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NATURAL GAS

What Does The Gas Market Need? Midstream's Help

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Paul Hart Editor-In-Chief, Midstream Business Hart Energy **Tuesday, November 3, 2015 - 4:47pm**


Mike Latchem, managing director and CEO of Lucid Energy Group, and Gary Conway, principal, president and CEO of Vaquero Midstream LLC speak at Hart Energy's Midstream Texas conference

SAN ANTONIO—The natural gas business needs many things right now to right itself and assistance from midstream operators will help re-balance supply and demand. That was the consensus of three midstream executives who discussed the current gas market during a roundtable at Hart Energy's Midstream Texas conference.

Mike Latchem, managing director and CEO of Lucid Energy Group; Gary Conway, principal, president and CEO of Vaquero Midstream LLC; and Robert E. Dunn, president of Prism Midstream LLC; focused on the Permian Basin, but noted midstream's role in improving the gas market is much the same in all North American plays. Also, the crude oil and NGL markets tie closely to what happens to gas, they added.

The energy industry's goal is to "reset the market," Latchem said, and then asked, "What do we need as a gas market?"

Above all, midstream operators "need to sell service first," he said. "Lucid will continue to do what we do best—build a reputation for service. It's our job to figure out the netback costs to producers and see if we can come up with creative solutions. If we do that, we will always have investment opportunities.

"We will have a ceiling on gas prices, that will be floating just above our heads, for quite some time," Latchem continued.

Meanwhile, the midstream must "debottleneck demand" so that producers can reach more markets. "Our challenge in midstream is going to be to find a way to help that netback price for producers," Latchem said.

Conway agreed, adding "we need to do what we can on our part; the prices are going to be what the prices are going to be."

In the meantime, the midstream needs to be "resilient, we need to take some of the risk ourselves and go ahead and get some of the infrastructure in place so that when the markets do come back, and prices are where they need to be for these producers, they're not hampered," Conway continued.

Dunn discussed new markets for U.S. gas, specifically mentioning exports to Mexico, which he estimated will create 4 billion cubic feet per day (Bcf/d) in new demand during the next few years. An additional 4 Bcf/d will open up as new U.S. petrochemical plants come in the next couple of years.

"And for those of you who have been around a long time, the fertilizer plants will be back," Dunn added.

Lucid entered the Permian's core Midland Basin in 2012 and has seen steady growth. "In spite of the markets dropping, we continue to grow, month to month," Latchum said.

Currently, Lucid has more than 675 miles of new pipelines with 345 million cubic feet per day (MMcfd) of capacity and five interconnected processing plants that serve several major and independent producers. "Our focus is on gas development," he emphasized.

"What's unique about the Permian—and other oil plays—is they provide a unique opportunity for gas guys like us to take a first bite of the apple," Latchem said. "Gas services have to be provided from the start of production."

Conway discussed the sprawling Permian from Vaquero's vantage point on the southern side of the Delaware Basin. He noted drilling in the area increased 200% from 2010 to 2015, overwhelming existing midstream infrastructure.

"The incumbent systems that were legacy to this area, they are too small and they weren't designed for the composition of gas" produced from unconventional formations, he said. "We have more pipe there now, but I don't know that we've solved all the problems. We need to have a better idea" of differing gas-oil ratios, high initial production rates and differing specifications for production from the region's stacked plays."

Crude is not always the greatest issue for midstream operators, he noted.

Latchem also touched on the varying requirements of producing zones in the Midland Basin, noting, for example, that the firm had to add nitrogen rejection at one of its plants.

From a sales standpoint, Vaquero can offer producers great flexibility and the opportunity to reach multiple markets via the Waha Hub, Conway said, noting the nearby gas hub connects the Delaware to 12 pipelines that can move production throughout the U.S. And not too far to the south is Mexico and its expanding gas market.

"Mexico is a really big player here," Conway emphasized.

Prism's Dunn discussed the Permian's midstream needs as well as East Texas, where the firm recently acquired a 153-mile gas gathering system serving Woodbine and Eaglebine producers in Madison, Leon and Houston counties. The firm plans to covert part of that system to crude service, he added.

In the Permian, "We went out there looking for processing opportunities but when we first started up, getting crude oil out was the critical need," Dunn said. Prism provides crude oil, condensate, frac sand and tubulars service through its Pecos, Texas, terminal. Its Bedrock plant outside Ozona, Texas, provides liquids handling, primarily for Wolfcamp producers. It will add a new stabilizer in early 2016.

When will the price recovery begin? The question brought chuckles from the roundtable participants.

"If I knew that I would be calling you from my yacht," Dunn quipped. "If we can get a $4 to $5 gas market, we will see a lot of new gas that will be easy to develop."

Latchem agreed, mentioning the Haynesville as an unconventional play that has seen little activity but an area that could come back quickly with even modest price upticks.

There are many price predictions but Dunn said "it really all depends on crude." In particular, higher crude prices will open up demand for U.S. LNG since international LNG prices are typically based on a crude price formula.

"The real swing will be tied to LNG and that's tied to crude oil. But with the recovery in crude oil prices, U.S. LNG will be very competitive," Dunn added. What happens with new pipeline capacity to the Northeast and New England will have a significant impact on gas demand and prices too, he said.

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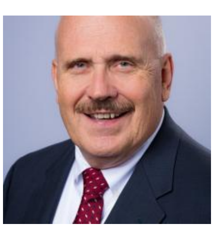

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Paul Hart serves as editor-in-chief of *Midstream Business* magazine. He brings 30 years' experience in all phases of the worldwide oil and gas industry – upstream, midstream and downstream – to the publication.