S&P Global
Platts

Q3 OIL: US crude market shaken up by pipeline issues

1,159 words
5 October 2016
Platts Commodity News
PLATT
English

Houston (Platts)--5Oct2016/1002 am EDT/1402 GMT

* Uncertainty of Dakota Access Pipeline impacts Bakken prices

* Gulf Coast crude differentials hold steady

* Pipeline disruption strands Midland crude while Permian adds rigs

* Eagle Ford production continues decline, producers remain optimistic

Uncertainty over the construction of a major pipeline, as well as the start up of other regional pipelines, caused values of Bakken shale crude oil to fluctuate throughout the third quarter.

Bakken prices began to weaken in July, coming off new highs set in the second quarter as Canadian supply disruptions caused by Alberta wildfires drove up demand.

S&P Global Platts assessed Bakken crude barrels at the Clearbrook, Minnesota, hub at the NYMEX light sweet crude calendar month average (WTI CMA) minus $1/b on July 1. By August it reached its lowest point since February when it was assessed at WTI CMA minus $2.65/b. However, differentials began to strengthen in mid-August and by September 22 Bakken ex-Clearbrook had recovered the ground it had lost and was again assessed at WTI CMA minus $1/b.

The dramatic fight over the 470,000 b/d Dakota Access Pipeline filled much of the news out of the Bakken Basin during the third quarter and was to blame for some of the uncertainty in the market.

Thousands of protesters, led by The Standing Rock Sioux Tribe in North Dakota, gathered for weeks near a pipeline construction site where the line is planned to cross under the Missouri River. The 30-inch-diameter pipeline is planned to carry crude from the Bakken and Three-Forks production areas to Patoka, Illinois, where it can link up to an existing pipeline that can transport it to the Gulf Coast.

Vocal opponents say that a line rupture would impact drinking water and construction of the pipeline will disturb burial grounds.

A lawsuit filed by the Stand Rock Sioux Tribe against the Army Corps of Engineers eventually led to the White House temporarily halting construction in order to review the project.

Construction on the pipeline began in May and a majority of the route is complete.

GUERNSEY DEMAND

The Bakken differential in Guernsey, Wyoming, moved closer to its Clearbrook counterpart and even flipped to a premium at times during the quarter as higher demand pulled crude through the Guernsey hub.

Guernsey crude averaged $1.17/b cheaper than Clearbrook through June, but the discount had dropped to 21 cents/b by the end of July, according to Platts data. That price structure flipped in August to see Guernsey average a 6.09-cents/b premium to Clearbrook in August. The two values widened apart at the beginning of September, before flipping again by the end of the month.

Demand for Bakken at Guernsey was driven in part by the start up of the Saddlehorn pipeline in the Niobrara Shale to the south. The new line draws crude away from freed up space on other regional pipelines, boosting demand for crude to fill it.

Dwindling crude supply out of the Denver-Julesburg Basin also has opened up demand for crude through Guernsey as refiners try and replace the lost Rocky Mountain supply with Bakken crude.

Bakken crude production in North Dakota climbed just over 2,000 b/d to total 1.03 million b/d in July, according to the state?s department of Mineral Resources. Although the increase was small, it surprised some analysts who had expected production to fall below the 1 million b/d threshold. The production increase was attributed to 41 well completions in July.

GULF COAST DIFFERENTIALS STABLE

In the Gulf Coast market, crude price differentials largely held steady throughout the third quarter.

Sour benchmark Mars differentials traded in a narrower range than in the fist half of 2016, bottoming out at cash WTI minus $3.55/b on July 8, before recovering to peak at at minus $2.57/b on September 19.

Light crude benchmark Light Louisiana Sweet saw a similar trend. It hit a third-quarter floor of cash WTI plus $1/b on August 24 and a ceiling of $2.07/b on July 1 ? a spread of $1.07/b. That spread was $1.20/b during the second quarter and $2.30/b during the first.

Hurricane Hermine shut in 192,000 b/d of production in the Gulf of Mexico in early September, or about 12% of production. It also contributed to a decrease in imports and the largest stock draw since 1999. Week-on-week imports into the Gulf Coast fell 759,000 b/d in the week ending September 2.

The storm primarily impacted sour crudes. Mars was assessed at minus $3.25/b before the storm entered the region and rose to minus $2.70/b by September 12.

West Texas Intermediate crude in Midland fell dramatically in the third quarter due to a spill from the Permian Express 2 pipeline. Sunoco Logistics shut the 200,000 b/d pipeline from Colorado City to Nederland, Texas, after a spill on September 10. It resumed flows on September 23.

The shut line pushed WTI Midland differentials from minus 22 cents/b on September 9 to minus $1.70/b on September 20, the lowest since April 2015.

Similarly, West Texas Sour fell to a low of minus $2.60/b September 20.

MORE PERMIAN RIGS

Meanwhile, Permian drillers added more than 50 rigs to the region in the third quarter, according to Baker Hughes. There were about 150 Permian rigs at the start of July and about 201 in late September.

Eagle Ford production volumes have plunged to average about 1.09 million b/d, down from a March 2015 peak of 1.62 million b/d, according to data from Platts Analytics. Eagle Ford rigs also ticked down to 33 in September, compared to 74 rigs operating this time last year.

Major producers in the basin are drilling fewer wells for cheaper by cutting costs and utilizing technology that improves efficiency. For example, one producer, Sanchez Energy, has managed to cut per-well drilling costs from around $4.5 million to $3.5 million by "debundling" services and sourcing directly from providers.

Those lean costs are helping to attract investment dollars to the region. Mergers and acquisitions for shale producers and properties have kicked off in the last few months and are expected to continue at a steady pace. As costs come down and efficiencies improve, peripheral acreage has become more economic.

And while oil prices remain low, producers continue to wait, knowing that there is big potential in the Eagle Ford. A new report released this quarter by the University of Texas at Austin?s Bureau of Economic Geology said an addition 10 billion barrels of oil remained to be recovered in the basin.

Laura Huchzermeyer, laura.huchzermeyer@sgglobal.com

Allen Reed, allen.reed@spglobal.com

Document PLATT00020161005eca50015w

