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Magnum Hunter To Sell Eureka Pipeline, Easing Liquidity Woes

By Darren Barbee and Frank Nieto, Hart Energy

Gary Evans, CEO of Magnum Hunter Resources (MHR), has apparently found his way back to the drillbit after being squeezed by liquidity concerns since commodity prices faltered.

Evans told an audience at Hart Energy's DUG East conference that he had received an unsolicited bid from an MLP for Magnum Hunter subsidiary Eureka Hunter Pipeline that was too good to pass up. Magnum Hunter said in a June 25 securities filing that in current market conditions the sale could generate up to $700 million in gross cash proceeds.

Magnum Hunter had planned to sell a sliver of its interest in Eureka but will now sell the entirety of its equity stake in the company—about 45.53% of the company. Previously, Magnum was exploring the sale of about 5% of Eureka for about $50 million. Morgan Stanley Infrastructure Partners owns 53% of Eureka.

"This potential transaction would allow Magnum Hunter to restructure its balance sheet and dramatically improve its current liquidity position," the company said.

Magnum Hunter has a July 10 deadline to raise the last $9.4 million of a $65 million minimal capital raise commitment due under its bank facility. The company reported $940.8 million in long-term debt at the end of first quarter of 2015 and $100 million in redeemable preferred stock, according to a note by Baird Energy.

Evans said he received multiple bids for interests in the pipeline and could have a formal announcement as within the next two weeks. The proceeds will allow the company to resume drilling in the Utica.

Eureka is a coveted pipeline that focuses on natural gas assets based in the heart of the Marcellus and Utica shale plays.

Proposed Interstate Pipelines, 2015-2017

Pipeline	Receipt Area	Delivery Area	Capacity	In Service
ANR	Lebanon	Glenn Karn	350,000	Nov-15
TETCO	Uniontown	Lebanon-Gas City	425,000	Nov-15
Rockies Express	Clarington	Lebanon-REX Z3	1,800,000	Jun-16
Texas Gas Transmission	Lebanon	TGT Z1-SL	450,000	Jun-16
Texas Gas Transmission	Lebanon	TGT Zone 3	150,000	Jul-16
Columbia Gas	Clarington; OH & WV	Leach	1,500,000	Nov-16
Columbia Gulf	Leach	Mainline, Rayne	1,200,000	Nov-16
Rockies Express	Clarington, Lebanon		2,400,000	Jan-17
Texas Gas	Lebanon	Perryville and LA	584,000	Apr-17
Energy Transfer	Clarington	Defiance/Dawn	2,750,000	Jun-17
ANR	Clarington	Michcon	2,000,000	Nov-17
ANR	Clarington	Dawn (2nd del option)		Nov-17

Source: Magnum Hunter Resources

In September 2014, Magnum Hunter valued the pipeline, based on a transaction, at $1 billion.

The line has about 175 miles of gas gathering system in Ohio and West Virginia that moves 400,000 million British thermal units per day (MMBtu/d) with seven existing interconnects. In June, recent peak throughput rates were about 639,052 MMBtu/d, an average quarterly increase of 31% over the last two years.

The pipeline has continued to grow in recent years, adding 300 million cubic feet per day (MMcf/d) in 2013, 2 Bcf/d in 2014 and an estimated 2.3 Bcf/d in 2015.

Eureka's goal is to continue cutting cost per mile of installation by 10% while maintaining the same level of quality.

Eureka has 10 current customers and another five potential customers, Evans said in his DUG East presentation.

Magnum Hunter estimates that dry Utica gas will make up 40% of volumes on the line in 2015 and Marcellus wet gas will make up 60% of the remaining volumes.

Magnum Hunter has been trying to find its financial foot for several months.

At the end of March, Magnum Hunter had roughly $20 million in liquidity, consisting of $14.4 million in cash and $5.7 million in revolving credit. In May, the company sold a small portion of undeveloped leasehold in Tyler County, W.V., for proceeds of $33.6 million in cash to Antero Resources Corp. (AR).

After adjustments and remediation of title defects, the price could rise to as much as $40 million by July 15.

Magnum Hunter previously completed $22 million in capital raising transactions.

The Energy Business Is ‘Living Dangerously’ In A Changing World

By Paul Hart, Hart Energy

The U.S. has scored “a remarkable achievement," thanks to the shale plays, of turning itself from a major oil importer to potentially a major oil exporter in a few years, said Tom Petrie at Hart Energy's DUG East conference on June 25.

PITTSBURGH—The years 2015 and 2016 could be “years of living dangerously” as the world’s energy business goes through dramatic shifts, investment banker and author Tom Petrie told attendees at Hart Energy’s DUG East conference on June 25.

Multiple political and military trends, coupled with the stunning rise in U.S. crude oil and natural gas production, are occurring at the same time. That makes the worldwide energy industry particularly uneasy now, Petrie said.

There are “shifting geopolitical dynamics” happening, particularly in the Middle East and Asia. Russia and China are creating an uneasy alliance, in part due to the West’s economic embargoes set following Russia’s invasion of Ukraine, Petrie said. China, meanwhile, “is transitioning from an export-driven economy to greater, consumer-driven economy while ensuring a one-party rule—a rather important change.”

Meanwhile, China is asserting greater military power in the Pacific, in particular through its new military base in the South China Sea’s hotly contested Spratly Islands. He reminded the conference attendees that “40% of the world’s oil passes through the Malacca Strait [between Indonesia, Malaysia and Singapore] and China wants a role there.”

In the same part of the world, Iran—a major oil producer—struggles to gain international respectability. India, a major oil importer, has shifted its alliances from Russian ally to the U.S. and Europe, he said.

Meanwhile, the U.S. is scaling down its role in the regions and that means “the Saudis are looking east” rather than west to determine where its crude exports go and how, politically, the kingdom will respond. The same holds true for Kuwait and the United Arab Emirates, both major, and politically stable Mideast oil and gas producers.

“Saudi Arabia is increasingly concerned about its security in all directions—Iran, Syria, ISIS and Yemen,” he added.

Petrie is founder and chairman of Petrie Partners LLC and the former vice chairman of Merrill Lynch. He also wrote the book *Following Oil*, which traces major cycles in the oil and gas business that have led to a threshold for U.S. energy independence.

Separate from that turmoil in the East, the U.S. has scored “a remarkable achievement, a real credit to our industry” of turning itself from a major oil importer to potentially a major oil exporter in a few years, thanks to the shale plays, Petrie said. He pointed out that China and much of Europe have similar geology to North America’s shale plays. However, this nation’s comparatively free regulatory burden and private ownership of mineral interests created a unique opportunity that will be hard to duplicate elsewhere, he said.

The U.S. currently wants to redefine its superpower role but will change to something different while having positioning itself as energy independent. Already, the U.S. has emerged as a major petroleum products exporter and (Cheniere Energy’s) “Sabine plant will start up in a few months, providing an export market for U.S. natural gas,” he told a crowd composed primarily of Marcellus and Utica producers and midstream operators.

“We are right on the verge of exporting Appalachian gas, Eagle Ford gas and eventually Rocky Mountain gas,” he said. Petrie added the domestic oil industry’s “technical ingenuity is astounding” and mentioned North America’s resilience and second-to-none midstream connectivity are strong points.

Saudi Arabia and its stable Mideast neighbors still have an advantage in lower lifting costs, compared to the U.S. shale plays. However, Petrie pointed to “the relative rigidity of these countries” that will make it hard for them to respond to the multiple changes underway in the world’s energy business.

How will these multiple changes work out? That remains to be seen, Petrie concluded. “The markets always work out but they work out at their own pace,” he added. “How they work out may surprise us.”

Meritage, NGL Energy JV Opens Up Powder River Opportunities

By Caryn Livingston, Hart Energy

In a move launching NGL Energy Partners LP's entrance into Wyoming's Powder River Basin, the company said June 29 that it would partner with Meritage Midstream Services II LLC to form a crude oil gathering and water services joint venture (JV).

"We are very excited to enter the Powder River Basin alongside Meritage Midstream," said NGL CEO Mike Krimbill in a news release.

"This partnership will combine NGL's expertise in wastewater disposal and treatment, solid waste disposal and crude oil logistics with the significant land position, pipeline infrastructure, and the outstanding customer base that Meritage already has in place," he said.

The JV will operate on Meritage's dedicated acreage in the Powder River Basin and offer services, including:

- Crude oil and wastewater gathering pipelines;
- Pipeline injection terminals;
- Wastewater and solid waste disposal facilities; and
- Fresh water supply.

"This joint venture will provide a complete menu of crude oil and water services to our customers in the Powder River Basin and allow us to offer cost-effective, one-stop shopping for natural gas, NGLs, crude oil, waste water and frac water," Steve Huckaby, CEO of Denver-based Meritage, said in a news release.

“By bundling services in and around our current footprint and making additional expansions to our ability to offer downstream value, Meritage is well-positioned as the region’s premier, full-service midstream provider,” he added. Meritage is backed by equity commitments from Riverstone Holdings LLC.

The companies announced further plans to examine pipeline connectivity options from the Powder River Basin to better serve local customers. They also expect to evaluate the potential of NGL’s assets in the region for downstream marketing at Cushing, Okla., and Gulf Coast markets. Currently, NGL operates five primary segments: water solutions, crude oil logistics, NGL logistics, refined products/renewables and retail propane.

“This partnership is the latest in a string of developments centered near the Rockies and in the water treatment/disposal business,” according to analyst Darren Horrowitz of Raymond James Financial Inc.

With capacity added by the announced JV, total water treatment capacity in the region surpassed more than 1 million barrels per day.

While there were no figures provided with the statement from the companies, the near-term benefits of the JV are likely to be slight, Horrowitz said in an “Energy Daily Update.”

“However, given the proximity to other NGL crude logistics assets, including the Grand Mesa pipeline and [Denver-Julesburg] Basin and Bakken shale systems, and the language used in the release, we believe this partnership may act as a foothold to support further growth in the region,” he concluded.

Tanker Demand Could Signal Further Oil-Price Weakness

By Kristie Sotolongo, Hart Energy

Three months into oil's rebound from a six-year low, the global tanker market is sending clues that further upside momentum in crude prices may be limited.

A sudden surge in demand for supertankers drove benchmark charter rates nearly 60% higher at the end of May. Last year's crude sell-off pushed the cost of oil for prompt delivery to well below future prices, making it profitable to purchase oil and store it to sale at a later time.

Off the coast of West Africa and in the waters of the North Sea, supertankers holding million barrels of oil have essentially become accidental storage as their owners seek customers.

The vessels are competing with new loadings, as well as time-chartered cargoes that major trading houses such as Trafigura and Unipec booked to store crude months ago and are now selling.

The release of floating oil volumes will introduce additional supply into an already saturated market and exacerbate the number of unsold Mediterranean, North Sea and West African cargoes in the Atlantic Basin. At the time of this writing, nearly 55 million barrels were being stored on tankers—more than double the amount in January, *Thomson Reuters* data show.

On March 16, U.S. benchmark West Texas Intermediate (WTI) crude fell 2% to near $44 per barrel (bbl)—a six-year low—and Brent crude, the international marker, erased about 2%, settling around $53 per bbl.

Crude futures on June 29 hit three-week lows as Greece shut its banks and imposed capital controls, causing widespread risk aversion, while Iran looked likely to extend nuclear negotiations with the West to export more of its oil into an oversupplied market. Brent crude closed down $1.25 to $62.01 per bbl a barrel, its weakest finish since June 5. U.S. crude finished at $58.33 per bbl, down $1.30—its lowest settlement since June 8.

Until Monday, Brent had been trapped in a $62 per bbl to $65 per bbl range, and WTI had traded within a $59 per bbl to $61 per bbl range.

Industry observers say the physical market for crude oil will remain under pressure as traders unwind profitable storage plays after several months that that saw them holding millions of barrels on tankers at sea.

Tanker Rates Explode

In another sign that oil is set to fall, the Baltic Dirty Tanker Index, which tracks the rates to hire oil tankers plying 16 routes, shot up 25% in June to its highest level since January 2014, the *Wall Street Journal* reported June 25.

“Tankers are making serious money, in what’s turning into the best tanker market since 2008,” Wells Fargo analyst Michael Webber was quoted as saying.

In fact, earnings for the gravity-defying tanker market remain strong ahead of the so-called traditionally week third quarter. Current rates for large crude tankers are between $40,000 and $50,000 a day. Rates for products carriers top $30,000 a day for LR1 (long-range) and LR2 fixtures to the Arabian Gulf/Far East, and MR (medium-range) tankers cost at least $20,000 a day.

Still, some analysts fear the robust market—spurred by what they believe is fleeting global demand—could be bearish for oil prices in coming months.

“There’s a lot of crude oil that’s trying to find a home, so that’s good for the tanker market, [but] that limits the potential for a crude-oil rally and puts pressure on the price,” Olivier Jakob, managing director of Switzerland-based Petromatrix, told the *Journal*.

Amrita Sen, co-founder and chief oil analyst at U.K.-based energy market consultancy Energy Aspects said the absolutely dire West African crude balances have finally weighed on Brent time spreads, with the contango out to January 2016 widening out, amid extensive liquidation.

“The disconnect between the markets is at unprecedented levels, and something has to give,” Sen observed in a June 23 research note.

Shipping analysts earlier this year credited higher oil demand for giving the crude tanker market a “stellar” start to 2015, with the expectation that 2016 will also be better than expected.

Homeless and adrift

But there aren't enough buyers for all the crude oil out there, according to Morgan Stanley's Adam Longson.

"It's peak season for oil buying, yet there are still a bunch of tankers full of oil sitting in the Atlantic Basin waiting to be sold," Longson wrote in a June 22 client note. And when it comes to the future trajectory of oil prices, that is "a worrying sign for the fall," he said.

"If there are this many challenged cargoes in this strong demand environment, we worry about the outlook for physical oil this fall when crude runs and gasoline demand fall seasonally," Longson observed. "When combined with risk of new supply from Libya and Iran, a more range bound (if not lower), yet volatile, oil price environment seems increasingly likely in the second half of the year."

Although some oil cargoes are being bought after months of floating in storage—namely Nigerian and North Sea crudes—the sheer volume of oil in the market has driven the prices of different crude oil grades to the lowest level in years, Longson observed.

As expected, OPEC maintained its oil output target at 30 million barrels per day at its latest summit in Vienna. At the same time, U.S. shale production has continued higher, though the Energy Information Administration now predicts output to slow beginning this month and continuing into early next year.

According to a recent Commerzbank note: "OPEC is currently producing 1 million barrels of crude oil per day more than will be needed in the second half of the year … It will therefore only be possible to reduce the oversupply if non-OPEC supply declines, though there is no indication for this to happen at the moment."

So in Morgan Stanley and other industry observers' view, even the strongest demand is not balancing the market.

Frac Spread: Is The Worst Over?

By Frank Nieto, Hart Energy

The end of the first half of 2015 brought a close to the 12-month largest decline in commodity prices since the financial crisis of 2008 to 2009. The good news is that analysts anticipate the NGL and natural gas markets to improve in the second half of 2015.

Though NGL prices improved significantly the final week of June, this is typical of the market as activity increases with traders looking to consolidate positions. In fact, this helped push prices up to their highest levels since this last consolidation at the end of May.

Isobutane prices experienced the biggest bump, which was driven by several factors: It is likely the product hit its floor in the past month and was due for a bounce back and the limited isomerization capacity available, especially in the Midcontinent. This resulted in the Conway price improving 19% to 51 cents per gallon (gal) while the Mont Belvieu price rose 14% to 55 cents/gal.

Though the gains posted by propane weren't as large, they were perhaps more significant as the industry has been searching for a floor on the product. Propane prices continue to struggle compared to the value they had last year at the same time, but experienced their first uptick in six weeks at Mont Belvieu.

How much this uptick was a result of a bounce back is unknown as LPG exports experienced a rebound following tropical storm Bill, which caused a shutdown of the Houston Ship Channel. There was also a fear that storage facilities wouldn't be able to accept volumes due to rain water increasing freshwater levels in brine ponds, but these fears have subsided.

"Prices rebounded strongly last week, as brine issues at Lone Star's Mont Belvieu storage terminal were seen as transitory and not endemic of a larger containment issue," PIRA Energy Group said in a June 30 research note.

Despite these positives, the outlook for propane is still negative until the winter heating season begins and even any improvements at that point are dependent on how large storage levels grow this summer. Margins have improved enough that they are firmly positive, but another large price drop could turn margins negative for a time.

The U.S. market has been more interconnected with the Canadian market in the past few years as shale production has grown. This has largely been a positive for producers and operators in both countries, but the current downturn is pulling back on both countries' markets.

In its June NGL Snapshot, Wells Fargo Securities stated that the Canadian NGL market is oversupplied and is likely to remain so in the near term with production likely to track gas production on a stable or slightly declining curve for the next few years.

"For propane, pricing in Canada will likely track U.S. pricing (less a transportation discount) in the near term given that exports to the United States represent the only viable outlet for excess Canadian NGL. Longer term, the start-up of a potential new PDH plant by Williams and our assumption that at least one West Coast LPG export project will be constructed should materially reduce exports of propane to the United States and could ultimately lead to higher propane prices in Canada," according to the report.

Natural gas prices held firm this week with the Conway price up 1% to $2.69 per million Btu (MMBtu) and the Mont Belvieu up 1% at $2.77 per MMBtu. This was a positive for frac spread margins, which were largely up at both hubs.

The most valuable NGL to make at both hubs was C_{5+} with a margin of 92 cents/gal at Conway and 90 cents/gal at Mont Belvieu. This was followed, in order, by isobutane at 24 cents/gal at Conway and 27 cents/gal at Mont Belvieu; butane at 20 cents/gal at Conway and 25 cents/gal at Mont Belvieu; propane at 9 cents/gal at Conway and 14 cents/gal at Mont Belvieu; and ethane at negative 2 cents/gal at Conway and nil at Mont Belvieu.

Natural gas storage increased by only 69 billion cubic feet, indicating increased cooling demand. The U.S. Energy Information Administration reported that storage rose to 2.577 trillion cubic feet (Tcf) the week of June 26 from 2.508 Tcf the previous week. This was 35% higher than the 1.915 Tcf posted last year at the same time and 1% higher than the five-year average of 2.548 Tcf.

Cooling demand should be average heading into July as the National Weather Service is forecasting normal temperatures in the Northeast with warmer-than-normal temperatures in the Southeast and parts of the Gulf Coast and Northwest.

CURRENT FRAC SPREAD (CENTS/GAL)				
July 3, 2015	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	15.55		18.50	
Shrink	17.83		18.37	
Margin	-2.28	-15.63%	0.13	155.63%
Propane	33.76		38.86	
Shrink	24.64		25.37	
Margin	9.12	57.39%	13.49	36.09%
Normal Butane	47.80		53.62	
Shrink	27.90		28.72	
Margin	19.90	33.27%	24.90	32.40%
Isobutane	51.12		54.68	
Shrink	26.79		27.59	
Margin	24.33	47.20%	27.09	32.21%
Pentane+	121.40		120.26	
Shrink	29.83		30.72	
Margin	91.57	1.18%	89.54	-0.45%
NGL $/Bbl	18.69	5.64%	19.92	5.43%
Shrink	9.83		10.12	
Margin	8.86	11.15%	9.80	10.76%
Gas ($/mmBtu)	2.69	1.13%	2.77	0.73%
Gross Bbl Margin (in cents/gal)	18.90	12.75%	21.61	11.96%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.86	-0.70%	1.02	2.83%
Propane	1.17	11.94%	1.35	10.71%
Normal Butane	0.52	12.42%	0.58	13.31%
Isobutane	0.32	18.83%	0.34	14.20%
Pentane+	1.57	1.17%	1.55	-0.15%
Total Barrel Value in $/mmbtu	4.43	5.84%	4.84	5.83%
Margin	1.74	14.07%	2.07	13.54%

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 24 - 30, '15	18.50	38.86	53.62	54.68	120.26	**$19.92**
June 17 - 23, '15	17.99	35.10	47.32	47.88	120.44	**$18.89**
June 10 - 16, '15	18.04	38.88	52.86	53.10	126.22	**$20.17**
June 3 - 9, '15	17.57	36.98	52.38	53.76	124.18	**$19.73**
June '15	18.04	38.02	52.24	53.11	123.24	**$19.83**
May '15	18.69	46.42	58.02	59.80	127.69	**$21.72**
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**
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	**$40.27**
June 25 - July 1, '14	28.37	107.28	127.88	135.96	224.04	**$42.69**
Conway, Group 140	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
June 24 - 30, '15	15.55	33.76	47.80	51.12	121.40	**$18.69**
June 17 - 23, '15	15.66	30.16	42.52	43.02	120.00	**$17.69**
June 10 - 16, '15	16.10	32.98	46.28	47.06	124.80	**$18.73**
June 3 - 9, '15	15.23	31.70	46.22	49.92	121.50	**$18.28**
June '15	15.52	32.85	46.41	48.80	122.41	**$18.51**
April '15	15.75	48.18	59.30	63.67	119.72	**$21.26**
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**
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	**$40.18**
June 25 - July 1, '14	24.72	107.42	125.90	143.60	222.48	**$42.39**

RESIN PRICES – MARKET UPDATE – JULY 3, 2015					
TOTAL OFFERS: 21,739,396 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	4,710,980	0.63	0.75	0.62	0.66
HDPE - Blow Mold	4,050,072	0.61	0.72	0.6	0.64
HDPE - Inj	3,790,256	0.64	0.74	0.61	0.65
LDPE - Film	1,714,116	0.69	0.76	0.63	0.67
HMWPE - Film	1,438,208	0.64	0.76	0.64	0.68
PP Homopolymer - Inj	1,183,104	0.63	0.73	0.625	0.665
LDPE - Inj	1,085,472	0.6	0.77	0.64	0.68
LLDPE - Inj	1,058,208	0.71	0.76	0.62	0.66
PP Copolymer - Inj	713,736	0.65	0.73	0.645	0.685

Source: Plastics Exchange – www.theplasticsexchange.com

Hess Closes Sale, Establishes $5.35B Bakken Midstream JV

Business Wire

Hess Corp. (HES) closed the sale of 50% interest in its Bakken midstream assets to Global Infrastructure Partners for about $2.7 billion in cash, the company said July 1.

The two companies created Hess Infrastructure Partners, a midstream joint venture (JV). It has incurred $600 million in debt through a five-year term loan A. The proceeds will distribute equally to both companies, and Hess' after-tax proceeds will be $3 billion.

Hess Infrastructure can access capital, including through a $400 million five-year senior revolving credit facility.

Hess Infrastructure will make an IPO of Hess Midstream Partners LP common units.

Midstream assets included in the JV are a natural gas processing plant in Tioga, N.D.; a rail loading terminal and rail cars in Tioga; a crude oil truck and pipeline terminal in Williams County, N.D.; a propane storage cavern and rail and truck transloading facility in Mentor, Minn; and oil and gas gathering systems across North Dakota.

New York-based Hess Corp. produces oil and gas around the world.

Rail Could Move Ultralight Condensate That's Filling West Texas Output

Reuters

A surge in West Texas oil pipeline startups and expansions has squeezed viability of some crude-by-rail terminals in the region, but increased output of ultra-light condensate could give them a niche pipelines cannot fill, a top rail operator in the region said on Wednesday, Reuters reported July 1.

"The big topic used to be that there wasn't enough takeaway capacity out of the Permian" Basin in West Texas to refining markets, said Pat McGannon, vice president of Rangeland Energy said at an energy conference in Houston. "Now there's plenty."

Rangeland operates a hub in Loving, New Mexico, that was designed to rail in sand used in hydraulic fracturing and move out crude. The company also is building a pipeline to connect its terminal at the New Mexico/Texas state line to its Midland terminal.

The hub is not railing out crude currently because Midland, Texas-priced crude trades at a premium to West Texas Intermediate (WTI) crude futures as pipeline startups have opened more capacity to move oil to markets at a cheaper rate.

Those startups include Plains All American Pipeline LP's 250,000 barrels per day Cactus Pipeline in April and Sunoco Logistics Partners' 200,000 bpd Permian Express II line, expected to start up this month.

When Midland crude trades at a discount to WTI, oil by rail is profitable even with higher transportation costs, McGannon said. When it is at a premium, profitability declines.

However, ultra-light condensate - condensate is itself a super-light crude oil - is an increasing part of the makeup of far West Texas and New Mexico output, which could be moved via rail if too light to move in pipelines.

Lightness of crude is largely determined by its API gravity, a measure of how light or heavy it is compared to water. Typical WTI's API gravity ranges from 38 to 40, while condensate is generally 45 to 80 or even higher. An ultra-light condensate's API is generally higher than 70.

Too much very high-gravity condensate can exceed pipeline API gravity limits, but trains can move it, McGannon said.

"Rail provides a solution for high-gravity condensates," he said at the American Business Conferences' Crude Markets and Storage Summit in Houston.

He said it would need minimal processing in a stabilizer to remove volatile natural gas liquids, as crude is before it moves in a pipeline for safety reasons.

The processing also would make it an exportable refined product under U.S regulations.

U.S. condensate exports doubled in May from January levels with most shipments going to Europe.

Lucerne 2 Gas Processing Plant In Service In D-J Basin

DCP Midstream Partners LP's Lucerne 2 natural gas processing plant is now in service in the Denver-Julesburg (DJ) Basin, the company said June 29. It connects to the Front Range Pipeline for NGL takeaway to Mont Belvieu, Texas.

DCP has a one-third ownership interest in the pipeline. Lucerne's 200 million cubic feet per day (MMcf/d) of processing capacity brings overall processing capacity in the basin to about 400MMcf/d.

Lucerne 2 plant is the largest of a nine-plant system in the basin, and it is owned and operated by the DCP enterprise. The enterprise has about 800MMcf/d of total processing capacity. In the last two years, gathering and processing capacity in the basin increased by 80%.

DCP Midstream Partners LP is based in Denver.

British Columbia First Nations Sign Coastal GasLink Agreements

Several British Columbia First Nations groups signed project agreements concerning TransCanada's Coastal GasLink Pipeline project, TransCanada Corp. said June 29.

The Wet'suwet'en First Nation; Skin Tyee Nation; Nee-Tahi-Buhn Band; Yekooche First Nation; Doig River First Nation; and Halfway River First Nation in the northern part of the province signed agreements concerning the project, which crosses traditional and treaty territories.

A 670-kilometer natural gas pipeline will run from the Groundbirch area near Dawson Creek, British Columbia, to the proposed LNG Canada liquefied natural gas export facility near Kitimat, also in the province.

The Coastal GasLink pipeline is part of TransCanada's CA$46 billion capital growth plan, which includes more than CA$13 billion in proposed gas pipeline projects supporting the British Columbia coast's emerging LNG industry. About 32% of the CA$4.8 billion project will be spent in the province.

More than 2,000 local jobs will be created during Coastal GasLink construction, and there will be about CA$20 million in annual property taxes. To date, more than CA$38 million has already been spent in the northern portion of the province—and CA$1.5 million has been invested in community initiatives along the proposed route.

To date, 27% of the more than 300,000 hours of fieldwork were done by First Nations members. Thus, local knowledge has influenced routing, site-specific mitigation plans and other pipeline design.

"These agreements reinforce the strong relationships we have built with these First Nations communities, and demonstrate their willingness to participate in the many benefits this project will bring to their people, both today and well into the future," said Rick Gateman, president, Coastal GasLink Pipeline project.

"This isn't a choice between economics and culture, environment and a traditional way of life for First Nations communities. These agreements highlight how First Nations communities can enjoy the economic benefits of the project while continuing to live their way of life."

TransCanada Corp. is based in Calgary, Alberta.

Magellan, LBC Tank Terminals Form JV

Seabrook Logistics, a limited liability company formed from a joint venture (JV) between Magellan Midstream Partners LP and bulk liquids storage operator LBC Tank Terminals LLC, will own and operate Houston Gulf Coast-area crude oil storage and pipeline infrastructure, Magellan said June 29.

More than 700,000 barrels of crude oil storage capacity and other infrastructure will be built. A new, 18-inch pipeline will connect the new storage to a third-party pipeline carrying crude to a Houston refinery.

The new storage will be next to LBC's terminal in Seabrook, Texas. LBC's dock will be used; it can handle industry-standard Aframax vessels with 45-foot drafts, and there are two barge docks.

Seabrook Logistics' crude oil storage and pipeline will cost about $95 million, supported by a long-term commitment with a major refiner. Magellan will construct, maintain and operate the pipeline, and LBC will construct, maintain and operate the storage tanks and other terminal assets.

Subject to the receipt of permits and regulatory approvals, the project will be operational in first-quarter 2017.

Walter Wattenbergh, LBC's CEO, said the project is an important part of the company's growth strategy.

Magellan Midstream Partners LP is based in Tulsa, Okla.

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