



Why There (probably) Won't Be an Oil Crisis

With commodities and goods such as coal, LNG, and computer chips commanding eye-popping prices, [Bank of America analysts are predicting a return](#) to triple-digit crude oil prices this winter. While we do not rule out that crude prices will flirt with \$100/barrel sometime this winter, we regard this development as unlikely. Sustained \$100/barrel prices are even less likely, as OPEC+ and China have no interest in seeing a return to triple-digit prices. A massive run-up in crude oil prices would not only sharply increase the probability of a Chinese economic recession (or even a financial crisis), but it would also likely accelerate the energy transition. Although OPEC+ might miscalculate, we believe that the cartel's own self-interest, Chinese pressure, and, potentially, Iranian/Venezuelan/U.S. shale volumes will restrain crude prices.

World crude demand: returning, but with risks

The highly-transmissible Delta coronavirus variant has buffeted the world economy in the second half of 2021, with most economies projected to grow more slowly than predicted earlier in the year. The [U.S. Federal Reserve now predicts](#) U.S. 2021 real GDP growth will total 5.9% – respectable, but well below the June projection of 7.05%. Chinese economic growth is more fraught and uncertain. Although the world's second largest economy appears to have contained the Delta variant, its real estate sector is facing a serious challenge. The S&P 500 fell nearly 2% on September 20th on [default fears surrounding Evergrande, a Chinese property developer](#). If the Chinese real estate market stumbles or crashes, world crude oil demand could face significant or even sharp headwinds.

While we won't get into the details of Evergrande and the Chinese real estate sector, we regard the probability of a Chinese financial crisis as low to moderate. Much more worrisome, however, is the country's medium-term to long-term growth potential. Many [economists are projecting sharply lower Chinese real GDP growth rates](#) for the next decade – perhaps even lower than 2%. The implications for crude oil demand could be enormous.

[BP estimates](#) China's share of all world oil consumption at 16.1%. Since the [property sector accounts for as much as 25% of Chinese GDP](#) and is relatively energy intensive, we therefore estimate that the Chinese property sector alone

accounts for at least 4-5% of total world oil demand. A long-term, secular slowdown in Chinese GDP growth – or even just in the Chinese property sector – could therefore constrain crude oil demand in the medium-term.

What could high energy prices trigger?

[Many analysts](#) believe that a Chinese financial crisis is unlikely in the near-term, although they regard the medium and long-term risks of an economic slowdown as very serious. An energy crisis in the form of \$100+ Brent prices could change this calculus, however, by significantly increasing the probability of a near-term liquidity crisis in the Chinese real estate market. A run up in oil prices would increase costs at already-vulnerable Chinese real estate developers while pressuring revenues. This dynamic would severely damage liquidity at China's highly-leveraged real estate producers, potentially igniting a financial crisis.

High energy prices can certainly contribute to real estate crises: while the 2006 – 2008 US housing bubble burst for many reasons, [crude prices played an important and underrated role](#). Due to OPEC+ miscalculation, WTI prices peaked at \$145/barrel in July 2008 before falling to \$38/barrel by December 2008, during the darkest days of the Great Financial Crisis. Another sugar-high increase in crude prices could lead to another sharp crash – only this time around, investors might leave the industry for good.

A sharp rise in oil prices would also likely incentivize more production to come online. While U.S. shale has become much more disciplined and will respond only modestly and cautiously to higher prices, Iran and Venezuela have the capacity to add (at least) a million barrels per day to the market. If prices continue to rise, Washington, Tehran, and Caracas will all have greater incentives to reach a diplomatic understanding.

Has OPEC+ learned its lesson from 2008?

Another policy mistake from OPEC+ could prove highly damaging to the entire O&G complex: it isn't 2008 anymore. EVs and renewables are no longer niche players and present a highly credible long-term challenge to hydrocarbon demand.

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"[T]here may be "room" in the market for 1-2 more North American projects, potentially including Tellurian's Driftwood LNG. Still, additional FIDs are not a slam dunk."

Green Hydrogen:

[Global Hydrogen Review 2021—IEA](#)

[White House promotes faraway promise of green hydrogen—E&E](#)

[Mining Billionaire Spearheads Global Green Hydrogen Push—Bloomberg](#)

Crude Oil News:

[Enbridge to buy US Gulf coast oil export terminal—Argus Media](#)

[US oil output to climb again despite restraint of big shale drillers—FT](#)

[US considers releasing emergency oil reserves to tame fuel price surge—FT](#)

[Oil resumes rally, U.S. reserve release seen as unlikely—CNBC](#)

[OPEC+'s Stay-the-Course Approach Alarms Febrile Oil Market—Bloomberg](#)

[The U.S. exported slightly more petroleum \[ed. note: includes products\] than it imported in the first half of 2021](#)

Why there (probably) won't be an oil crisis (continued)

Given the risks of another 2008-style meltdown and an accelerated energy transition, we believe that OPEC+ producers will increase production to prevent a price surge (particularly if they come under pressure from China, the world's largest crude importer). There probably won't be an oil crisis and we don't believe that crude prices will return to \$100/barrel.

Brighter Skies for Greenfield North American LNG Projects

It's boom times for LNG markets. The forward strip is showing JKM winter 2021/2022 spot prices exceeding \$40/MMBtu, a more than 700% increase from the 2019/2020 winter. Indeed, global gas markets are currently experiencing a near-perfect storm: demand is rising; the sector has faced underinvestment for years; wind production disappointed this summer; and inventory levels in Europe are well below prior-year levels. With world gas markets facing undersupply, LNG supply-demand imbalances have also accumulated. Overseas liquefaction capacity is down despite rising demand and depleted inventories. Although we expect international liquefaction capacity utilization to slowly recover over the next year as some facilities exit maintenance, dampening prices, existing U.S. LNG exporters will supply full volumes at high prices for at least the next 12 months – barring a shocking exogenous event.

Boom times has led to some chatter that one or more U.S. LNG projects will take FID within the year. The probability of another U.S. LNG FID is certainly rising, as some international (and low utilization) terminals may shutter permanently due to COVID and persistent underinvestment. Indeed, there may be "room" in the market for 1-2 more North American projects, potentially including Tellurian's Driftwood LNG. Still, additional FIDs are not a slam dunk. Developers must overcome skepticism from investors, creditors, offtakers, and policymakers that LNG will remain a viable and competitive fuel source over the next decade, and beyond.

World LNG Demand

Despite the havoc wrought by COVID-19, [world LNG demand actually increased slightly in 2020 to 356.1 metric tons \(MT\)](#), up from 354.7 MT in 2019. With safe and effective vaccines leading to more mobility than in 2020, there is stronger economic support for higher volumes this year. Moreover, [extremely hot July temperatures](#) and drought conditions supported summer fuel burn across much of the world, including in the U.S., South America, Northeast Asia and much of Europe. While warmer winter temperatures could reduce seasonal peak demand, we are confident that world LNG demand will reach another annual record.

International Supply: down in 2021

The market is struggling to meet record-high demand, however, as substantial international liquefaction capacity is out of service. According to several sources, international LNG liquefaction utilization remains near levels seen in 2020 despite extremely favorable pricing conditions for exporters. [World LNG July shipments](#) were

constrained due to lower exports from Qatar as well as more marginal LNG players in Nigeria, Norway, Peru, and Trinidad and Tobago. Indeed, nearly all incremental y-o-y LNG output appears to originate from just two suppliers: Australia and the United States.

Future International Supply: More Uncertain

While some relatively minor LNG export exporters (such as Norway's 4.2 MTPA Snohvit Hammerfest terminal) are undergoing maintenance and will very likely return to the market, other existing facilities are in severe danger of permanent closure (For our holistic, long-term supply-demand forecast, drop us a line: info@enkonenergy.com) Moreover, some planned projects, such as Mozambique LNG or Rovuma LNG, are facing indefinite delays due to security concerns in Africa. There is an increasing probability that the current supply shortfall could extend for longer – potentially much longer – than we previously anticipated.

Future Qatari LNG production is a vital but unpredictable element. Qatar is the world's lowest-cost LNG producer and could further expand capacity to absorb demand shortfalls; it has also already [committed to grow its LNG output to 110 MTPA by 2026](#). On the other hand, however, Qatar may seek to diversify its economy beyond hydrocarbons and could shy from even more capital-intensive investment in liquefaction capacity.

Greenfield LNG terminals remain high-risk, high-reward investments

Weaker international liquefaction supply and the increasing likelihood of an enduring supply gap could open space for additional greenfield LNG export terminals. At the same time, increasingly competitive renewables and ESG concerns inject uncertainty into LNG demand forecasts, particularly in the 2030s. Since LNG projects often have "payback periods" of 20+ years or longer (as well as construction times of 3-5+ years), market actors in the sector face high risks and high rewards. We won't be surprised if one or more U.S. LNG projects take FID within the next 12 months, but we won't be shocked if none do, either.

What Happened With ERCOT Summer Wind Generation?

A funny thing happened in ERCOT in June and July. While the grid (mercifully) didn't experience any major outages, wind generation actually fell year-over-year from the prior-year periods – despite an increase in wind generation capacity. There remains a great deal of uncertainty surrounding climate change and wind cyclicity. In this article we explore ERCOT's summer generation profile and the mysterious downturn in ERCOT wind generation.

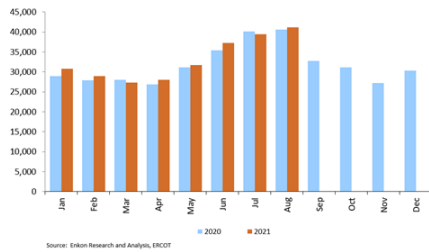
Lukewarm ERCOT Summer

ERCOT 2021 YTD generation only rose 2.1% year-over-year. While ERCOT's February outage suppressed y-o-y electricity consumption, we are frankly quite surprised that summer demand was not more robust.

What happened with ERCOT summer wind generation? (continued)

Fundamental factors all suggested robust demand: vaccinations sharply lifted mobility and economic growth, Texas population growth remains very high, and most grid-connected LNG/petrochemical facilities (including Freeport LNG) ran at full capacity, unlike last year. We strongly suspect temperate weather limited electricity usage: both [Dallas](#) and [Houston](#) experienced relatively low July temperatures, according to the National Weather Service; [NOAA also shows that Texas temperatures fell](#). July's slight decline in ERCOT total generation is almost certainly due to fewer cooling degree days.

ERCOT Total Generation by Month (GWh)



Wind Generation... fell?

This summer also witnessed another surprising event in ERCOT: declining y-o-y wind generation in June and July. As seen in the graph below, June and July 2021 wind generation actually fell sharply from the same prior-year periods.

ERCOT Wind Generation by Month (GWh)

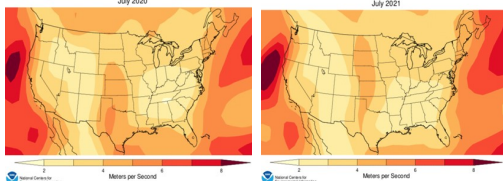


While Texas wind capacity factors tend to decline in the summer, the sharp decline in y-o-y wind generation is notable considering that installed wind capacity rose by about 2.3 GW to ~27.3 GW over the same period, according to [ERCOT](#). What explains the sharp apparent decline in wind capacity factors?

We believe that slower Texas wind speeds drove ERCOT wind generation sharply lower. As you can see below, the wind-producing regions of West and North Texas [experienced lower mean wind speeds](#) and less favorable wind generation conditions.

Monthly Mean 10m Wind Speed July 2020

Monthly Mean 10m Wind Speed July 2021



What does ERCOT's summer say about its future?

ERCOT's past summer will likely prove to be an exception, not the new norm. In the future, we expect to see higher temperatures due to climate change, more wind generation from greater installed capacity, more efficient capacity utilization from newer turbines, and higher wind speeds.

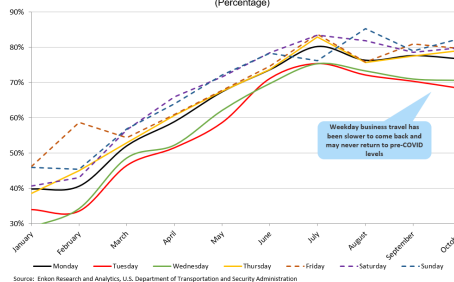
Still, there is some limited evidence that mean wind speeds fell across the world: [RWE also reported "much lower" wind volumes in Europe](#) in the first half of 2021. Was 2021 a cyclical downtick in wind speeds or the beginning of a secular, global trend? While there is no expert consensus on these issues, wind fundamentals will continue to have massive implications for ERCOT and the grid.

Special Report: New Jet Passenger Travel Patterns

We admit it: we're fascinated by how jet passenger throughput will change due to the pandemic. We've long argued that business travel will settle at permanently lower levels, largely because of the ubiquity and hard-earned familiarity of videoconferencing. While consumer/firm behavior could revert to 2019 if COVID is effectively eliminated, we continue to see evidence that weekday flight demand remains severely constrained.

We examined 2021 [passenger throughput](#) totals from the TSA and compared it to same-weekday levels from 2019. We find that while throughput levels for weekend and weekend-adjacent days are beginning to consistently exceed 80% of 2019 demand, Tuesday and Wednesday throughput levels remain mired in the 68-75% range. Unsurprisingly, [Airlines for America reports](#) that corporate segment tickets sold are down 58% from 2019 levels.

2021/2019 Passenger Throughput Ratio (Percentage)



The implications of fewer work-related trips could be serious for the airline industry. [Business travelers typically account for about half of U.S. airline revenue](#) but only about a third of all trips. With business travel down, airlines will constrain routes, reduce capital expenditures for new aircraft—and incentivize alternative modes of transportation, particularly for short-haul flights.

Coal News:

[China eyes coal output boost, higher power prices to ease shortages—Reuters](#)

[China's top coal province Shanxi tells mines to boost output—document—Reuters](#)

[Ahead Of Climate Talks, China Vows To Stop Building Coal Power Plants Abroad—NPR](#)

[India Snags Cheap Australian Coal Sitting at Chinese Ports—Bloomberg](#)

LNG News:

[Rwanda calls on firms to resume Mozambique LNG project](#)

[Cameron LNG CEO To Retire—Yahoo Finance](#)

[Asia LNG price soars on China power crunch, European demand—Reuters](#)

[Record gas prices slow LNG investment in Asia; N.America scrambles on exports—Reuters](#)

Commodity Outlook (90 days out)

COVID and energy demand:

COVID is, once again, the key element shaping energy outcomes due to the emergence of the Delta variant. The Delta variant and supply chain constraints are dampening dampen some of the more optimistic economic growth projections earlier in the year. We do not anticipate additional lockdowns this winter, however, although overall mobility may not reach 2019 same-period levels.

Canada will be a leading indicator for how the world will live with endemic COVID. The True North is highly vaccinated, provides highly transparent infections and hospitalization data, and will experience winter temperatures necessitating indoor activities before most of the rest of the world. Canada's experience in October and November will provide a preview for Europe, much of the northern United States, and NE Asia—and future near-term energy demand.

Given that data suggests that vaccines remain highly effective in preventing death and hospitalization (although less effective at preventing infection than previously hoped), we suspect that vaccinated consumers will gradually accept endemic COVID as a fact of life and continue to slowly resume their old habits.

No Major Electricity Outages This Summer

Sometimes no news is a big deal: many areas of the country faced record-setting July temperatures (Texas was a major exception), but the U.S. electricity grid managed to avoid any electricity outages on the scale of California's October 2019 disaster or the February 2021 ERCOT fiasco. We explore ERCOT developments in the article above.

Crude Oil Market Movers:

There has been little momentum to bring Iranian barrels back onto the market. A U.S.-Iran agreement may not be reached for at least several months, preventing hundreds of thousands of barrels/day from entering the market. Rising oil prices would raise opportunity costs for both sides and could change their calculus, however.

Domestic crude production continues to inch upwards, as the EIA shows ~11.3 Million barrels per day (MMBPD) of output in the latest available figures. Production fell as low as 10 MMBPD during early September, amid hurricane-induced closures. Operating U.S. rigs now exceed 500, according to [Baker Hughes](#), or double the number of rigs from a year ago. Shale drillers will remain disciplined on ESG/investor concerns but we expect production to continue to rise for the remainder of the year, barring an exogenous event.

The Biden administration has reportedly considered a release of crude oil from the nation's Strategic Petroleum Reserves, but this step appears unlikely—particularly if crude prices don't exceed their current range of ~\$80/barrel.

Natural Gas Market Movers:

Despite weakness in electricity and (potentially) even industrial usage, overall natural gas demand remains highly robust due to natural gas exports via LNG and pipelines. Supply remains constrained amid driller discipline, ESG, and investor skepticism of O&G. Henry Hub prices briefly exceeded \$6/MMBtu earlier this month. We expect substantial price volatility due to weather factors: both winter temperatures AND wind production.

Record summer temperatures across much of the United States did not lead to greater natural gas power burn, suggesting the fuel faces a very difficult future in that segment. While coal generation may be enjoying its last hurrah in the United States and is only temporarily expanding its share of base load demand, other factors—such as increasingly competitive renewable generation sources — are more permanent and will continue to constrain natural gas consumption in electricity markets.

Refined Products Market Movers:

U.S. product supplied of finished motor gasoline—a highly useful proxy for gasoline demand—is very close to 2019 levels. Net refinery inputs are about ~1 MMBPD below 2019 levels, however. Gasoline inventories remain relatively low and continue to support prices. Indeed, gasoline prices are at their highest nominal (that is, unadjusted for inflation) level since 2014.

LNG Market Movers:

LNG markets, like gas markets, are severely undersupplied at the moment, with producers able to command eye-popping prices. While markets are currently moving more on speculation and fear more than fundamentals, we do expect U.S. LNG netbacks to remain firmly positive for at least the next 12 months, and probably longer—barring another exogenous shock, of course.

Venture Global LNG's Calcasieu Pass and Cheniere's Sabine Train 6 projects are moving closer and closer to their start dates. The start date of those projects could have a material impact on HH, JKM, TTF, and other natural gas price markers.

NGL Market Movers:

U.S. ethane prices have increased significantly in the past 2 months primarily due to high natural gas prices. With natural gas markets expected to remain tight through the winter, ethane prices are likely to trend up. Furthermore, high crude prices and lower coproduct prices has made ethane the lowest cost cracker feedstock, so we expected there is some room for ethane demand to rise, providing uplift for ethane prices. If we have a cold winter and natural gas prices continue to move higher, we won't be surprised if ethane prices eclipse 70 cpg.

Propane fundamentals remain very strong, with demand above year-ago levels and inventory below 5-year ranges. Exports have ticked down in recent weeks amid relatively weak arbs and very strong domestic prices.

Recent increases in crude prices are highly supportive of butane prices, as are butane inventories—a drop in butane (LPG) exports may provide some breathing room for butane.

"Despite weakness in electricity and (potentially) even industrial usage, overall natural gas demand remains highly robust due to natural gas exports via LNG and pipelines."

Natural Gas News:

[PennEast becomes the latest to scuttle a natural gas pipeline project](#)

[Kinder Morgan sees growth potential from gas storage network ties to grid, exports—S&P Global Platts](#)

[Natural gas prices are skyrocketing around the world. Here's why the U.S. may not suffer as much—CNBC](#)

[Henry Hub gas futures prices flirt with \\$6 level amid sustained supply crunch—S&P Global Platts](#)

Renewables and EV News:

[ABB launches world's fastest charger to plug into surging e-car market—Reuters](#)

[GE claims record 14 MW output for prototype offshore wind turbine after 2 years of optimization—Utility Dive](#)

[Global energy storage set to nearly triple in 2021—Utility Dive](#)

Photo credits:

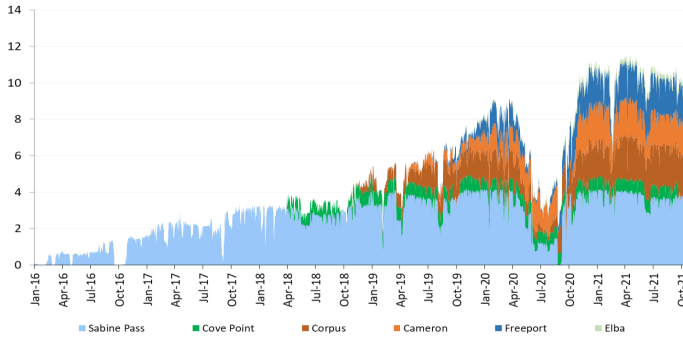
Gas station [photo](#) from Seattle Municipal Archives

All other photos in public domain

Key Market Dashboards

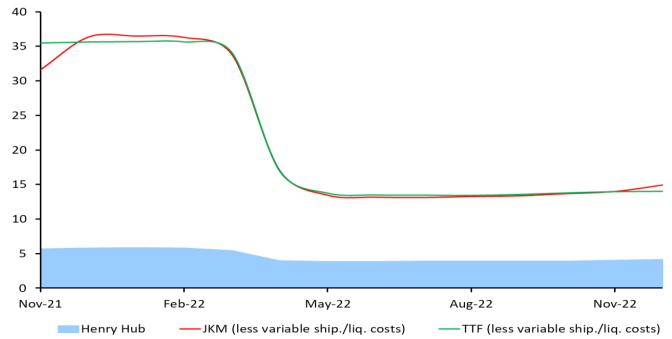


Firm Feed Gas Receipts into U.S. LNG Terminals
(Billion Cubic Feet per Day)



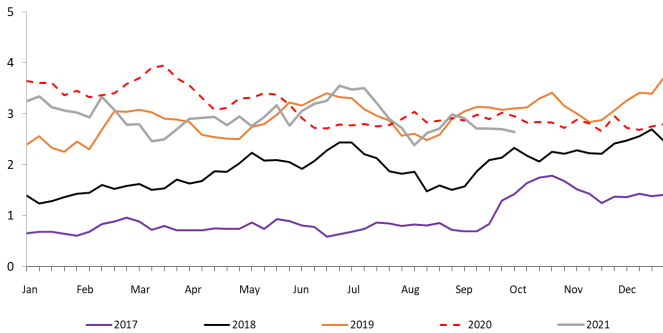
As terminals leave maintenance and Sabine Pass T6 & Calcasieu Pass comes online, will feed gas receipts exceed 12 Bcf/d by year's end?

LNG Netbacks to U.S. (on Cash Basis)
(\$/MMBtu)



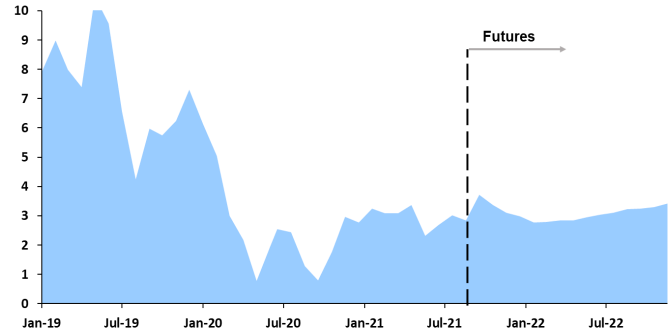
While we expect severe volatility in LNG netbacks as traders determine weather-driven fundamentals, U.S. exports expected to run at full-tilt

U.S. Crude Oil Exports
(Million Barrels per Day)



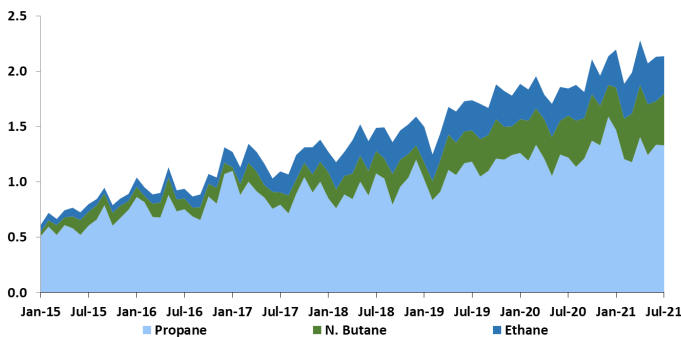
Strong domestic refinery pull, shipping rates, and constrained domestic production are limiting exports below 2020 levels

Brent—WTI Spread
(\$/Barrel)



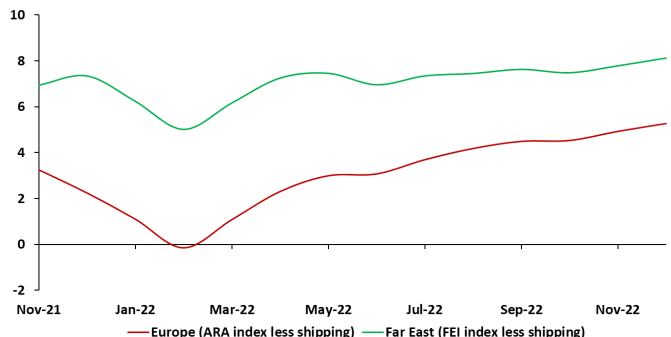
Differentials still limiting export arbitrage

U.S. NGL Product Exports
(Million Barrels per Day)



Tug-of-war between domestic and export propane buyers continues

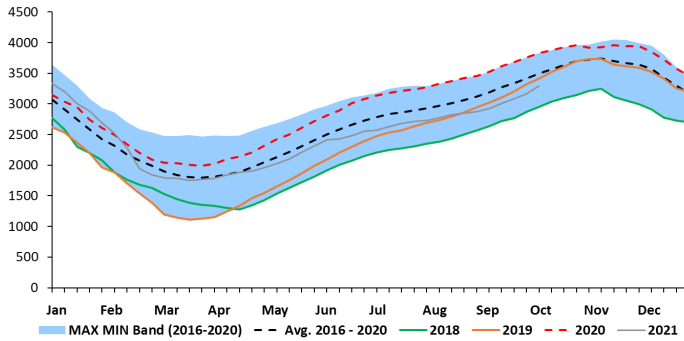
International Propane Netbacks (to Mt. Belvieu)
(Cents Per Gallon)



Shipping costs and elevated domestic demand limiting international exports

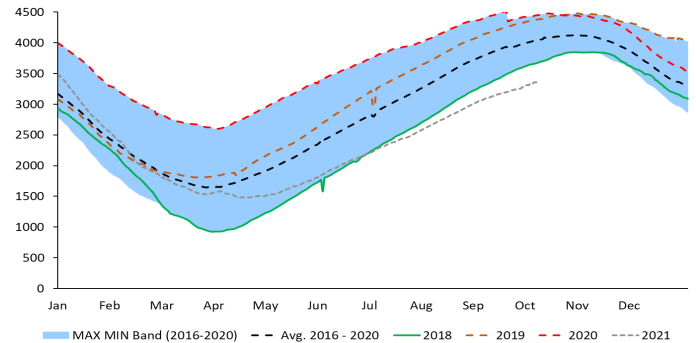
Key Market Dashboards

Natural Gas in Storage, Lower 48
(Billion Cubic Feet)



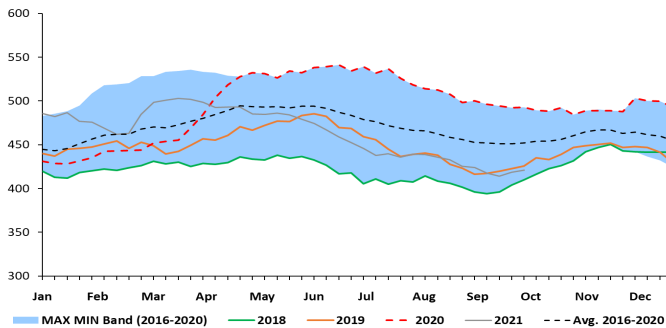
Natural gas prices receiving substantial support from lower inventories and higher LNG demand

European (EU + Ukraine) Gas Storage
(Billion Cubic Feet)



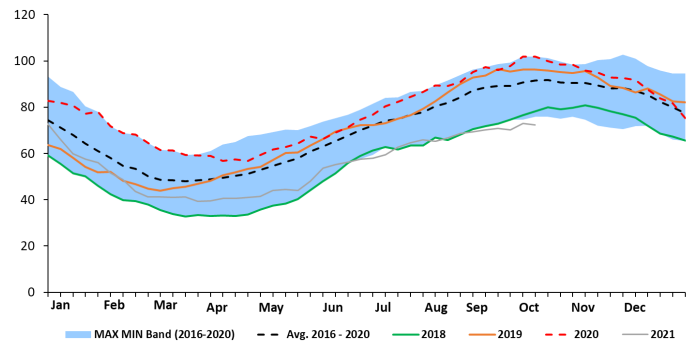
European inventories remain very low, leading to surging prices. Big question marks surrounding weather and wind production

U.S. Crude Oil Commercial Storage Inventory
(Million Barrels)



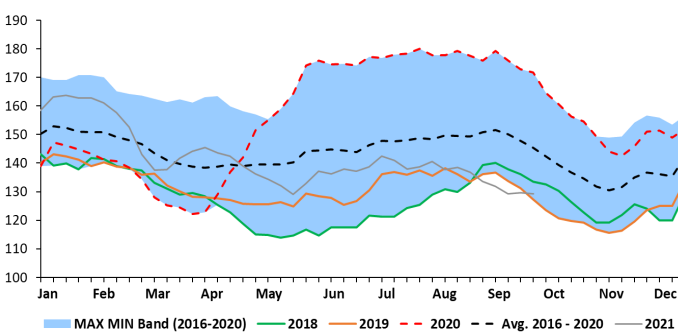
SPR and commercial inventories continue to fall as prices rise—a major SPR release is unlikely but not impossible

U.S. Propane/Propylene Storage Inventory
(Million Barrels)



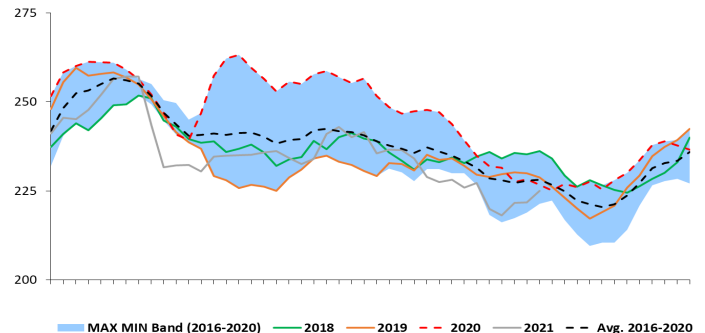
U.S. propane inventories remain supportive of prices amid strong domestic + international demand

U.S. Diesel Storage Inventory
(Million Barrels)



Diesel demand has fully recovered and is often exceeding 2019 levels—will holiday season witness even more demand from trucking?

U.S. Gasoline Storage Inventory
(Million Barrels)



Gasoline demand is on par with 2019 levels as inventories remain constrained—favorable price outlook for gasoline

Our Subscription Product Offerings

Regional NGL Benchmarking & Outlook

(Research, intelligence and insights into Supply, Logistics, Pricing, Disposition and Outlook)

Each quarter, Enkon provides clients a unique, bottom-to-top analysis of NGL supply, logistics, pricing, netbacks, product disposition and outlook for eight NGL producing basins in the U.S. The granularity of the analysis makes this product unique. The analysis identifies NGLs (by purity product) produced at each of the ~700 U.S. gas processing plants as the building block of the analysis to quantify asset utilizations across the midstream value chain.

Appalachian	Rockies	Haynesville- Bossier
Permian	Bakken	Barnett
Eagle Ford	STACK/SCOOP/MERGE	LA Gulf Coast

	Deliverables	Format	Update Frequency
1	NGL Benchmarking	Report (MS PowerPoint)	Quarterly
2	Report discussion & review	In-Person Meeting/Conf Call	Quarterly
3	Supporting data sets	Secured online portal	Quarterly
4	Market insights	Memo	Monthly

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U.S. Gulf Coast Liquid Cavern Storage Benchmarking

(Research, intelligence and insights into NGL, Olefins, Refined Product Cavern Storage)

Once a year, Enkon provides clients a one-of-a-kind, comprehensive lay-of-the-land and granular benchmarking for ~250 non-crude liquid-hydrocarbon salt cavern storage wells in Texas and Louisiana. The report provides regional analysis of cavern storage capacity versus brine pond capacity in each of the dome locations. The report also identifies product storage in each of the cavern wells along with historical product injection, withdrawal, inventory and cavern utilization.

Texas Cavern Coverage		Louisiana Cavern Coverage	
Barbers Hill (Mont Belvieu)	Hull	Sulphur	Bayou Choctow
Stratton Ridge	Spindletop	West Hackberry	Napoleonville
Markham	Fannett	Arcadia	Sorrento
Clemens	Sour Lake	Pine Prairie	Venice
Pierce Junction	Boiling	Anse La Butte	Section 28
West/Panhandle Texas	East Texas		

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Regional Fractionation and NGL Export Terminal Benchmarking & Outlook

Each quarter, Enkon provides clients a provide a historical benchmarking and comprehensive outlook of Y-grade NGLs in the U.S. Gulf Coast with the objective of quantifying incremental need for fractionation capacity in various locations in US Gulf Coast, namely Mont Belvieu, Sweeny and Louisiana, and adequacy of NGL export capacity in the USGC and Northeast.

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North America LNG Export Project Benchmarking & Outlook

(Research, and insights into U.S. Liquefaction Projects)

Each quarter, Enkon undertakes an exhaustive review of over 24 post and pre-FID North American LNG export terminals; summarizing the North American LNG export terminal landscape, LNG nameplate capacity and feed gas forecasts, key market trends, and a competitive assessment of pre-FID North American terminals. For each project, we report terminal attributes, commercial models, key regulatory milestones, risk assessments, and, for existing terminals, historical feed gas receipts (by pipeline), and estimated weighted average landed cost of feed gas into the terminal.

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