbl Margin (in cents/gal)	14.79	1.30%	19.77	1.24%
<b>NGL Value in \$/mmBtu (Basket Value)</b>				
Ethane	0.79	0.56%	0.97	3.34%
Propane	1.16	1.27%	1.43	1.67%
Normal Butane	0.52	-0.82%	0.60	2.33%
Isobutane	0.31	1.90%	0.35	3.87%
Pentane+	1.37	0.09%	1.42	-0.67%
Total Barrel Value in \$/mmbtu	4.15	0.52%	4.77	1.54%
<b>Margin</b>	1.30	1.69%	1.87	1.75%

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.

<b>NGL PRICES</b>						
<b>Mont Belvieu</b>	<b>Eth</b>	<b>Pro</b>	<b>Norm</b>	<b>Iso</b>	<b>Pen+</b>	<b>NGL Bbl</b>
July 15 - 21, '15	17.65	41.28	55.38	56.86	109.78	<b>\$19.51</b>
July 8 - 14, '15	17.08	40.60	54.12	54.74	110.52	<b>\$19.27</b>
July 1 - 7, '15	16.59	39.80	51.30	52.25	113.18	<b>\$19.07</b>
June 24 - 30, '15	18.50	38.86	53.62	54.68	120.26	<b>\$19.92</b>
June '15	18.04	38.02	52.24	53.11	123.24	<b>\$19.83</b>
May '15	18.69	46.42	58.02	59.80	127.69	<b>\$21.72</b>
2nd Qtr '15	17.93	46.30	58.11	59.66	126.14	<b>\$21.48</b>
1st Qtr '15	18.38	53.01	66.35	67.81	110.53	<b>\$21.94</b>
4th Qtr '14	20.22	76.90	96.73	98.28	149.25	<b>\$30.10</b>
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	<b>\$40.27</b>
July 16 - 22, '14	22.81	103.60	123.86	130.72	219.22	<b>\$40.72</b>
<b>Conway, Group 140</b>	<b>Eth</b>	<b>Pro</b>	<b>Norm</b>	<b>Iso</b>	<b>Pen+</b>	<b>NGL Bbl</b>
July 15 - 21, '15	14.28	33.50	48.26	49.32	106.62	<b>\$17.42</b>
July 8 - 14, '15	14.20	33.08	48.66	48.40	106.52	<b>\$17.35</b>
July 1 - 7, '15	14.33	32.50	46.10	46.80	109.88	<b>\$17.35</b>
June 24 - 30, '15	15.55	33.76	47.80	51.12	121.40	<b>\$18.69</b>
June '15	15.52	32.85	46.41	48.80	122.41	<b>\$18.51</b>
April '15	15.75	48.18	59.30	63.67	119.72	<b>\$21.26</b>
2nd Qtr '15	15.50	40.55	52.40	56.80	121.50	<b>\$19.89</b>
1st Qtr '15	17.81	49.00	66.13	76.84	106.32	<b>\$21.49</b>
4th Qtr '14	18.69	78.64	102.72	113.19	146.37	<b>\$30.77</b>
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	<b>\$40.18</b>
July 16 - 22, '14	18.25	106.54	123.16	143.62	217.96	<b>\$40.77</b>



RESIN PRICES – MARKET UPDATE – JULY 24, 2015					
TOTAL OFFERS: 9,684,260 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	2,241,864	0.63	0.77	0.6	0.64
HDPE - Inj	1,800,668	0.66	0.73	0.6	0.64
HDPE - Blow Mold	1,638,668	0.61	0.66	0.59	0.63
LDPE - Film	1,140,828	0.62	0.62	0.62	0.66
PP Copolymer - Inj	965,288	0.61	0.61	0.63	0.67
LLDPE - Inj	787,380	0.64	0.64	0.61	0.65
HMWPE - Film	529,104	0.67	0.67	0.62	0.66
PP Homopolymer - Inj	314,092	0.63	0.63	0.61	0.65
LDPE - Inj	266,368	0.69	0.69	0.63	0.67

Source: Plastics Exchange – [www.theplasticsexchange.com](http://www.theplasticsexchange.com)

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## Oil Stockpile Rises Above Five-Year Seasonal Average

*Reuters*

U.S. crude oil stocks rose last week, high above the five-year seasonal average, while gasoline stocks decreased and distillate inventories grew, data from the Energy Information Administration showed on July 22.

Crude inventories rose 2.5 million barrels in the week to July 17, compared with analysts' expectations for a 2.3 million-barrel decrease, to 463.89 million barrels, over 100 million barrels above the five-year seasonal average for this week, the EIA said.

The Gulf Coast region was responsible for the crude build, with stocks rising 2.5 million barrels. The only drop was on the West Coast, where inventories fell by 762,000 barrels.

Crude stocks at the Cushing, Oklahoma, delivery hub for crude futures rose by 813,000 barrels, EIA said.

"The bottom line is that Cushing had another build," said Tariq Zahir, founder at Tyche Capital Advisors in Laurel Hollow, New York. "It's a very big surprise to see this type of a build at this time of year." The

build is pressuring not only front-month WTI, but also putting pressure on months further in the future, he said.

Crude futures briefly extended their losses after the reported stock build.

By 11:02 a.m. EST (1502 GMT), U.S. crude was trading 57 cents lower at \$50.29 per barrel after hitting a contract low of \$49.67 after the data. Brent fell 36 cents to \$56.68, a 0.6 percent loss.

Refinery crude runs rose 45,000 barrels per day, EIA data showed. Refinery utilization rates rose by 0.2 percentage point at 95.5 percent of total capacity.

Gasoline stocks fell 1.7 million barrels, compared with analysts' expectations in a Reuters poll for a 925,000-barrel gain.

Gasoline demand last week rose 345,000 bpd to 9.7 million bpd, the second highest level since EIA records were available in 1991.

"The drawdown in gasoline was large, and demand was quite strong," said John Kilduff, partner at Again Capital LLC in New York. "While demand should ebb as we transition into August, there is no denying the robust consumer response to the relatively low pump prices in most of the country."

The Federal Highway Administration on July 21 released data showing that U.S. drivers have traveled the most miles on record during the first five months of the year.

Distillate stockpiles, which include diesel and heating oil, rose 235,000 barrels, versus expectations for a 1.8 million-barrel increase, the EIA data showed.

U.S. crude imports rose last week by 587,000 bpd, with imports from several OPEC countries fueled the rise.

Imports from Saudi Arabia rose to 1.44 million bpd, up from 1.32 million the previous week. Imports from Venezuela rose to 952,000 bpd from 893,000 bpd, supply from Ecuador rose to 371,000 bpd from 109,000 bpd and Kuwait sent 227,000 bpd, up from 98,000 bpd the previous week.

Supply from Mexico, Canada, Angola and Iraq slumped.

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## **EVX Midstream Formed Through \$75 Million In Equity**

EVX Midstream Partners LLC was formed through a \$75 million equity commitment from Five Point Capital Midstream Fund II LP, Five Point Capital Partners LLC said July 20.

EVX develops oil and natural gas, and also develops produced-water gathering, processing, treatment and transportation assets, in the Permian Basin, Eagle Ford Shale and Midcontinent.

Its three founders are Herb Chambers IV, president and CEO; Charlie Flynn, COO; and Brian Kellar, CFO. The team has more than 50 years' collective experience originating transactions and projects, structuring and developing midstream assets and operating assets post-acquisition or completion.

"Future demand for infrastructure remains irrefutable, and Five Point is well-positioned to capitalize on producers' needs in the midstream energy space. Despite current crude pricing, the addressable market for Five Point is expanding as upstream operators focus their limited capex on drilling and development rather than building midstream assets. We will continue to opportunistically deploy capital through partnerships with industry-leading executives and asset acquisitions that fall squarely within the firm's strategy, David Capobianco, Five Point's CEO and managing partner, said.

EVX Midstream and Five Point Capital are based in The Woodlands, Texas.

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## Pipeline Expansions Will Send Shale Gas South

### *Bloomberg*

A glut of cheap natural gas trapped in the U.S. Northeast will be heading south by the end of the year, radically changing the price differences between the regions.

Pipeline expansions by Williams Cos., Kinder Morgan Inc. and Spectra Energy Corp. will carry shale gas from the Marcellus reservoir to southern states as early as the fourth quarter. That'll narrow the premium for gas in the Southeast to as little as 30 cents per million British thermal units from more than a dollar versus the Northeast, Genscape Inc. and Tudor Pickering Holt & Co. said July 20.

New pipelines are closing the divide between the winners and losers of America's shale revolution as long-awaited supplies from tight-rock formations move to southern states and other regions. Without a Marcellus of its own, the Southeast, including Florida, where demand is booming, has missed out on the cheap fuel that has come with increased output.

"These projects will definitely reduce the spread between the Northeast and other regions," Tony Franjie, senior natural gas analyst for Genscape in Sugar Land, Texas, said July 20. "Everyone but those

near the shale plays has kind of missed out on the boom. It's just crazy what's happened in the Northeast."

Spot gas in Florida rose 2.8 percent on the Intercontinental Exchange to \$2.94 per million British thermal units on July 21, while Marcellus supplies at the Leidy hub slumped to \$1.2615.

### **Price Difference**

The difference between the two has averaged \$1.48 this year and will shrink to about 30 cents as pipelines come online over the next three years, Franjie said. Tudor Pickering analyst Jeff Schmidt similarly forecast between 20 to 30 cents.

Natural gas futures lost 0.1 percent to \$2.879 on the New York Mercantile Exchange at 12:05 p.m. London time on July 22.

Gas output in the Marcellus has jumped more than 14-fold since January 2007, reaching a record 16.5 billion cubic feet a day in June, U.S. Energy Information Administration data show. Some of that will be shipped overseas in the form of liquefied natural gas, with average daily exports from the U.S. reaching 9.6 billion cubic feet by 2025, according to IHS CERA.

An expansion of Williams's 10,200-mile Transcontinental Gas Pipeline system on the East Coast may enter service in December. Other proposals totaling as much as 7.5 billion cubic feet a day of capacity are scheduled to come online in 2016 and 2017. One billion cubic feet of gas is enough to heat about 10,000 U.S. homes for a year.

### **Shrinking Discount**

The new capacity will allow so much gas to leave the Marcellus that the discount for supplies at the Leidy hub will shrink by as much as 50 cents versus gas at the U.S. benchmark Henry Hub in Louisiana, said Charles Blanchard, a Bloomberg New Energy Finance analyst in New York. The spread was \$1.62 on July 21.

Projects capable of carrying as much as 2.1 billion cubic feet a day, or about 17 percent of Southeast demand, are scheduled to begin service by the end of the year. Kinder Morgan's Tennessee Gas Pipeline system will boost deliveries beginning in November. Spectra's Ohio Pipeline Energy Network will start shipping to the South and Midwest in the fourth quarter.

Some of that shale gas will flow to Florida, where power plant demand for the fuel hit a record for April, up 13 percent from a year earlier, based on the latest EIA data. The state is home to six of the 20 fastest-growing U.S. metropolitan areas. Gas flows to the Southeast have more than doubled since 2007, according to LCI Energy Insight in El Paso, Texas.

### **Disney Benefits**

The Reedy Creek Improvement District, which supplies power to Walt Disney World in central Florida, is already benefiting because of Northeast shale gas. The district, which has a gas-fired cogeneration plant

and operates its own electric grid, is connected to Kinder Morgan's Florida Gas Transmission pipeline system.

Reedy Creek customers "have seen lower electric energy supply costs as a result of shale gas supply," Ann Blakeslee, the district's deputy administrator, said by e-mail July 17. Southern Co., which has 4.3 million customers in Alabama, Georgia, Florida and Mississippi, also buys gas from suppliers "active in the Marcellus region," spokesman Jack Bonnikson said by e-mail.

The shipments underscore how quickly the Marcellus shale formation -- spread across Pennsylvania, West Virginia and Ohio -- has dominated the gas market. It has become America's biggest producer in less than a decade and is now spreading its wealth across the country.

The pipelines coming online over the next three years will mark an "opening of the floodgates" to the U.S. Southeast, Schmidt said. "It's a little bit of the best of both worlds. The producers should see some relief and consumers should see some relief in the heaviest demand season."

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## **QEPM, TLLP Merger Approved**

The merger of QEP Midstream Partners LP (QEPM) and Tesoro Logistics LP (TLLP) was approved during a unitholder meeting in San Antonio on July 21, QEPM said that day.

More than 64% of QEPM's common units, not held by QEP Midstream Partners GP LLC and affiliates, were cast in favor of the merger. TLLP, who indirectly holds all of QEPM's subordinated units, approved the merger by written consent. The merger required approval of at least a majority of QEPM's outstanding common units.

Unitholders of QEPM can receive 0.3088 TLLP units for each QEPM unit. Cash will be paid to QEPM unitholders in lieu of any fractional units, the company said.

TLLP's parent company, Tesoro Corp., is based in San Antonio, Texas.

# Oil Could Be Sold Under Senate's Transportation Funding Bill

## Reuters

The U.S. Senate's new transportation funding bill proposes the sale of 101 million barrels of crude oil from the government's Strategic Petroleum Reserve in the fiscal 2018-2025 period, collecting \$9 billion to fund road and rail projects.

A summary of the three-year funding bill released on Tuesday by Senate Republicans also proposes to collect \$16.3 billion by slashing the 6 percent dividend rate paid to large banks to 1.5%.

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