UPSTREAM

Texas Upstream Job Growth Still Moving Up, with Recovery in Full Swing

The Texas oil and natural gas industry added an estimated 800 upstream jobs in July, which marked the 20th consecutive month of job growth, according to the Texas Workforce Commission. The state has recovered 43% of upstream jobs lost between the “high point” in employment in December 2014 and the “low point” in September 2016, according to the Texas Oil & Gas Association (TIOGA). Oil and gas extraction, as well as support activities for mining, are included in the upstream sector, but the tally excludes jobs in refining, petrochemicals, fuels wholesaling, oilfield equipment manufacturing, pipelines and natural gas utilities.

Since the low point two years ago, upstream sector employment has grown by 49,900 jobs, which pay among the highest wages in the state. “What’s happening in the Lone Star State is making our nation more energy secure and bolstering our state and national economies,” said TIOGA President Todd Staples.

The latest employment report dovetails with a recent analysis...

PIPPINES

FERC Approves 49% Increase in Mountaineer XPress Pipeline Rates

With the cost of construction skyrocketing, FERC has approved a request from Columbia Gas Transmission (CGT) to increase the initial monthly incremental recourse reservation rate on the Mountaineer XPress Project by 49% from the $9.827/Dth originally authorized.

The $14.663/Dth approved by the Federal Energy Regulatory Commission is meant to cover increased costs for the pipeline, which would increase natural gas pipeline capacity out of the Appalachian Basin by expanding the TransCanada Corp. affiliate's system in West Virginia [CP16-357].

Estimated cost of construction has increased from $2.06 billion to $3.03 billion since the filing of the original application in April 2016, CGT said in its FERC filing.

Atlantic Coast Water Crossing Permit Holds Up as Court Denies Enviro Challenge

A federal appeals court has shut down an effort by environmental groups to stall Atlantic Coast Pipeline LLC’s (ACP) construction plans over a condition in its West Virginia water crossing permit, a tactic that had more success against the Mountain Valley Pipeline (MVP).

The U.S. Court of Appeals for the Fourth Circuit, which has handed down its fair share of unfavorable rulings to ACP and MVP in recent months, last Thursday denied without prejudice a motion filed by the Sierra Club and other groups to stay ACP’s Nationwide Permit (NWP) 12. The NWP 12 covers waterbody crossings and is issued by the U.S. Army Corps of Engineers under Section 404 of the U.S. Clean Water Act.

The Fourth Circuit had previously granted a stay of the similarly routed MVP’s NWP 12, determining that the project could not meet a condition in its permit in West Virginia that stipulated all stream crossings be constructed within 72 hours.

Environmental groups quickly adopted the same tactic in...
Fracture sand provider Black Mountain Sand is expanding into the Anadarko Basin with construction underway on its sixth mine, the first outside Texas.

Once fully commissioned, the 1,290-acre Blaine County facility in western Oklahoma is expected to employ 75 people and produce 3 million tons/year of sand. Delivery of the first commercial tons is anticipated in January.

The Fort Worth, TX-based operator, which now has in-basin operations in the Permian Basin and Eagle Ford Shale, expects to have annual combined sand production capacity of 19 million-plus tons from six mining facilities once the new facility starts up.

“Since shipping our first truckload of sand in January 2018, our customers began asking for more,” said CEO Rhett Bennett. “To help meet this demand, we first expanded into the Eagle Ford Shale, while also increasing our annual capacity in the Permian.”

The latest expansion “means we can now deliver our product’s cost-savings benefit to our customers with operations in Oklahoma, helping strengthen their bottom line across multiple projects in multiple basins.”

The El Dorado and Vest mines in Winkler County, TX, which serve Permian operators, are approaching nameplate capacity of 10 million tons/year. Black Mountain is evaluating whether to add a fifth dryer at each location in the Permian to increase output to a combined 12 million tons/year.

The Eagle Ford sand operation in South Texas, sited on 2,300 acres in Atascosa County, is underway, with anticipated delivery of the first commercial tons by year’s end. Once fully commissioned, the Eagle Ford mine is expected to produce 2.2 million tons/year; total annual capacity already is sold out under long-term contracts.

In-basin fracture sand operations reduce costs and simplify last-mile logistics by cutting down on transport costs to job sites.

Black Mountain is supported by private equity firm Natural Gas Partners.

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**Investors still awaiting full recovery following oil price crash**

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by the Greater Houston Partnership (GHP), which declared the oil bust over for the nation’s largest energy complex. The economic development organization serves the Greater Houston area, including the counties of Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto and Waller.

Exploration and production (E&P) companies, with the vast majority of nationwide companies headquartered in the Houston area, are reporting more profits than losses and fewer firms are filing for bankruptcy, the GHP said in its monthly report for August.

“The downturn in the oil industry is finally over,” said economists. “Oil now trades above breakeven cost for most producers. Exploration budgets continue to grow. The North American rig count has rebounded. Permits to drill have risen dramatically. Layoffs have slowed to a trickle. Crude inventories have fallen. U.S. production is at an all-time high. And global demand continues to grow.”

GHP noted that in 2Q2016, “only five of the 25 largest energy firms in Houston earned a profit,” as oil prices sank in 1Q2016. By the middle of 2016, oil prices had fallen by more than half from their peak.

“The expression that oil prices would be ‘lower for longer was heard so often it became trite,” said GHP economists. “But companies heeded the warning, reducing headcounts, slashing budgets and focusing on only the best prospects in their portfolios. These steps helped the industry to regain its health.” By 2Q2017, 16 of the 25 largest energy companies in the GHP region had returned to profit, and in 2Q2018, “20 of the 25 largest were in the black.”

Investors still are awaiting a full recovery following the oil price crash, however. And they also worry about the impact that climate change regulations may have on the industry, according to the partnership.

“Some fear that oil demand will peak in the not too distant future,” said economists. “Others are disappointed in the meager returns received on their energy investments, especially when compared to tech stocks. They also worry that as oil prices rise, exploration firms will focus on growing production, not profits.”

GHP cited law firm Haynes and Boone LLP, which tracks energy-related bankruptcy filings. Between 1Q2015 and 1Q2018, 335 North American energy companies had filed for bankruptcy, including 144 E&Ps, 167 oilfield service companies, and 24 midstream firms. Combined debt exceeded $169 billion.

Of the total nationwide filings, 162 were in Texas and 43 were in Delaware courts, where a substantial number of filings were for companies with significant operations in Texas. Bankruptcies peaked in 2Q2016, and by 2Q2017 they had fallen 65%. By 1Q2018, filings were down 83%.

More promising data also is coming from the Federal Reserve Bank of Dallas, which each quarter surveys energy firms headquartered in the Eleventh District. The Eleventh District includes Texas, northern Louisiana and southern New Mexico.

In the 1Q2017 survey, 12.7% said conditions were improving...
and 72.7% said conditions were getting worse.

“A year later, the responses flipped,” GHP noted. In the 1Q2018 survey, the most recent one published, 11.6% said the outlook had worsened and 76.9% saw improved conditions. “The shift suggests there will be fewer bankruptcies and layoffs in the near future,” said GHP.

For Houston, the future looks particularly bright, with growth expected to outpace the nation for the next five years. Renowned Waco, TX-based economist Ray Perryman, who has studied U.S., Texas and metro economies since the 1970s, is forecasting Houston’s economy will grow 4.11%/year over the next five years, versus 4.01% for Texas and 2.89% for the nation. The figures are adjusted to account for inflation.

Houston’s population also should eclipse the state and the nation at 1.67% growth over five years, versus 1.47% for Texas and 0.71% for the country. Perryman is forecasting Houston employment will grow at a 2.14% rate over the period, compared to 2.05% for Texas and 1.55% for the country.

“The longer-term outlook is more impressive,” said GHP economists. “Houston’s economy will nearly double in size over the next 20 years. The region will add nearly 2.6 million residents, more than 1.3 million jobs, and $650 billion in personal income. Even after accounting for inflation, Houston’s prospects look good, with real Gross Regional Product growing 89.3%, real personal income 102.5% and retail sales growing 98.2% over the next two decades.”

Mountaineer XPress would add about 2.7 Bcf/d of capacity to the Columbia Gas system

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"Columbia states the primary reason for the increase in costs is related to contractor labor costs, inspection costs, and outside services costs that substantially exceeded the contingency established for such charges," FERC said. "According to Columbia, the recent surge of pipeline construction activity in the Marcellus and Utica Shale regions caused costs associated with land acquisition and contractor services for the Mountaineer XPress Project to increase.

"Columbia also reports that unexpected permitting delays further increased the cost of constructing the project in accordance with shippers' requested in-service dates."

FERC issued a certificate of public convenience and necessity for the Mountaineer XPress project in January. The project would add 164.5 miles of 36-inch diameter pipe and six miles of 24-inch diameter pipe to expand CGT's system. It would also include three compressor stations in Doddridge, Calhoun and Jackson counties, WV; two regulating stations in Jackson and Cabell counties; and various other facilities, upgrades and replacements.

Mountaineer XPress would add about 2.7 Bcf/d of capacity to the Columbia Gas system and is designed to allow additional volumes of Marcellus and Utica shale gas to reach markets in the Midwest, Northeast, South and Gulf Coast.

The anticipated in-service date for the project is late this year.
**Court cited commitment from ACP to provide written notice to petitioners ahead of any work**

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challenging ACP, but their argument that ACP couldn’t complete a planned crossing of the Greenbrier River in 72 hours did not persuade the court.

“The record lacks clear evidence that ACP is unable to comply with the 72-hour condition,” the court concluded. In addition, the Huntington District of the Army Corps “has voluntarily suspended all NWP 12 verifications for ACP in West Virginia pending ACP’s provision of additional information to ensure its compliance with all NWP 12 conditions.”

The court also cited a commitment from ACP to provide written notice to the petitioners in advance of resuming any work authorized under the NWP 12.

Even with the recent favorable ruling, it’s hardly smooth regulatory sailing from here for ACP. Earlier this month, FERC ordered a halt to construction along the entire 600-mile project route after the Fourth Circuit vacated key federal approvals from the National Park Service and the U.S. Fish and Wildlife Service.

ACP has pushed the Federal Energy Regulatory Commission to allow construction to continue on segments said to be unaffected by the appeals court decisions. In the meantime, the Commission has approved plans to stabilize work areas along the ACP and related Supply Header Project routes, including completing some construction activities that were already in progress.

ACP spokesman Aaron Ruby said the Fourth Circuit’s decision to deny a stay of the NWP 12 is a “positive development” for the project.

“We remain fully committed to the 72-hour time limit for stream and river crossings...just a few weeks ago we requested and the Army Corps granted a temporary suspension of our permit so the agency could ensure compliance with the 72-hour requirement,” Ruby said. “We’re working with the agency to resolve this issue promptly so our permit can be reinstated.

“...We’re also working closely with the Fish & Wildlife Service and National Park Service to resolve the issues in FERC’s stop work order so we can resume construction as soon as possible. We’re confident the agencies will reissue their authorizations very soon, which would allow full construction to resume without significant delay to the project.”

MVP, meanwhile, also received a stop work order from FERC resulting from unfavorable Fourth Circuit decisions. FERC has since authorized construction to resume on about 77 miles in West Virginia that would allow an incremental 1 Bcf/d of service to Columbia Gas Transmission’s WB Interconnect.

Both ACP and MVP propose routes that cut through environmentally sensitive terrain along the West Virginia/Virginia border to deliver Marcellus and Utica shale gas into Southeast and Mid-Atlantic markets. The projects have faced scrutiny at FERC over their similarities.

The 1.5 Bcf/d ACP, with a targeted late 2019 in-service date, is a joint venture (JV) of Dominion Energy Inc., Duke Energy Corp., Piedmont Natural Gas and Southern Company Gas.

The 300-mile, 2 million Dth/d MVP is a JV of EQT Midstream Partners LP, NextEra US Gas Assets LLC, Con Edison Transmission Inc., WGL Midstream and RGC Midstream LLC. MVP’s target start date was recently pushed back from 1Q2019 to 4Q2019.

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**NEWS**

**Industry Brief**

Denver-based U.S. Energy Corp. (USEG) has entered into a memorandum of understanding with APEG I Partners to acquire all of APEG’s interest in 67 Bakken Shale wells in McKenzie and Williams counties, ND. The proposed deal includes about 1.1 million boe of proved developed reserves (79% oil) and 400 boe/d of current production across 1,600 net acres. Total consideration is $17.8 million, consisting of a combination of cash, stock and assuming APEG’s outstanding commodity derivatives. USEG said it also plans to establish an $8 million revolving credit facility. The deal is contingent upon regulatory and shareholder approval.