'Asset Optimization' the New Watchword for Energy Infrastructure Companies

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Written by John Egan for Industrial Info Resources (Sugar Land, Texas) — Speakers at a natural gas conference on November 9 bemoaned the current difficulties constructing greenfield energy infrastructure, and one speaker said the solution was to optimize existing assets, either by reversing pipeline flows or expanding existing facilities.

“Anything that required federal permitting is in the crosshairs of the environmental movement,” Sam Andrus, executive director for North American Gas at IHS Markit Ltd. (London, England) said at the Natural Gas Forum 2020, organized by Access Intelligence LLC (Rockville, Maryland). Referencing a U.S. regulatory and legal environment that has turned against the Atlantic Coast Pipeline, the Dakota Access Pipeline, Keystone XL and other energy infrastructure projects, Andrus said, “they don't need to defeat you, only delay you.”

Several speakers at the event suggested that the apparent election of Joe Biden would make a bad situation worse, as Democrats have tended to view construction of new energy pipelines, processing plants and export terminals with more skepticism than their Republican counterparts.

Energy infrastructure projects have been on the defensive lately. This past summer, the $8 billion Atlantic Coast Pipeline Project was abandoned by its developers after prolonged delays. For more on that, see July 7, 2020, article - Dominion Energy Strategically Repositions After Terminating Atlantic Coast Pipeline Project. The Dakota Access Pipeline (DAPL) this summer was hit with a federal court ruling, since stayed, to empty the crude-oil pipeline because the environmental studies underlying the federal permits may not be as rigorous as the law requires. A separate federal judge stopped construction of the Keystone XL pipeline. For more on both projects, see July 8, 2020, article - Federal Judges Deal Two Defeats to Trump Administration's Vision of Energy Dominance. Williams Companies Incorporated (NYSE:WMB) (Tulsa, Oklahoma) cancelled its proposed Constitution Pipeline while another Williams project in the region, the Northeast Supply Enhancement, has been unable to secure permits. For more on that, see September 16, 2020, article - [Report: $13.6 Billion in U.S. Energy Pipeline Activity Threatened by Delays, Cancellations].

Another speaker at the Gas Forum 2020 event, Adam Arthur, senior vice president for business development at Energy Transfer L.P. (NYSE:ET) (Dallas, Texas), said “regulatory and environmental activism has targeted the midstream. They can't win at the burner tip or in the field, so they are targeting infrastructure projects.”

Arthur agreed with Andrus: “There's not a bright future for long-haul greenfield pipeline construction,” he said. “There's too much difficulty completing projects in this environment. Therefore, we should focus on asset optimization.”

That means converting pipelines built to carry one commodity to carry a different one. Sometimes that could also entail reversing the flow of a given pipeline. Another way to optimize your assets is to construct new assets within your existing footprint.

“Asset optimization,” in other words, means virtually anything to expand and extract incremental value from your existing infrastructure in ways that do not trigger regulatory or legal scrutiny.

Commenting on a number of planned pipeline projects in Texas that have been stalled or abandoned, Arthur said, “It's getting hard to build pipelines, even in Texas.”

Energy Transfer has a number of asset optimization projects under way, including: revamping its Marcus Hook, Pennsylvania, terminal; expanding its Lone Star Express NGL pipeline; and adding new fractionation capacity at its Nederland, Texas, NGL complex. It is investigating repurposing an idle NGL pipeline, J.C. Nolan, to transport renewable diesel.

Energy Transfer is not the only asset owner trying to optimize its assets. A unit of Marathon Petroleum Corporation (NYSE:MPC) (Findlay, Ohio) is in the process of reversing the flow of its Capline crude oil pipeline, a $480-million project. Another example is the assessment by Enterprise Products Partners L.P. (NYSE:EPD) (Houston, Texas) of the feasibility of converting its Seminole NGL pipeline to carry crude oil from the Permian Basin to the Gulf Coast. That would be a $250 million project.

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