

Enterprise trades its third crude pipe for interest in PAA's W2W

Enterprise Products Partners will own a 29% undivided joint interest in the 1.5 MMbo/d Wink to Webster pipeline, a Permian crude long-haul being built by a JV that includes **Plains All American Pipeline** and **ExxonMobil**. As part of the agreement, the Midland-to-ECHO 3 project, Enterprise's planned pipeline to its Enterprise Crude Houston (ECHO) terminal, will be folded into the system.

The combination cuts takeaway planned for 2020 by 450,000 bo/d as some worry about slowing crude production growth in the Permian. However, Enterprise is continuing to pursue its Midland-to-ECHO 4, which will carry 450,000 bo/d starting in 2021. "As a matter of fact, we signed the contract last night with a pretty big producer that'll grant 65,000, 75,000 barrels a day," CEO Jim Teague said during the 4Q19 earnings conference call on Jan. 30.

W2W will start flowing to ECHO in August, although the pipeline will carry only 200,000-300,000 bo/d until the connection to Webster, Texas, is completed at the end of the year.

► Continues On PG.16

PAA sees opportunities even as it projects crude slowdown

Plains All American Pipeline expects crude production in the Permian Basin to increase by just 400,000 bo/d in 2020, a much slower rate of growth than in the past couple of years. Despite the expected slowdown, PAA still saw enough value to pay



Felix Midstream \$300 million for an 80-mile crude pipeline in the basin.

Acquires pipeline that links to two PAA gathering systems in the Delaware Basin.

US production grew by 1.25 MMbo/d in 2019, down from an increase of 1.64 MMbo/d in 2018, according to the US Energy Information Administration. But even with 400,000 bo/d in growth, "there's substantial opportunities," PAA commercial EVP Jeremy Goebel said during the 4Q19 earnings conference call.

"I think what we're seeing is a concentration of activity in the core block," Goebel said. "Those with core acreage dedications, we'll continue to see it with well-capitalized producers. So, there'll be haves and have-nots throughout this." He also said the estimate is consistent with what producers were saying in November and not the result of recent news such as the coronavirus outbreak.

► Continues On PG.10

Start of GCX caps record-setting year for Kinder Morgan

Kinder Morgan Inc. posted its sixth straight quarterly positive net income in 4Q19 and a record \$2.19 billion net income for the year. Much of the strength came from growing gas volumes; Q4 was the company's eighth consecutive quarter of more than 10% YOY gas transport increases, boosted by the recently commissioned Gulf Coast Express gas pipeline.

The GCX out of the Permian to Agua Dulce, Texas, which entered service at the end of September, is "routinely" running at its full 2 Bcf/d capacity, president Kim Dang said during the Jan. 22 earnings conference call. The El Paso Natural Gas system was up almost by 1.3 Bcf/d because of increased Permian-related activity and colder California weather, and Colorado Interstate Gas increased by 780 MMcf/d owing to increased DJ Basin production and higher heating demand on the Front Range in Colorado, she said.

KMI's backlog stands at \$3.6 billion compared with \$12 billion in January 2017. Much of the decline came from its sale of the Trans Mountain crude pipeline to the Canadian government and the progress of the Elba Island project in Georgia, which should have all 10 liquefaction modules operating by mid-year.

► Continues On PG.11

Crude pipeline crunch stalls growth in Bakken & Rockies

Production growth in the Bakken and Rockies has been bumping its head against a ceiling in the past few months, and a shortage of crude takeaway pipeline is partly to blame. Relief is probably more than a year away, according to the latest **Enverus FundamentalEdge** report.



Dakota Access pipeline effectively full until new pumping installed in 2021.

Bakken crude output has flatlined around 1.5 MMbo/d amid lower drilling activity since 1H19. Operators are also focusing on living within cash flows, and a year of WTI prices typically under \$60/bbl has also discouraged production. The pressure that Bakken crude is feeling is also causing gas and NGL output to stall as well.

North Dakota crude producers turned to rail as they dealt with takeaway constraints several years ago, amid a pipeline takeaway crunch that was alleviated by the startup of **Energy Transfer's** Dakota Access pipeline. Now, the 570,000 bo/d DAPL is effectively full. While spot rail movements have increased in the past several months, Bakken crude must compete with Canadian production that is suffering through its own capacity crunch.

► Continues On PG.15

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Projects

Layne Water expands contract with state on Permian acreage

Layne Water Midstream received exclusive reuse and disposal rights on 88,000 acres owned by the Texas General Land Office in Reeves and Culberson counties in the Delaware Basin. The rights are an expansion of a long-term agreement signed in 2017 that permitted the company to develop non-potable water resources for use in drilling on the property.

The contract amendment will enable Layne to develop, construct and operate water infrastructure on GLO acreage that will gather, transport, treat, recycle and dispose of water produced from oil and gas operations in the region. Layne is already marketing the additional services and is in the process of filing numerous water disposal permits on GLO land.

The portfolio company of Post Oak Energy Capital and Genesis Park expects that it will construct water infrastructure for recycling or disposal this year. Revenues will be shared between Layne and Texas' Permanent School Fund.

ABOUT THIS REPORT

Midstream Intelligence is published every three weeks and covers the midstream, downstream and LNG sectors primarily in North America, including new pipelines and other projects, the deal market, finance and regulatory updates.

All dollar amounts in this report are in US dollars unless otherwise stated.

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Midstream feeling the pinch as US producers slow down

Even midstream companies are not immune to the US land slowdown or investor pressure to watch their spending. The first companies to report their earnings seemed focused on stressing the modesty of their

IN THIS ISSUE

capex plans as they prepare for slower growth.

How much slower is a matter of debate. **Plains All American Pipeline** expects Permian Basin crude production to increase just 400,000 bo/d in 2020, a small fraction of growth in the past two years (**PG.1**). Plus, PAA's estimate

Energy Capital Partners no longer pursuing pipeline firms (**PG.8**).

was made before the coronavirus added uncertainty to the Chinese economy, worldwide trade and the LNG market (**PG.12**). PAA expects to spend \$1.4 billion on capex—roughly what it spent last year—but promised a drop in the following years.

While slower growth is the consensus, PAA's estimate is on the low end. For one, **Enterprise Products Partners** expects US crude growth of 500,000-750,000 bo/d in 2020. Still, Enterprise showed it can rethink its growth projects by converting its planned Midland-to-ECHO 3 crude pipeline into a 29% stake in **PAA-ExxonMobil's** Wink to Webster pipeline. Enterprise is working on \$7.7 billion of growth projects through 2023, a modest number considering it put \$5.4 billion in projects into service last year alone (**PG.1**).

Even if E&P firms in the Bakken want to increase production, they might be unable to do it. Crude takeaway is at short supply, which sounds like déjà vu because the Bakken struggled with that before **Energy Transfer's** Dakota Access pipeline started in 2017. Now DAPL is full, and rail is less of an option with Canadian barrels also looking for a way out and Washington state enforcing new limits on crude shipments (**PG.1**).

Canadian producers received a boost as the same appeals court that put the brakes on the **Trans Mountain** pipeline expansion two years ago has given its assent after new consultations with indigenous groups. On the other hand, the renewed consultation helped increase the price of the project by 70% to C\$12.6 billion (**PG.18**).

Pipelines

ARB Midstream's DJ Basin system connects to Pony Express

ARB Midstream subsidiary **DJ South Gathering** has expanded its oil gathering and transport system in the DJ Basin in northeastern Colorado. The subsidiary said its Platteville Complex is now connected to **Tallgrass Energy's** 400,000 bo/d Pony Express pipeline and terminal system. The connection has an initial capacity of 48,000 bo/d.



The Pony Express system will be fed by ARB's 300,000 bo crude storage at Platteville, which is fed by DJSG's 90,000 bo/d Badger pipeline segment, the 220,000 bo/d Matador pipeline and the 150,000 bo/d bi-directional Freedom pipeline that links Platteville and Lucerne West.

Platteville Complex connector has an initial capacity of 48,000 bo/d.

ARB's DJ Basin system has over 250 miles of pipeline, 625,000 bo/d of planned or existing capacity and 600,000 bbl of storage. **Ball Ventures'** energy division is funding ARB's pipeline system expansion in the DJ Basin. Tallgrass agreed to be taken private by **Blackstone Infrastructure Partners** for \$5.5 billion in December.

Phillips 66 Partners to start full service on Gray Oak in Q2

Phillips 66 Partners intends to spend \$734 million on growth projects in 2020, a year that will include the ramp-up of the Gray Oak crude pipeline and the opening of the supertanker-capable South Texas Gateway terminal. The Gray Oak started in the final weeks of 2019, capping PSXP's most profitable year yet.



PSXP owns 42.5% of Gray Oak pipeline & 25% of South Texas Gateway terminal.

Gray Oak, which PSXP operates and owns with 42.25% interest, is currently flowing crude from West Texas to its central junction in the Eagle Ford. Full service to the Texas Gulf Coast is expected in Q2 and will include deliveries to **Phillips 66's** Sweeny refinery. Gray Oak will also deliver to **Buckeye Partners'** South Texas Gateway in Ingleside, in which PSXP owns a 25% stake. The terminal started up at the end of 2019 with 3.4 MMbbl of storage and will have 8.5 MMbbl of storage and two deepwater docks for very large crude carriers starting in Q3.

Net income to PSXP in 2019 was \$783 million on \$1.13 billion of revenue, both company records. In 2018, it had net income of \$556 million on \$1.05 billion in revenue.

Net income was \$255 million in 4Q19 compared with \$237 million in 3Q19 and \$221 million in 4Q18. Revenue was \$291 million in 4Q19 compared with \$270 million in both 3Q19 and 4Q18. COO Rosy Zuklic warned on the earnings conference call that Q1 results tend to underperform Q4 as butane blending is about 10% higher during Q4 and refinery turnarounds are more frequent in Q1.

Projects

Enterprise starts up 200 MMcf/d cryo plant in northeast Texas

Enterprise Products Partners started operations at its new 200 MMcf/d Bulldog cryogenic processing plant in Panola County, Texas. Bulldog is currently running near 100% of its capacity with production from the Cotton Valley and Haynesville formations.



The facility has the capability to extract up to 12,000 bbl/d of NGLs. Combined with Enterprise's existing Panola cryogenic facility, this new plant gives the company the capacity to process 320 MMcf/d and produce more than 18,000 bbl/d of NGLs in the region.

NGLs produced at the plant will be transported on the Panola pipeline to Mont Belvieu, Texas, for fractionation. Residue gas can connect with Enterprise's North Texas Intrastate pipeline system, along with other major pipelines and markets in East Texas. Bulldog fully integrates Enterprise's existing Fairplay gathering system with the BTA gathering system, which was acquired in 2017 from **Azure Midstream Partners** as part of a \$189 million bankruptcy auction.

ARK-LA-TEX SCOUT
January 30, 2020
Volume 10, No. 02

Regional Activity

Is 40 MMcf/d the new 30 MMcf/d benchmark in the Haynesville?

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Castleton expands Haynesville footprint as Shell exits again.

Select Current Pipeline Construction Projects

Oil Pipeline	Owners	Origin	Termination	Miles	kbo/d	Cost	Startup	Notes
EPIC Crude	EPIC, Noble, Altus, Rattler	Orla, TX	Corpus Christi	700	590	\$2.1B	Q1	Will run side-by-side with EPIC Y-Grade
Line 3 Replacement	Enbridge	Hardisty, AB	Superior, WI	1,030	760	C\$9.0B	H2	MN orders revision of final EIS
Gladiator	SemGroup, DCP	Jack County, TX	Houston	300	300	N/A	Q3	Connects to converted Southern Hills NGL line
Jupiter	JupiterMLP	Crane, TX	Brownsville, TX	650	1,000	N/A	Q4	Leads to planned export terminal
Ted Collins	Energy Transfer	Nederland, TX	Houston	75	500	N/A	2021	Connects to HFOTCO terminal
Keystone XL	TC Energy	Hardisty, AB	Steele City, NE	1,179	830	\$8B	2021	Construction may start in April
Cushing Connect	Holly, PAA	Cushing	Tulsa, OK	50	160	\$130MM	1Q21	Connects to Holly refinery
Liberty	Phillips 66, Bridger Bakken	Cushing	Cushing	N/A	350	\$1.6B	1Q21	Supplemental open season to come
Red Oak	Phillips 66, PAA	Cushing	Ingleside, TX	N/A	400	\$2.5B	1Q21	Houston & Beaumont delivery options
Midland-to-ECHO 4	Enterprise	Midland	Houston	N/A	450	N/A	1H21	Expandable to 540 kbo/d
Gas Pipeline	Owners	Origin	Termination	Miles	Bcf/d	Cost	Startup	Notes
Hammerhead	EQM	SW PA	Mobley, WV	64	1.6	\$555MM	H2	Expandable by 200 MMcf/d
Mountain Valley	EQM, NextEra, Con Edison, WGL, RGC	Wetzel County, WV	Chatham, VA	303	2	\$4.9B	H1	Slowed by legal challenges
Double E	Summit	Eddy County, NM	Waha	134	1.35	\$593MM	3Q21	XTO to send up to 500 MMcf/d
Pecos Trail	Namerico	Reeves County, TX	Agua Dulce, TX	468	1.85	N/A	3Q21	Backed by PE firm Cresta Energy
Whistler	MPLX, WhiteWater	Waha	Agua Dulce, TX	475	2	N/A	3Q21	FID reached in June
Atlantic Coast	Dominion, Duke, Piedmont, Southern	Harrison County, WV	Robeson County, NC	550	1.5	\$7.3-7.8B	1H22	US Supreme Court to hear case in H1
Delhi Connector	Tellurian	Richland Parish, LA	Gillis, LA	180	5	\$1.5B	1H23	Binding open season complete
Louisiana Connector	Sempra	St. Landry Parish, LA	Port Arthur, TX	131	2	N/A	2Q23	Would feed Port Arthur LNG
Coastal GasLink	TC Energy	Dawson Creek, BC	Kitimat, BC	416	2.1	C\$6.2B	2023	Looking for JV partners
Haynesville Global Access	Tellurian	Northern LA	Southern LA	200	2.0	\$1.4B	2023	Preliminary routing
Permian Global Access	Tellurian	Waha	Gillis, LA	625	2	\$4.2B	2023	Feeds proposed LNG export terminal
Rio Bravo	NextDecade	Agua Dulce, TX	Brownsville, TX	137	4.5	N/A	2023	To feed Rio Grande LNG
NGL Pipeline	Owners	Origin	Termination	Miles	kbb/d	Cost	Startup	Notes
Arbuckle II	Oneok	Canadian County, OK	Mont Belvieu, TX	530	400	\$1.36B	Q1	Expansion into KS planned
Baymark (ethylene)	Enterprise, Formosa	Bayport, TX	Markham, TX	90	N/A	N/A	Q4	Provides access to new export terminal
BANL	MPLX, WhiteWater	Orla, TX	Sweeny, TX	400	500	N/A	1H21	FID expected by YE19

Source: Enverus research

■ **Elenrgy** acquired **Total's** 27.5% stake in Fosmax LNG, the company that owns the regasification terminal at Fos Cavaou, France. The \$260 million sales price will go toward Total's goal of divesting \$5 billion over 2019 and 2020. Total retains its regasification capacity of around 5.5 mtpa at the terminal, equivalent to some 90% of its overall capacity. Elenrgy now owns 100% of its three LNG terminals: Fos Cavaou, Fos Tonkin and Montoir-de-Bretagne.

■ **SFL Corp.** sold and delivered the 2002-built very large crude carrier Front Hakata to an unidentified Chinese buyer. The net cash proceeds to SFL was \$30 million after a \$3.2 million compensation to tanker operator **Frontline Ltd.** for the early termination of the charter.

■ **Teekay Tankers** agreed to sell three 2003-built Suezmax tankers in separate transactions for combined sale proceeds of about \$57 million. Proceeds are expected to be used to reduce debt, including the \$30 million of debt directly secured by these three vessels. Teekay also agreed with **Hili Ventures** to sell its non-US oil and gas ship-to-ship transfer support services business for around \$26 million. The sale is expected to close late in Q1 or early Q2.

Pipelines

■ **Energy Transfer** subsidiary **Sunoco Pipeline** is conducting a binding open season to solicit shipper volume commitments for its Mariner West ethane pipeline. The open season is for service from origin points at Houston, Darlington, Bulger North and Bulger South, each in Pennsylvania, to Marysville, Michigan, and the international border near Sarnia, Ontario, for onward transportation.

■ **Quantum Energy Partners** portfolio companies **Trace Midstream** and **Gemini Midstream** are combining management teams, which will continue to operate as Trace. The purpose of the combination is to focus on growth of the 50-mile Gemini Carthage gas pipeline in Harrison and Panola counties, Texas. The pipeline has a 1.2 Bcf/d capacity and is anchored by **Rockcliff Energy** and **Tanos Exploration**. Separately, Trace is now building the 36-inch, 150-mile Gemini Gulf Coast gas pipeline, which will have a 1.5 Bcf/d capacity and should begin delivering to downstream markets in Beaumont in May.

A&D

Kirby buys Savage inland tank barges & bunkering for \$278MM

Kirby Corp. announced the signing of a definitive agreement to acquire **Savage's** inland tank barge fleet for \$278 million in cash and the assumption of leases. The acquisition also includes Savage's ship bunkering business in New Orleans, allowing Kirby to expand bunkering operations beyond Texas and Florida.

 Savage's fleet consists of 90 inland tank barges with 2.5 MMbbl of capacity and 46 inland towboats moving mainly petrochemicals, refined products and crude. Kirby president David Grzebinski said 78 of the barges handle towing operations on the lower Mississippi River system and the Gulf Intercoastal Waterway. The barges' average age of about 10 years will reduce the average age of Kirby's fleet.

Sale of 90 tank barges with 2.5 MMbbl of capacity and 46 towboats to close in Q1.

Utah-based Savage said its offshore marine business and shore side services for some existing customers, including dock operations, management and logistics, are unaffected. Closing should occur in late Q1. The purchase will be financed through additional borrowings. Kirby exited 4Q19 with net debt of \$1.4 billion.

Kirby reported mixed 4Q19 results with improved marine transportation pricing offset by losses in distribution and services businesses from reduced activity in the oil field, which cut customer demand for new and overhauled transmissions, parts and service. The Houston-based company expects that mix to carry throughout 2020 with growing customer demand for inland barges with increased volumes from new petrochemical plants counteracted by a 12-17% decline in distribution and services revenue amid soft oil and gas activity and excess pressure pumping capacity.

Net income of \$2.8 million in 4Q19 compared with a \$48 million net income in 3Q19 and \$24.4 million net loss in 4Q18. Revenue for 4Q19 was \$656 million compared with \$667 million in 3Q19 and \$721 million in 4Q18. Kirby posted net income of \$142 million on \$2.84 billion in revenue in 2019 compared with 2018's net income of \$78 million on \$2.97 billion in revenue.

Murphy inks MOU to sell King's Quay FPS stake to ArcLight

 **Murphy Oil** announced Jan. 30 it entered into an MOU with **ArcLight Capital Partners** for the sale of its 50% ownership in the King's Quay floating production system planned for deployment in the Gulf of Mexico. The deal is part of the E&P company's efforts to keep its midstream holdings to a minimum. Financial terms were not disclosed.

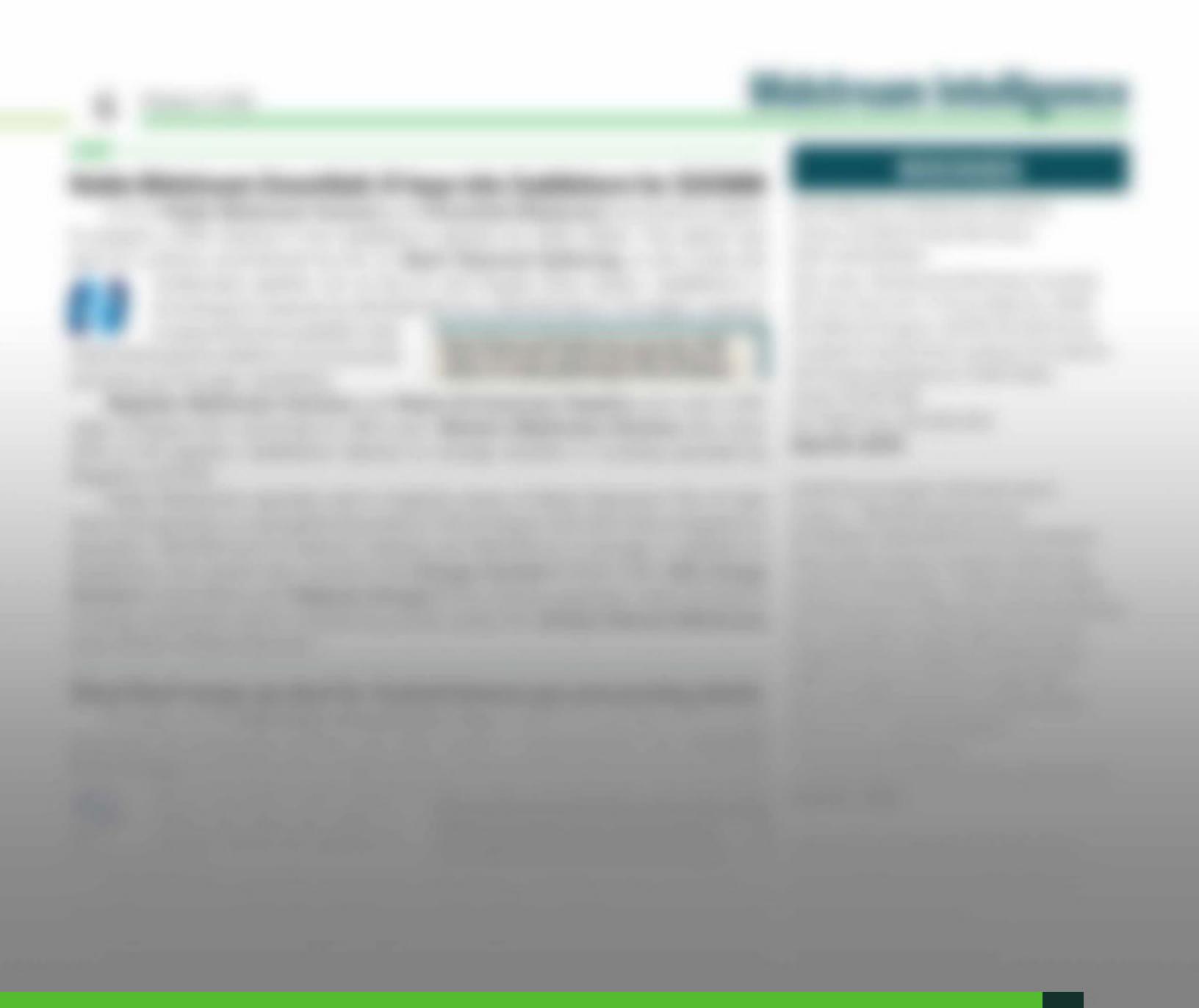
The FPS is scheduled to go into service in mid-2022, with Murphy continuing to serve as operator. Designed to process up to 80,000 bo/d and up to 100 MMcf/d from the Khaleesi/Mormont and Samurai fields, the facility will be located in Green Canyon Block 433.

When asked during a Jan. 30 conference call to explain the rationale for the King's Quay monetization, Murphy president and CEO Roger Jenkins explained that the sale fits with the way the company conducts all of its businesses: with major midstream assets owned by someone else. Closing of the transaction is expected by early Q2.

Murphy and an affiliate of the Boston-based energy infrastructure investment manager will negotiate agreements detailing the assumption of certain future capital requirements with respect to the FPS and associated export pipelines construction, ownership and operation. An agreement regarding the reimbursement of Murphy's previous capital outlay, including \$125 million spent in 2019, will also be negotiated. The remaining 50% stake in King's Quay will continue to be owned by Houston- and New Jersey-based private equity firm **Ridgewood Energy**.

Remaining 50% in King's Quay will continue to be owned by Ridgewood Energy.


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Southeastern Scout Feb. 6
Murphy brings Nearly Headless Nick online in Gulf of Mexico.

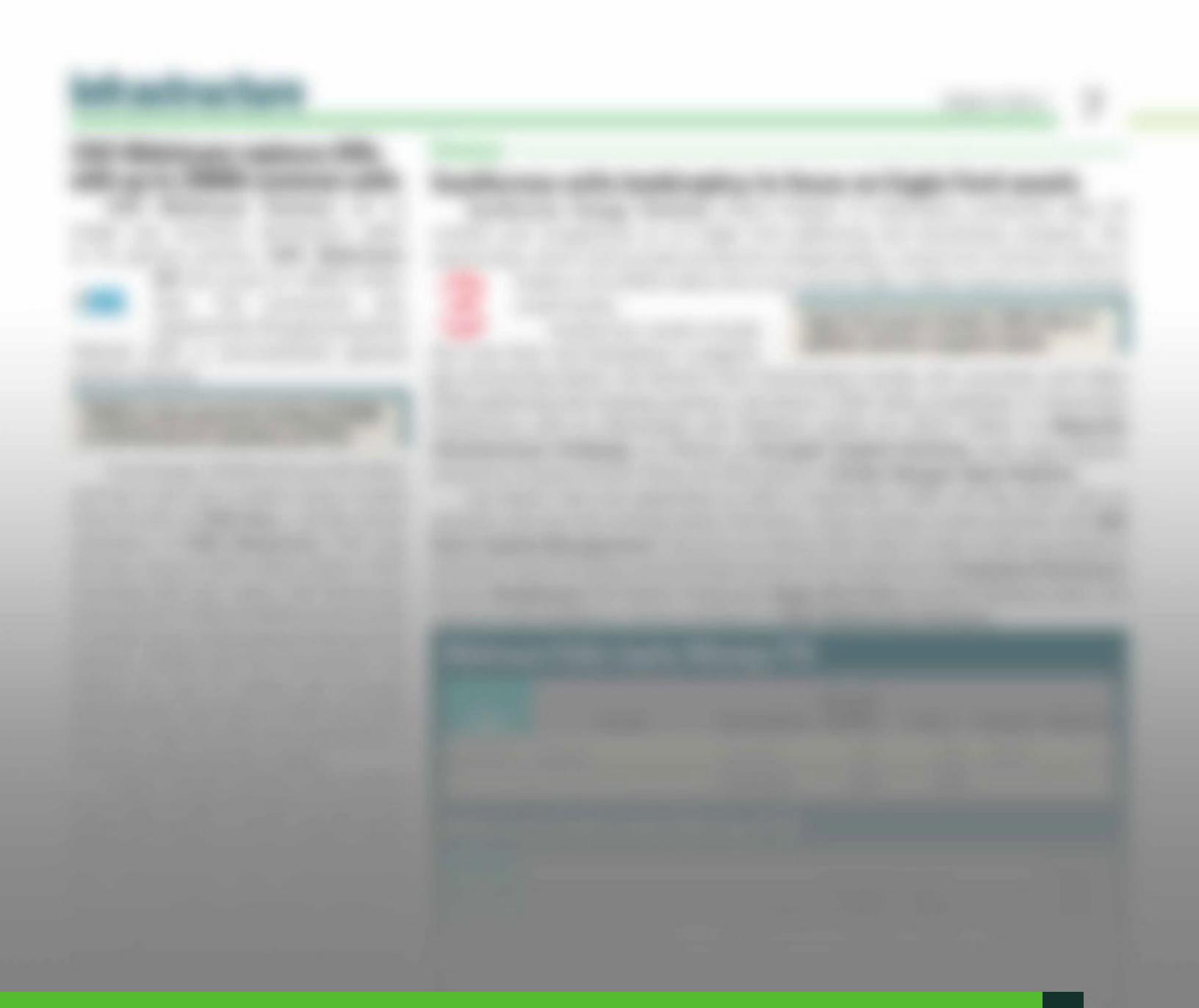


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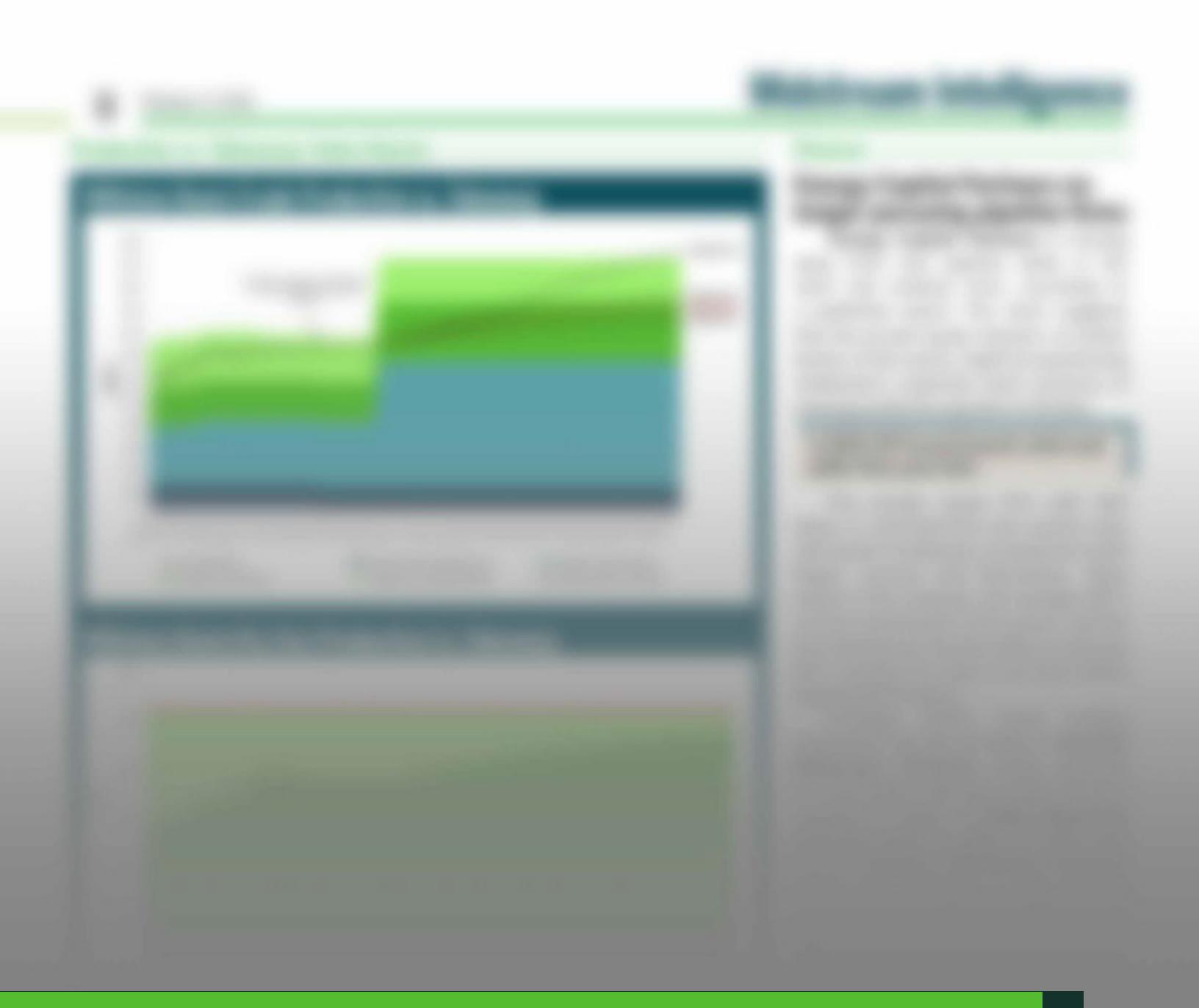


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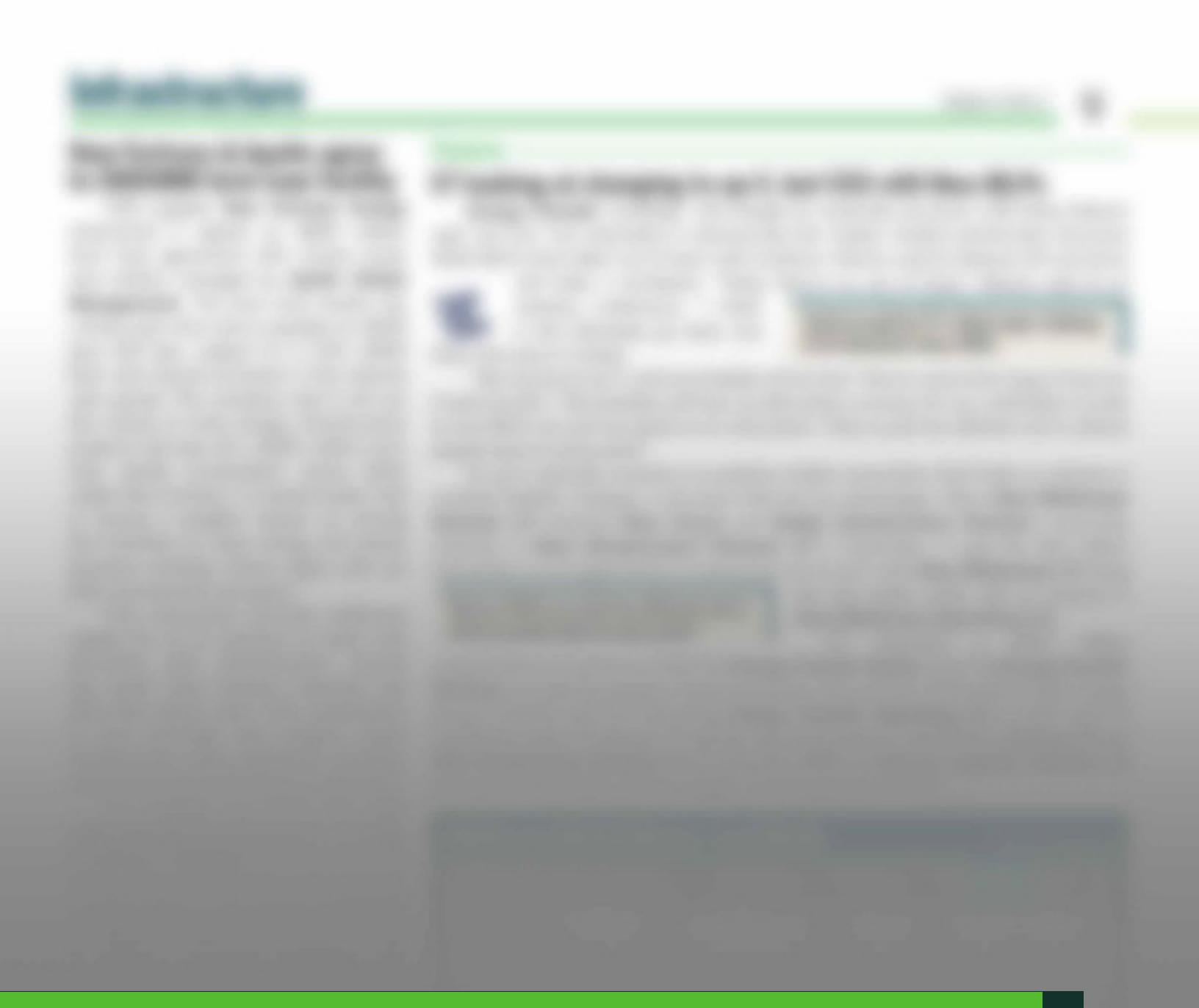


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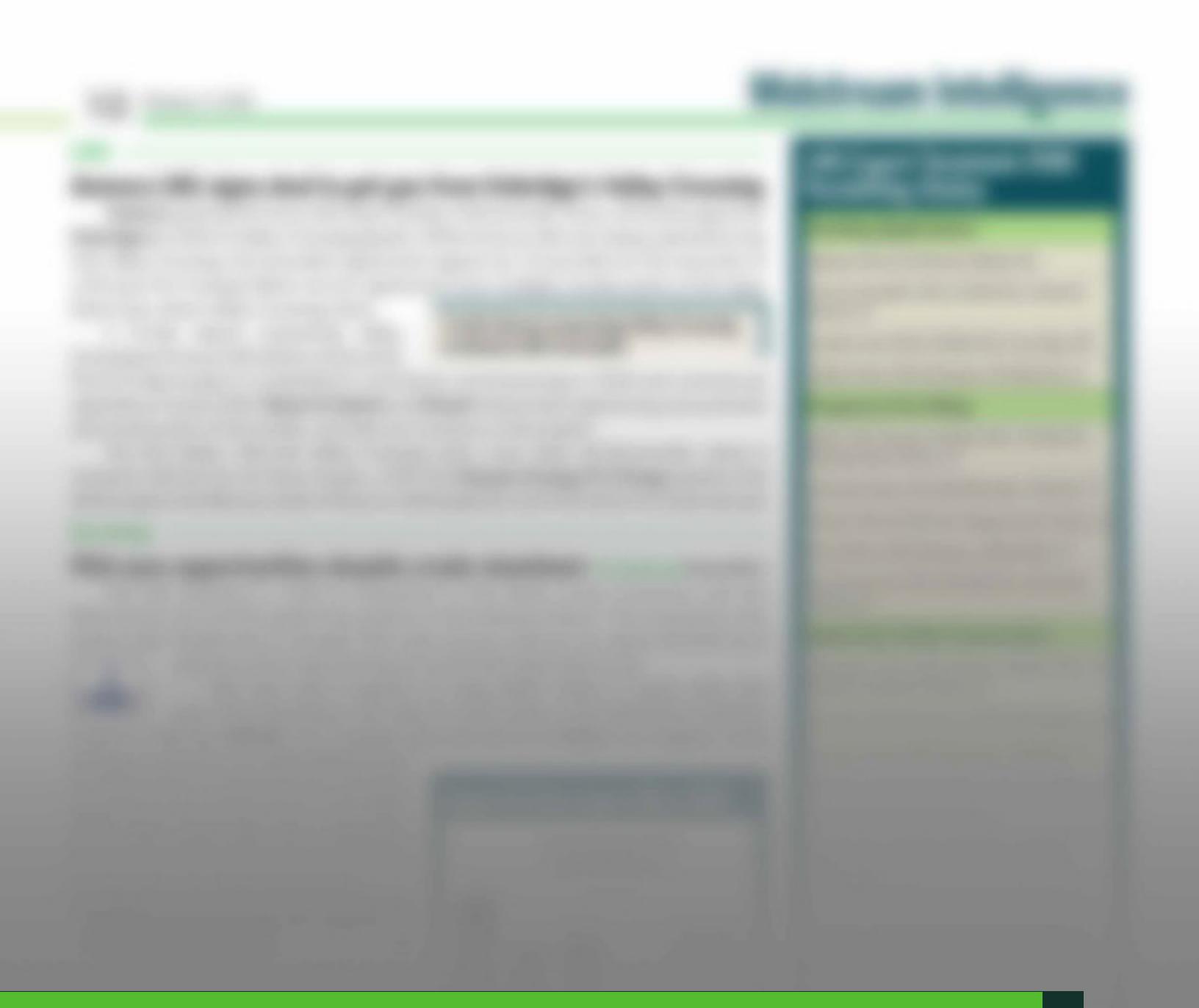


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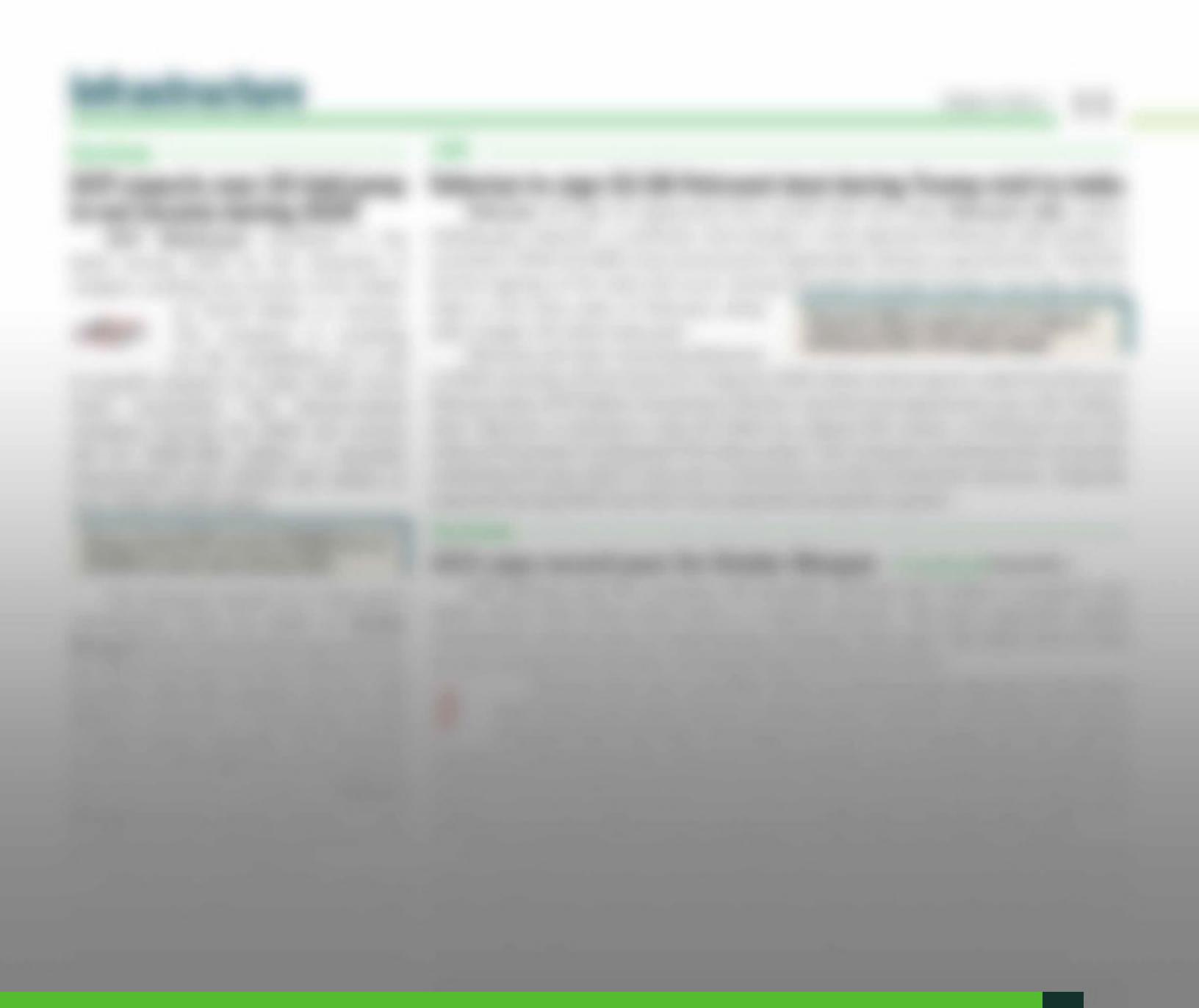


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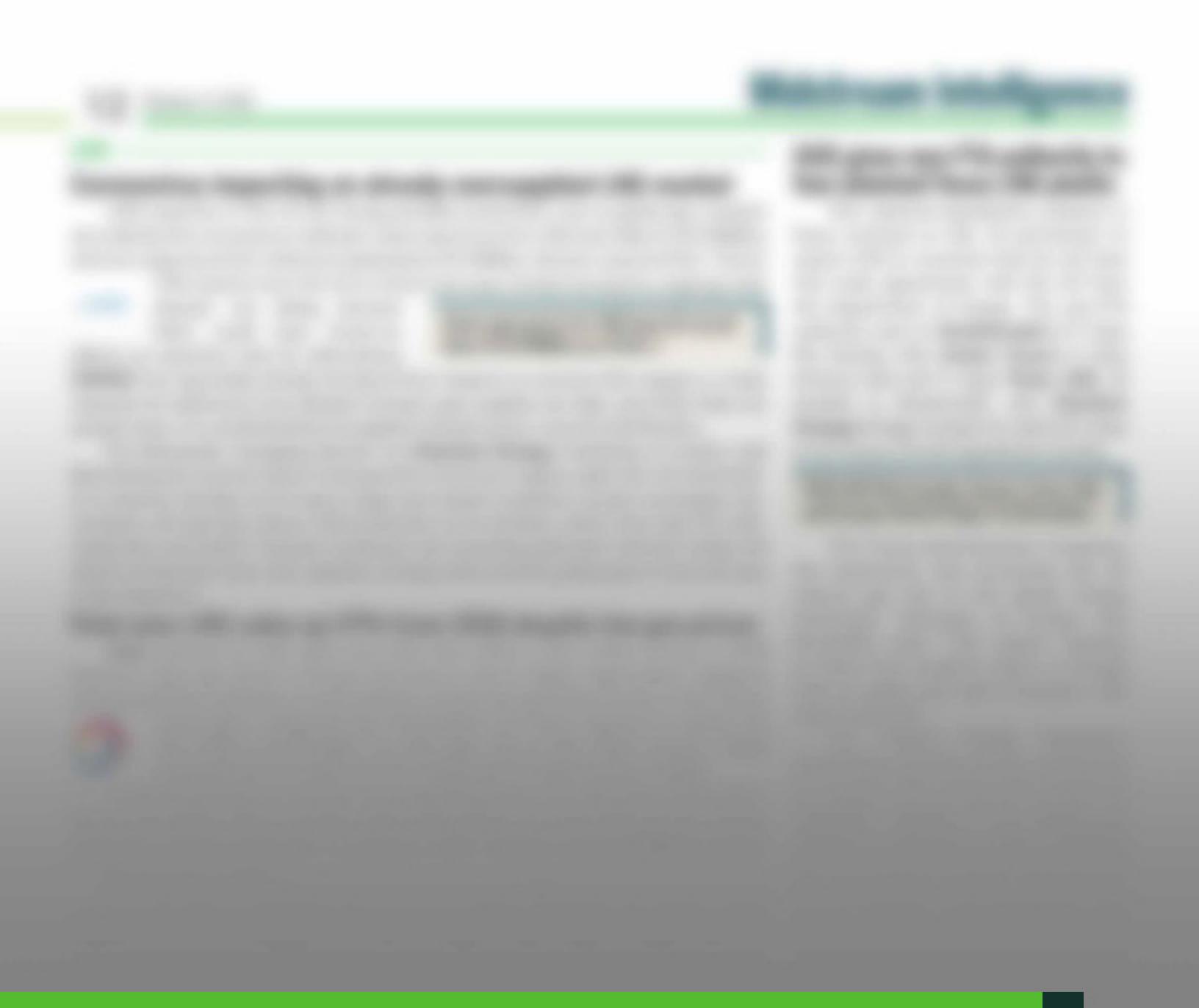


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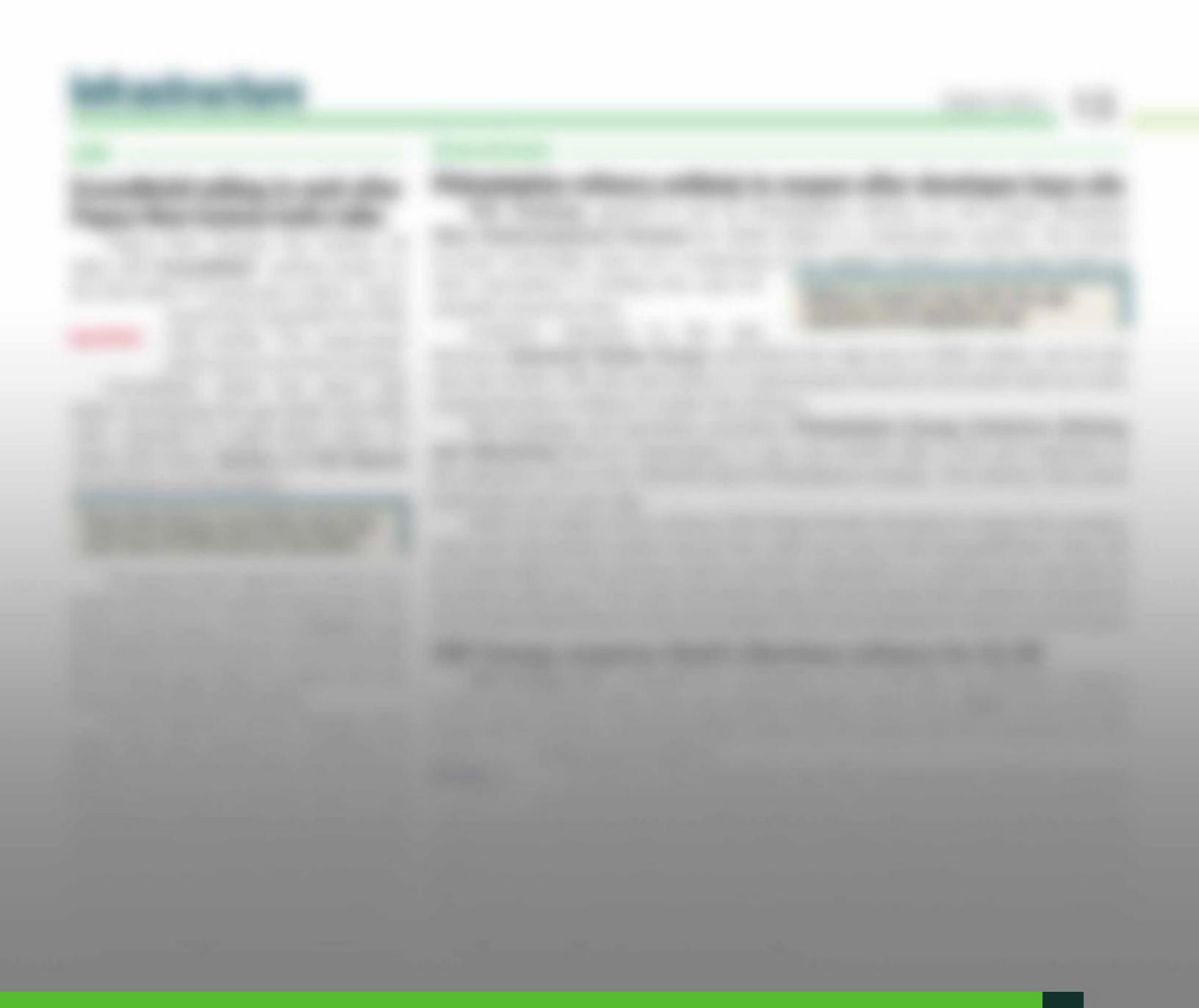


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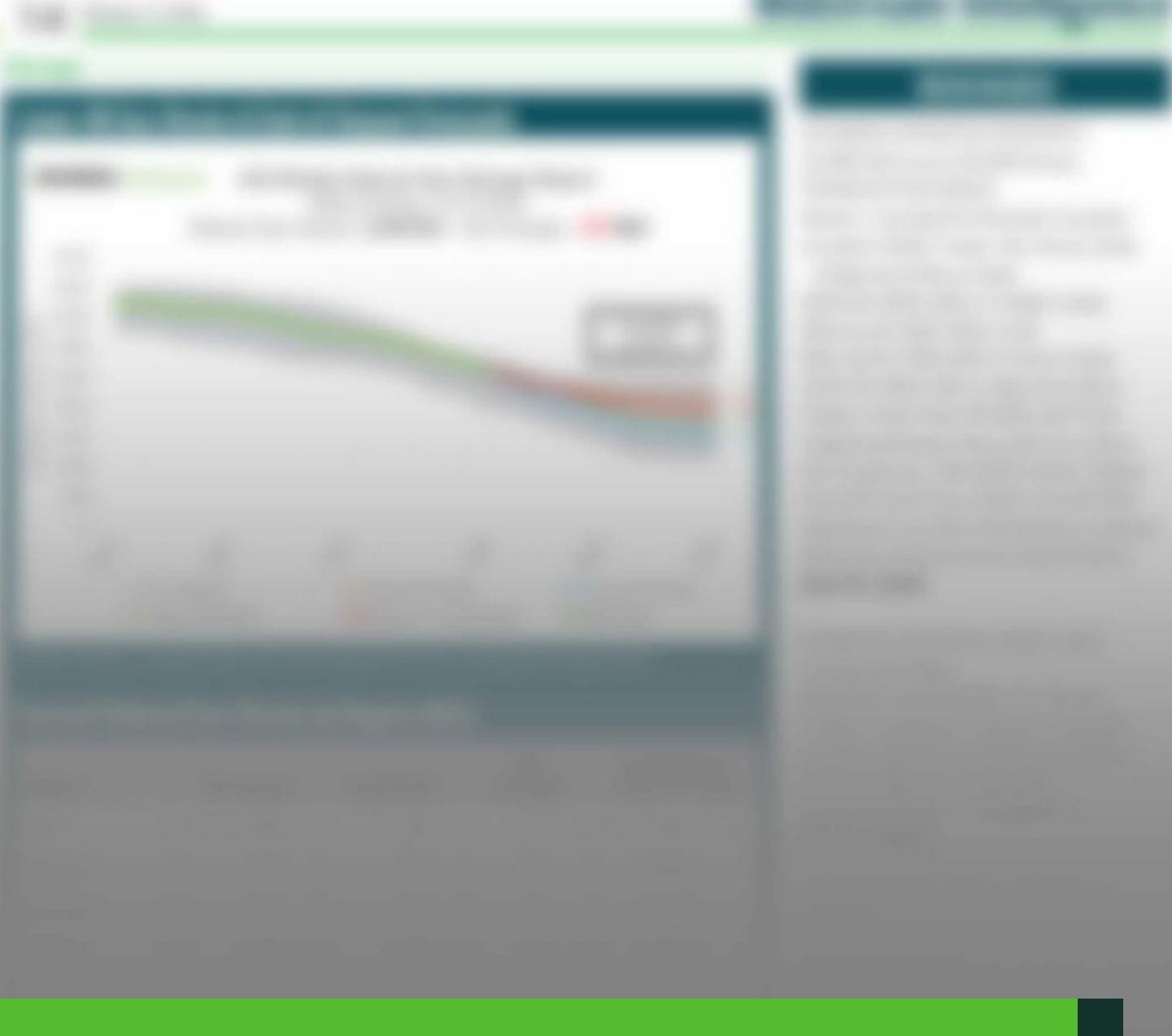


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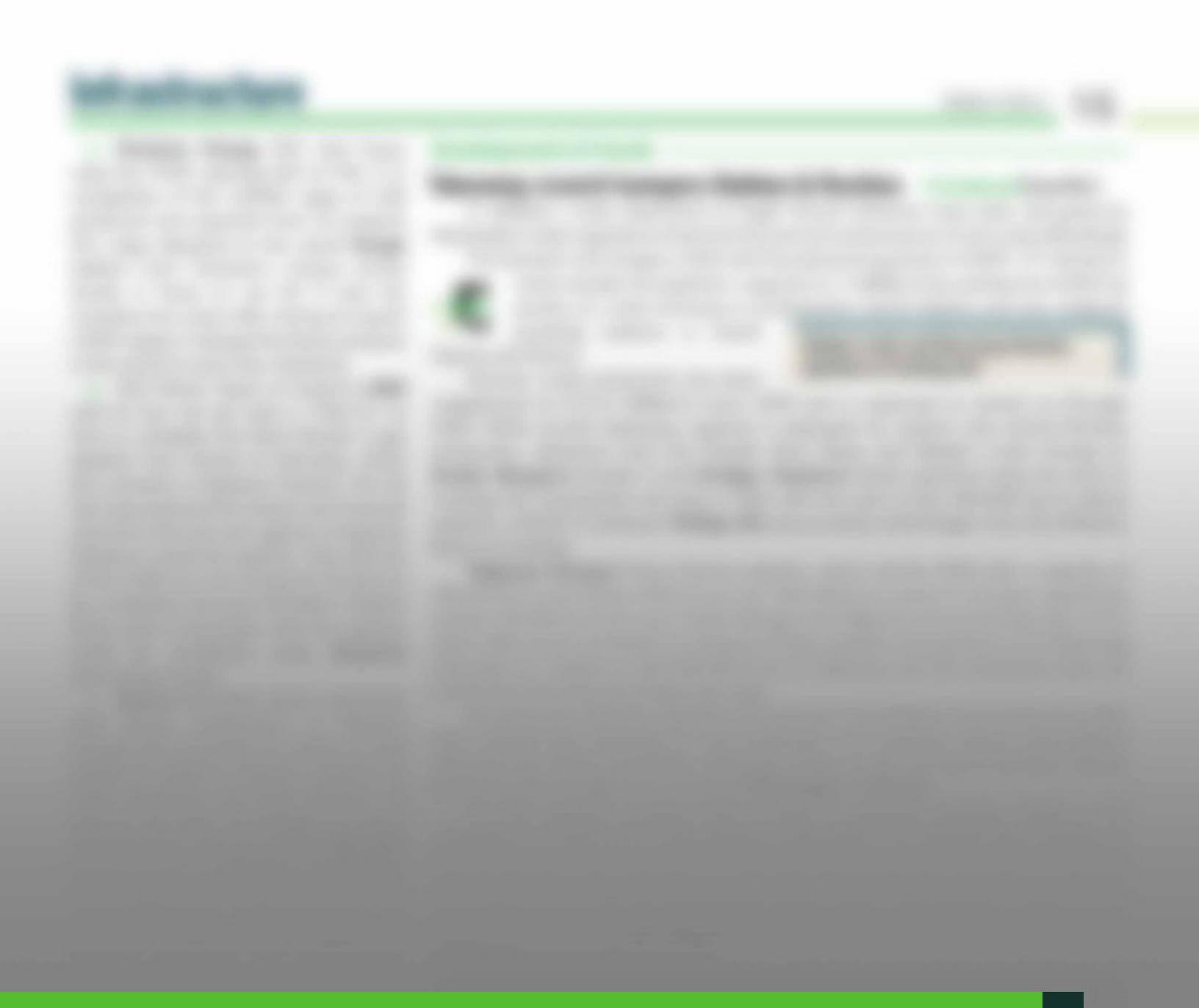


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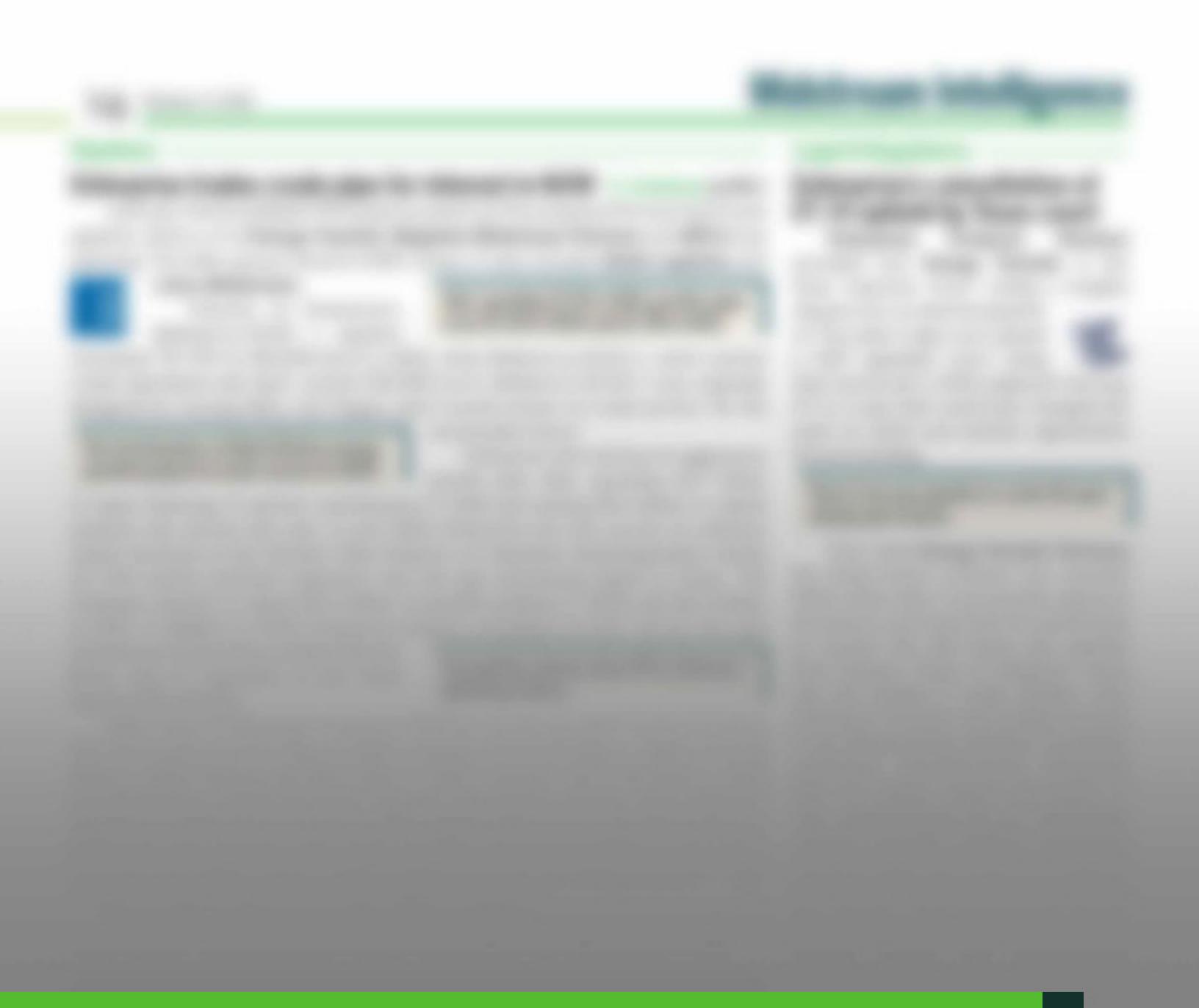


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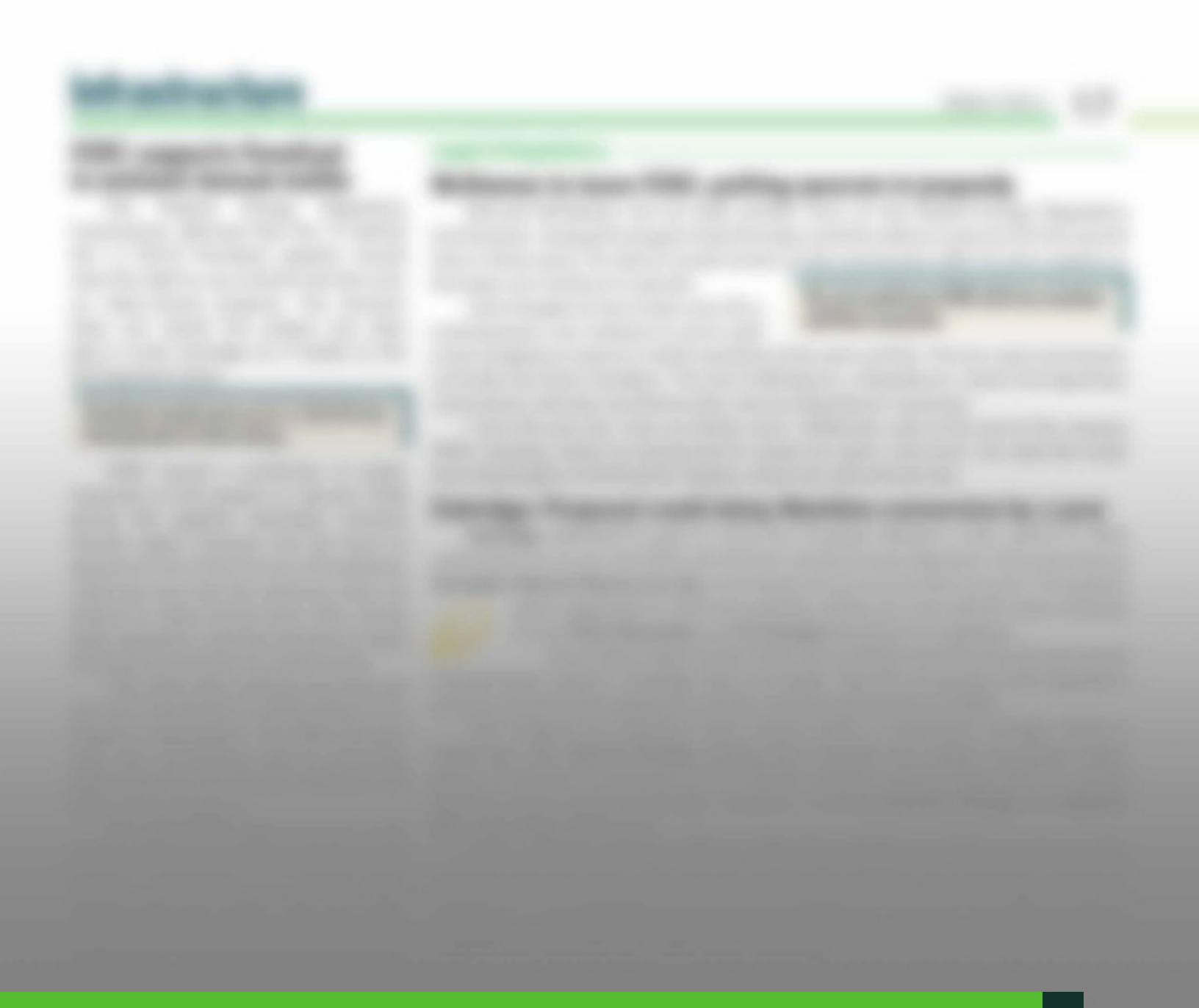


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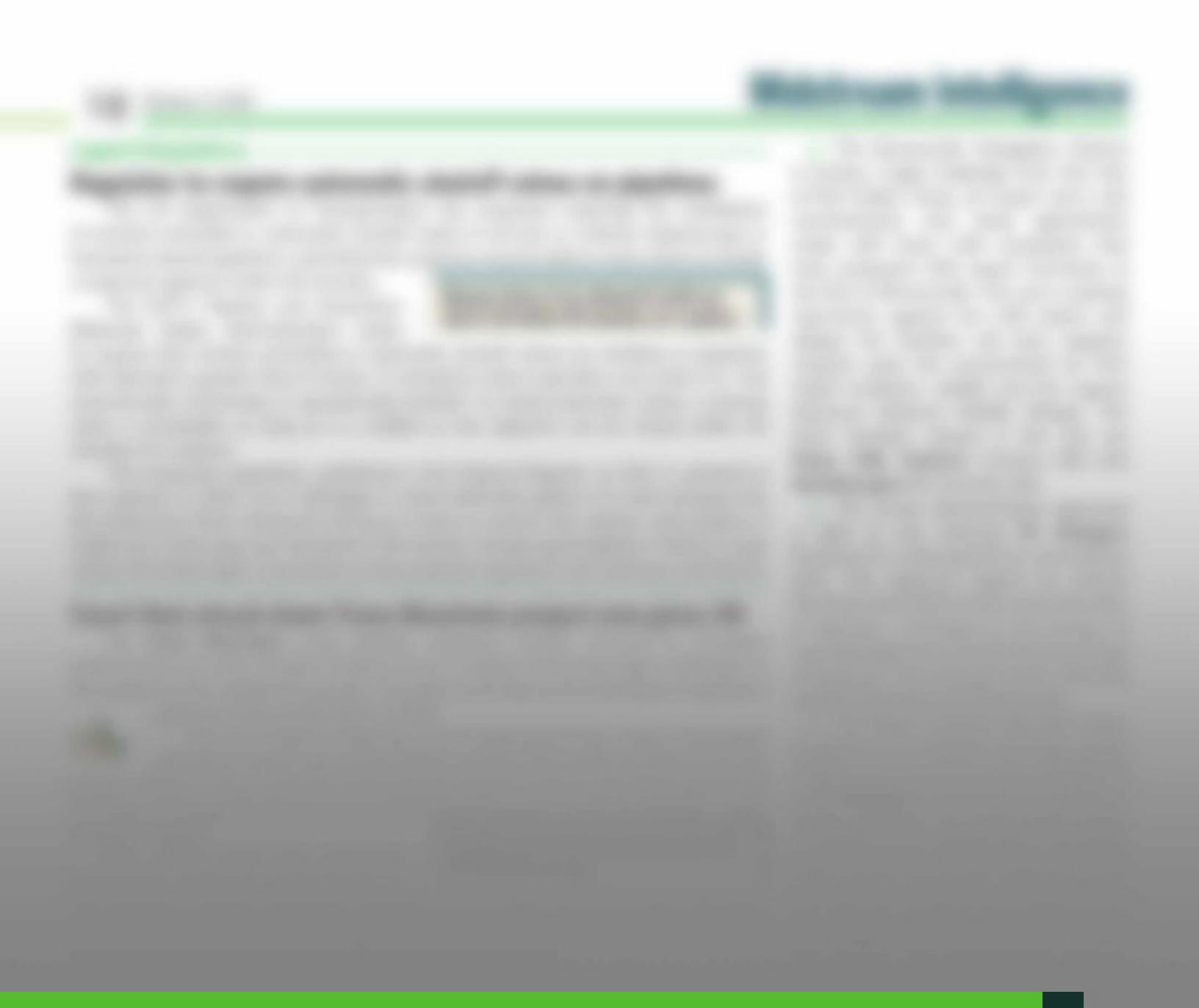


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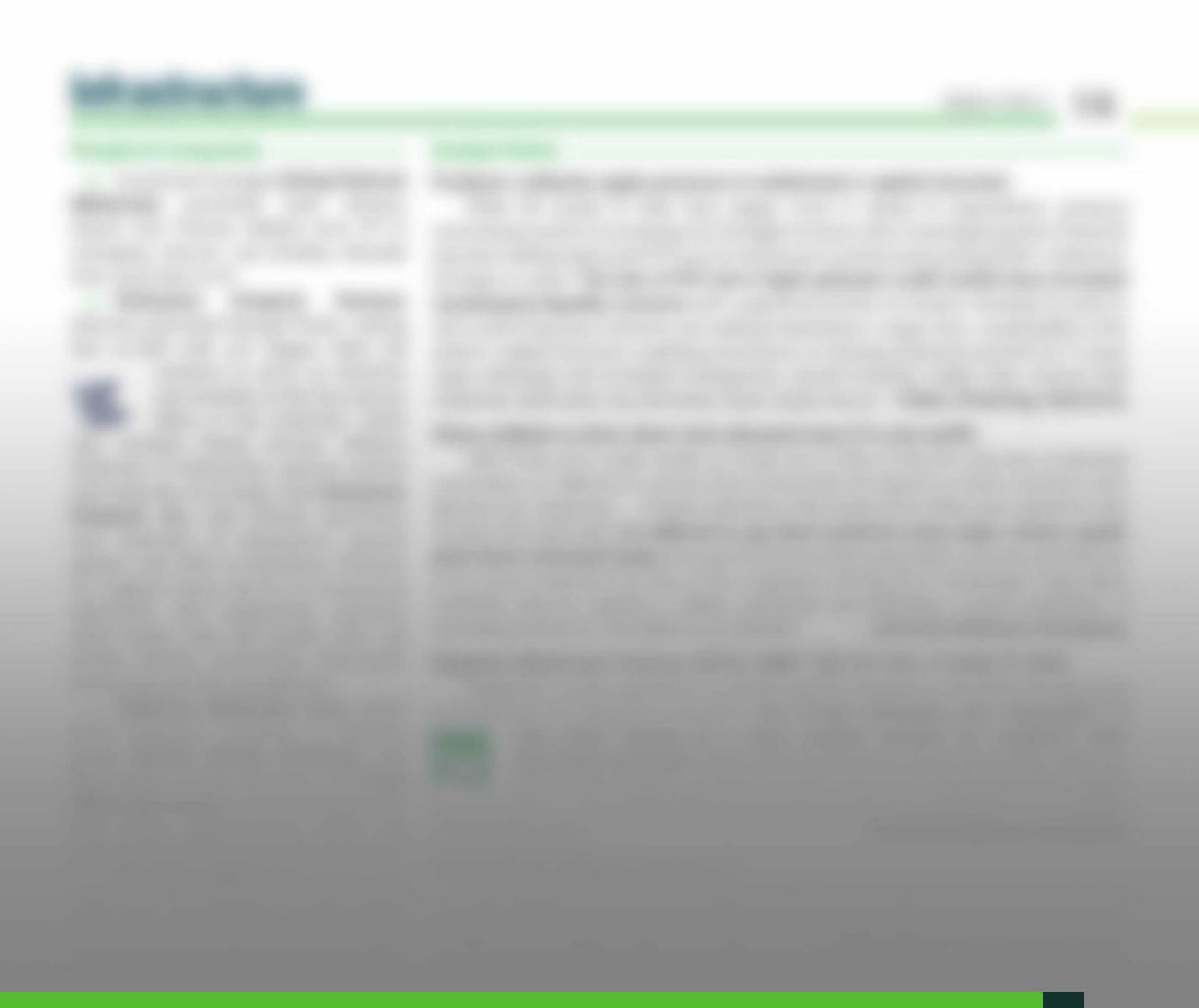


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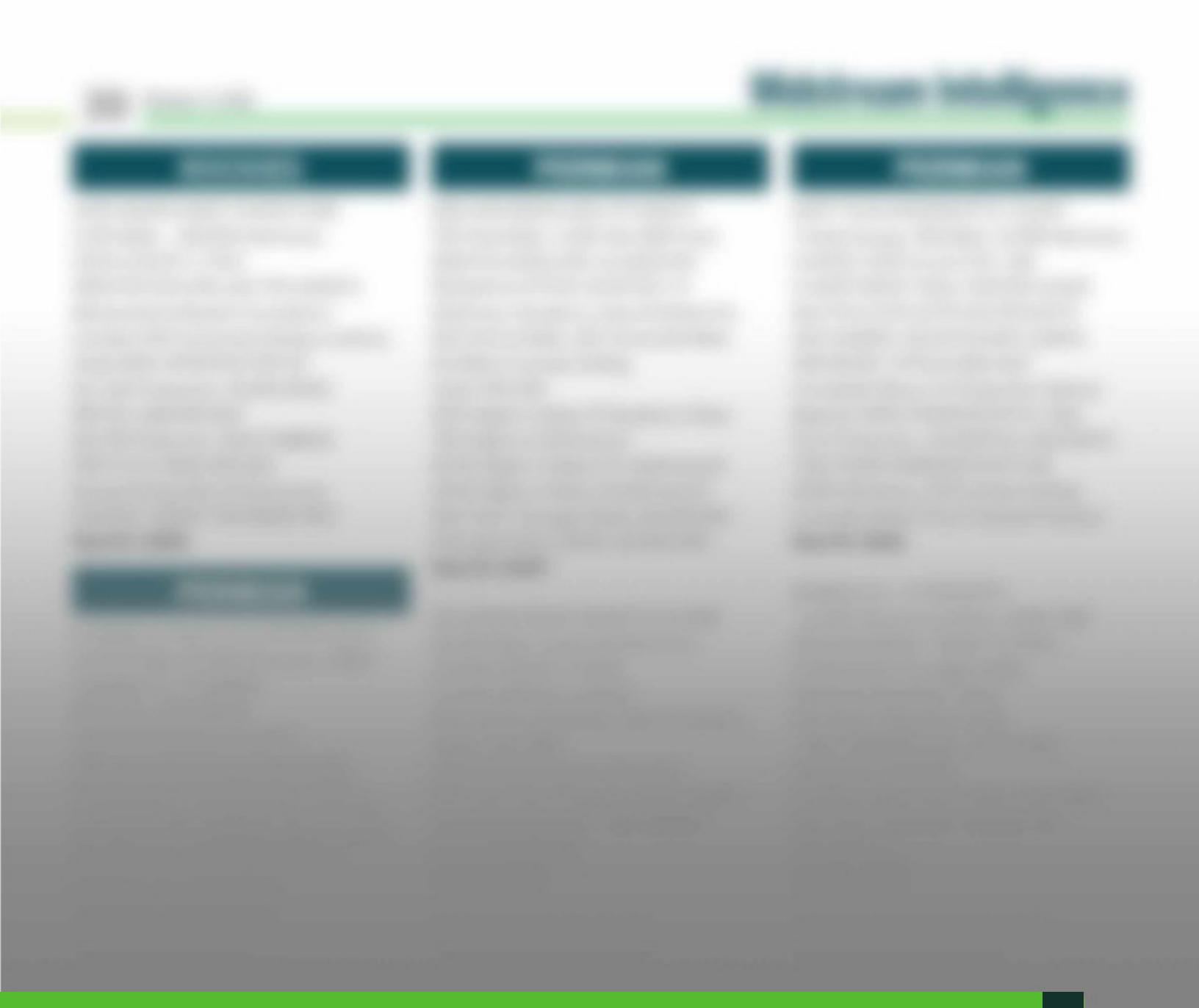


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