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Although a larger number of North American projects began construction in 2015 when compared with 2014, the total investment value for kickoffs declined from the previous year. A total of 9,041 projects tracked by Industrial Info began construction last year, a 17.4% increase; however, the cumulative amount spent stood at $244.74 billion, a 14.5% decrease.

The steepest decline in investment value was in the Metals & Minerals Industry, where spending fell 45.9% to $16.36 billion.

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Written by John Egan for Industrial Info Resources (Sugar Land, Texas)–The income statements of Oil & Gas Producers took a severe beating in the third quarter, with more than $43 billion of write-downs to reflect the reduced value of reserves, according to data compiled by Industrial Info and EnerCom Incorporated (Denver, Colorado), an industry consultancy. The $43 billion is not a comprehensive total, as results from smaller companies and private firms were not included.

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The epic boom in North American shale gas development has unleashed a rapid growth in facilities related to the production and processing of natural gas liquids (NGL), with more than $27 billion worth set to begin construction in the U.S. and Canada this year. But with NGLs such as ethane, propane and butane hitting the market in large quantities, NGL producers now must face the specter of a supply glut, which likely will continue to suppress prices, and thus margins.

In addition to oversupply, factors keeping NGL prices low include a sharp drop in the price of West Texas Intermediate (WTI) oil in the second half of 2015. In years past, U.S. NGL producers have benefited from export demand whenever domestic demand failed to grow; but inexpensive production is likely to outpace exports in 2016, according to the U.S. Energy Information Administration (EIA).

"The drop in oil prices in the fourth quarter of 2014 took everyone by surprise, yet major projects were still pursued in 2015," said Chris Easley, Industrial Info's Research Manager for North American Oil & Gas. "Drilling rigs were cut to half, but production was over 2014's rates. This year will be different. With another drop in the fourth quarter of 2015, after prices had started to creep up, I feel that we will see more mid-range investment projects put on hold."

Among the new processing plants slated for construction in 2016 is Blue Racer Midstream LLC's (Dallas, Texas) $225 million addition of a facility at its Berne Croogenic Natural Gas Processing Complex near Lewisville, Ohio. The company already is doubling the capacity of its complex with the addition of a second train, and now plans to add a third that is expected to begin construction in the second quarter. When completed, capacity will be tripled to 600 million standard cubic feet per day of natural gas and 60,000 barrels per day (BBL/d) of NGL, with its feedstock sourced from the Utica Shale. For more information, see Industrial Info’s project report.

But in the Utica and Marcellus shales, which cover much of Ohio, Pennsylvania and West Virginia, production companies largely held off on expansions in 2015 as the cost remained uneconomic and domestic demand slowed to a crawl. (The latter situation was caused by unusually warm weather this winter, which reduced the need for residential and industrial heating.) Another commonly cited problem in the region is the lack of pipeline infrastructure to carry gas from the fields to consumers.

The difficulties in transportation no doubt explain why Sunoco Logistics Partners LP's (NYSE:SXL) (Newton Square, Pennsylvania) $1 billion Mariner East Phase II NGL pipeline is one of the most highly anticipated projects of its kind in North America. The line is expected to carry 272,750 BBL/d of propane, ethane, butane and natural gasoline from Appalachian wells in Ohio to Sunoco's Marcus Hook complex in Pennsylvania. And like countless other pipeline projects, it is facing skepticism and outright opposition from residents whose land would host the line. For more information, see Industrial Info’s project report.

The Chemical Processing Industry is among the biggest beneficiaries of the low-price trend, accounting for more than half of the $27 billion total. Much of this development can be found along the U.S. Gulf Coast in Texas and Louisiana, where facilities are being added and expanded. In particular, an estimated 4.5 billion pounds of new ethylene capacity is scheduled to be brought online in 2016. For more information on these projects and maintenance turnarounds at similar facilities, see January 7, 2015, article - Ethylene Outlook 2016: North America to See Substantial Turnarounds, Capacity Growth.

"Input costs for ethylene remain low while prices for polymers and other downstream derivatives have remained strong," said Trey Hamblet, Industrial Info's vice president of global Chemical Processing Industry research. "The persistence of these economics continue to drive approvals for new capacity."

One such facility expected to begin construction soon in Louisiana is LACC LLC's $2 billion addition of an ethane cracker in Westlake. Last month, Gov. Bobby Jindal announced that Axiall Corporation (NYSE:AXLL) (Atlanta, Georgia) and Lotte Chemical Corporation (Seoul, South Korea), which make up LACC, had reached a final investment decision on the unit, which is expected to produce 1 million tons per year of ethylene. For related information, see December 22, 2015, article - Axiall, Lotte Plant Spearheads Second Wave of Ethylene Projects, and Industrial Info's project report.

Anyone interested in the NGL market should turn to Industrial Info’s NGLs Live, which utilizes IIR Energy's unique research methodologies to provide continuous updates on the constantly changing sector. Clients will have access to hands-on knowledge of plant and...
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Among the features offered by NGLs Live are detailed plant and unit profiles; an EBB Flow Analysis that is delivered every morning; and customized summary reports, outlooks and events, including news articles, project alerts and any offline activity, which can be sent via IM, email, FTP or to your mobile device.

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In the past 12 months, the company has grown by 18% globally, through 87 net hires. The Sugar Land team hosted four regional outlooks and seven webinars, and has exhibited at more than 35 trade shows in North America, including the recent smash-hit Power-Gen show in Las Vegas, where the company pitched its latest products to more than 20,000 attendees. There's no limit to what lies ahead in 2016!

Mayor of Galway Frank Fahy (third from left) and Ged Nash, Ireland’s Minister for Business & Employment (fourth from right), joined IIR CEO Ed Lewis (fourth from left) in Galway to open our new office. They were joined by IIR Director Sally Lewis and IIR Europe President Nicola Lynch (third and second from right, respectively).

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North American Construction Starts - Low Commodity Prices
Pummel Dollar Value of Kickoffs

Although a larger number of North American projects began construction in 2015 when compared with 2014, the total investment value for kickoffs declined from the previous year. A total of 9,041 projects tracked by Industrial Info began construction last year, a 17.4% increase; however, the cumulative amount spent stood at $244.74 billion, a 14.5% decrease.

The steepest decline in investment value was in the Metals & Minerals Industry, where spending fell 45.9% to $16.36 billion. Although it benefited from improvement in the domestic automotive industry, the rapid and unabated collapse in commodity prices and the resulting downturn in oil and gas exploration proved impossible to offset. The industry also faced challenges from outside the country; last year, many U.S. steelmakers asked the government to fight harder against unfair trade practices, with many singling out China.

The $16.36 billion result is far below the $57.14 billion in estimated kickoffs made at the start of 2015, meaning that more than 70% of projects slated to begin construction were canceled, placed on hold, or had their construction kickoff dates moved out to another year.

The largest U.S. Metals & Minerals project to be put on hold last year is Passport Potash Incorporated's $1.95 billion construction of underground facilities at the Holbrook Basin Potash Mine in Arizona.

The Oil & Gas Industry itself did not see as dramatic a decline in construction starts, although each of the three segments tracked by Industrial Info tumbled: the Production Industry fell 18.9% to $35.49 billion; the Pipelines Industry fell 9.4% to $13.47 billion; and the Terminals Industry fell 34.9% to $3.56 billion. Among other industries, Chemical Processing took the biggest hit, falling 41.1% to $16.54 billion; despite the benefits of inexpensive feedstock, a string of exceptionally high-value projects continued to face delays, such as Indorama Ventures' $2 billion ethylene plant in Geismar, Louisiana, and Appalachian Resins Incorporated's $1.5 billion Ethylene & Polyethylene Complex in Clarington, Ohio.

One major industry proved to be an exception: the Power Industry, which saw a 36.7% increase in construction kickoffs and a 16.9% jump in project spending from 2014. Natural gas-fired projects and environmental retrofits for existing coal-fired projects were among the biggest drivers. Canada hosted the industry's three biggest North American construction kickoffs: Ontario Power Generation Incorporated's $4.2 billion life extension of Unit 2 at the Darlington Nuclear Power Station; Nalcor Energy's $2.1 billion construction of the high-voltage, direct-current Labrador Island transmission link; and TransCanada Corporation's $1.2 billion of the Napanee Generating Center combined-cycle plant.

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Oil & Gas Asset Sales, Bankruptcies are Expected to Continue in 2016

Written by John Egan for Industrial Info Resources (Sugar Land, Texas)—The income statements of Oil & Gas Producers took a severe beating in the third quarter, with more than $43 billion of write-downs to reflect the reduced value of reserves, according to data compiled by Industrial Info and EnerCom Incorporated (Denver, Colorado), an industry consultancy. The $43 billion is not a comprehensive total, as results from smaller companies and private firms were not included.

The non-cash asset write-downs, reported in firms’ third-quarter earnings statements, were the reason so many companies ended third quarter with large net losses. The write-downs tended to depress a company’s stock price only marginally—about $1 to $3 per share in most cases—because investors are well aware that oil prices have declined dramatically since their mid-2014 highs. The U.S. Securities and Exchange Commission (SEC) (Washington, D.C.) requires all publicly-traded companies to adjust the reported value of their assets each quarter based on current market prices.

Ten companies reported billion-dollar-plus asset impairments in the third quarter. The companies, and their respective write-downs, are:

- Royal Dutch Shell Plc (NYSE:RDAS) (The Hague, Netherlands): $7.9 billion
- EOG Resources Incorporated (NYSE:EOG) (Houston, Texas): $6.3 billion
- Devon Energy Corporation (NYSE:DVN) (Oklahoma City, Oklahoma): $5.9 billion
- Apache Corporation (NYSE:APA) (Houston, Texas): $3.7 billion
- Freepost McMoran Incorporated (NYSE:FXC) (Phoenix, Arizona): $3.5 billion
- Occidental Petroleum Corporation (NYSE:OXY) (Houston, Texas): $3.3 billion
- Southwestern Energy Company (NYSE:SWN) (Spring, Texas): $2.8 billion
- Whiting Petroleum (NYSE:WLL) (Oklahoma City, Oklahoma): $2.6 billion
- Anadarko Petroleum Corporation (NYSE:APC) (The Woodlands, Texas): $1.5 billion
- Encana Corporation (NYSE:ECA) (Calgary, Alberta): $1.1 billion

Numerous other companies reported significant asset-impairment charges, including:

- Marathon Oil Company (NYSE:MRO) (Houston, Texas): $949 million
- Range Resources Corporation (NYSE:RRG) (Fort Worth, Texas): $502 million
- Williams Companies Incorporated (NYSE:WMB) (Tulsa, Oklahoma): $477 million
- EXCO Resources Incorporated (NYSE:EXC) (Dallas, Texas): $339 million
- ConocoPhillips (NYSE:COP) (Houston, Texas): $105 million
- Continental Resources Incorporated (NYSE:CLR) (Oklahoma City, Oklahoma): $97 million

In some cases, the write-downs have caused banks to modify the size and terms of oil & gas companies’ loans and lines of credit. As the oil boom surged, oil companies took out billions of dollars of asset-backed loans secured by the value of their oil in the ground. Loans that were fully collateralized by $100-per-barrel oil were seriously under-collateralized when oil sold for about $45 per barrel, which it did on September 30, when the third quarter ended. Depending on how much of the loan has been drawn down, banks may readjust the terms of the loan, forcing oil companies to either sell assets or partially repay loans. For more information about oil companies’ Autumn borrowing base redetermination meetings with their banks, see September 3, 3015, article Investors See Opportunities in Oil & Gas Market as Big Players Adjust to New Reality.

Haynes and Boone LLP (Dallas, Texas), a law firm with extensive operations in the oil & gas business, surveyed bankers and producers about their expectations for the Autumn borrowing base redetermination meetings. It reported 79% of those surveyed expected to see a decline in a borrower’s asset base, with the average decrease being 39%.

When the law firm asked respondents about the most likely path that borrowers would take in the face of a shrinking borrowing base, 37% predicted borrowers would try to renegotiate the terms of their loans, while 35% forecast the sale of non-core assets. An additional 18% said producers would seek capital infusions from hedge funds or private equity firms. Also, 7% predicted companies would restructure or declare bankruptcy.

In early November, Haynes & Boone said 36 North American oil & gas producers filed Chapter 11 bankruptcies this year. Lawyers at the firm predicted more Chapter 11 filings would be taking place.

In an interview with The Wall Street Journal, Rob Haworth, a senior investment strategist at U.S. Bank Wealth Management, a division of U.S. Bancorp (NYSE:USB) (Minneapolis, Minnesota), said: “There’s been more efficiency (gains) in the space than we all expected,
and that's helped current owners hold on a little longer. We're not seeing as much turnover in the oil patch as we'd expect, in terms of weak hands to strong hands. But things like that will need to happen at some point."

The ongoing rationalization in the Oil Patch likely will be accelerated if the Federal Reserve increases interest rates in the near future, as Fed officials have signaled. The Fed has kept interest rates at nearly zero for many years, which has made it easier for oil & gas companies to finance their exploration and drilling programs. Although Fed officials have said rate increases will be slow, any increase in interest costs will increase a company's borrowing costs, further stressing their operations and forcing corporate decisions on asset sales.

"Producing oil & gas is an inherently cyclical business, and we're about one year into a deep and painful down cycle," noted Jesus Davis, Industrial Info's vice president of research for the Oil & Gas Production, Pipelines and Terminals industries. "When oil was at or above $100 a barrel, producers loaded up on debt and didn't focus as much on operating efficiencies. Some producers weren't even making money when oil sold for $100 a barrel."

"Now, the pendulum has swung back: company managers are focusing on operating more efficiently," Davis noted. "Non-core assets are being sold. Prices for equipment and services are being forced downward. Thousands have lost their jobs. Some communities are seeing the effects in reduced tax and royalty payments. In many areas, hotels and restaurants are not as full as they once were."

"The industry goes through this rationalization about once a generation, and each time the industry emerges stronger," Davis continued. "When the shake-out ends, there will be fewer players than before, and the asset portfolios will be different. We expect this rationalization will continue through a good bit of 2016, until global demand picks up and the oil market is no longer over-supplied."

Industrial Info Resources (IIR), with global headquarters in Sugar Land, Texas, five offices in North America and 10 international offices, is the leading provider of global market intelligence specializing in the industrial process, heavy manufacturing and energy markets. Industrial Info's quality-assurance philosophy, the Living Forward Reporting Principle™, provides up-to-the-minute intelligence on what's happening now, while constantly keeping track of future opportunities.

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