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BUSINESS

Frackers Bet on New Terminals to Boost Oil Exports

Companies plan expanded port infrastructure to load big ships as congestion threatens to move to the water

By Rebecca Elliott

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As pipeline bottlenecks crimp the U.S. shale boom, some companies are racing to address the next potential constraint on American oil output: the terminals to export crude to foreign markets.

Oil exports have been a key release valve for U.S. producers in the three years since Congress lifted a longtime ban on overseas crude sales. Exports topped 2.1 million barrels daily in September and are projected to approach four million barrels within two years, according to S&P Global Platts Analytics.

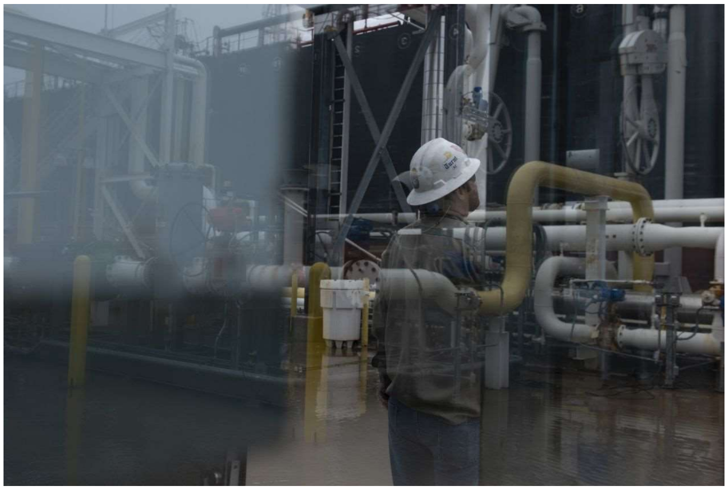
Yet a surge of crude from prolific West Texas wells, which has already pushed regional pipeline networks to capacity and made it more expensive for some companies to move their oil to market, could next challenge port infrastructure.

Existing U.S. shipping terminals are already ill-equipped to handle the growing load, because only one can fully accommodate the giant tankers used to ship oil to Asia and Europe. That has at least four companies, including commodities trader Trafigura Group Pte. Ltd. and pipeline builder Enterprise Products Partners L.P., planning new or expanded terminals to load up the big ships.

“You need more efficient ways of loading oil out of the Gulf Coast,” said Kevin Jebbitt, head of crude oil trading for Trafigura, which has requested permits to build a deepwater port near Corpus Christi, Texas.

The terminals can cost more than a billion dollars to build, and some experts believe there won’t be sufficient long-term demand for all of the facilities being proposed. So companies interested in constructing these terminals are racing to complete their projects quickly to ensure success.

The Permian basin of West Texas and New Mexico has been the primary engine behind soaring U.S. crude production, which recently topped 11 million barrels daily. Inadequate pipeline capacity has reduced prices of oil in the area and forced some companies to curtail drilling.



A Buckeye employee monitors operations as crude oil is loaded onto the Overseas Anacortes on at Buckeye Texas Hub's marine terminal in Corpus Christi, Texas. PHOTO: CALLAGHAN O'HARE FOR THE WALL STREET JOURNAL

Crude in Midland sold for $23 a barrel below the Houston price in August, reflecting the added costs companies have to shoulder to move crude to market without pipelines, though that differential has since contracted to about $10, according to S&P Global Platts Analytics. The firm estimates that by the end of this year, Permian drillers will be producing about 400,000 barrels of oil a day less than they would have without pipeline constraints.

A large tanker is anchored in Corpus Christi, Texas. PHOTO: CALLAGHAN O'HARE FOR THE WALL STREET JOURNAL

Last month, Marathon Oil Corp. chief executive Lee Tillman said at an industry conference that the company had removed a drilling rig in the Permian in the face of bottlenecks. He touted the benefits of having operations in multiple basins, saying it means the company doesn't have to "accelerate our activity into pricing headwinds."

Relief is set to arrive next year in the form of new pipelines aimed at carrying crude to the coast for export. But congested docks and waterways could hamper export growth and depress regional oil prices.

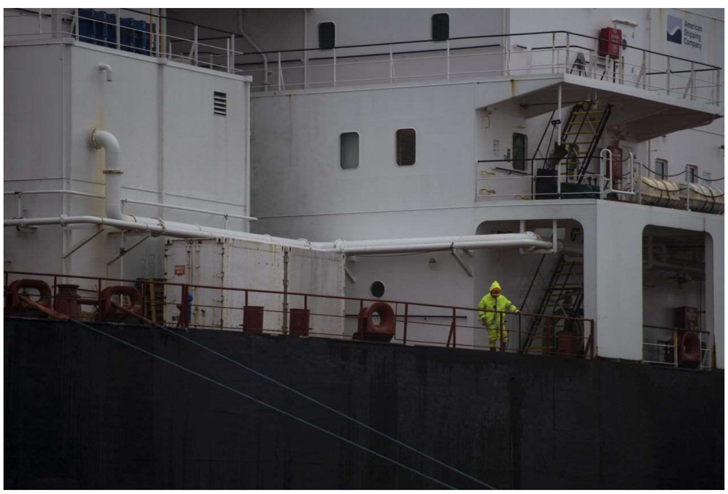
"Infrastructure takes a lot more time than the market typically expects," said J. Alexander Blackman, an executive at the Houston-based trading company Standard Delta LLC. "When export terminal capacity is maxed out, U.S. oversupply gets trapped in storage onshore, which leads to lower prices."

On paper, Gulf Coast terminals appear to have room to accommodate millions of additional barrels of Permian crude, which is lighter and less sulfurous than the oil preferred by many domestic refineries. Crude exports could more than double next year before overloading existing and planned shipping infrastructure, according to estimates by S&P Global Platts Analytics.

However, some exporters worry ports could become congested as companies try to push more oil across a limited number of docks while navigating narrow, shallow channels. Most U.S. facilities also aren't deep enough to fully load Very Large Crude Carriers, or VLCCs, which can hold up to 2 million barrels of oil. The Louisiana Offshore Oil Port, south of New Orleans, is the sole exception, but it is primarily used for imports.

Instead, companies must load smaller vessels onshore, then transfer the crude onto the giant tankers in open water. Those ship-to-ship transfers cost between $700,000 and $1 million per loading, according to E.A. Gibson Shipbrokers Ltd.

"You're bumping up pretty close to maximum capacity now," said Trafigura's chief economist Saad Rahim.



Crude oil is loaded onto the Overseas Anacortes at Buckeye Texas Hub's marine terminal in Corpus Christi, Texas. PHOTO: CALLAGHAN O'HARE FOR THE WALL STREET JOURNAL

Tallgrass Energy L.P . , a Kansas-based pipeline company, announced plans this year to build a terminal in the New Orleans area to take in smaller vessels by 2020. The company also is considering an extension that would accommodate VLCCs by late 2021.

Unlike many of the other proposed projects, which would be fed by pipelines from the Permian basin, the facility would capture crude en route from Cushing, Okla., where the West Texas Intermediate benchmark price is set.

"Instead of taking all this crude to an already congested market, if you're going with shale product to the export market, we're in a much better position," said Jason Reeves, who manages the company's terminals business. "There won't be as much competing traffic."

Enterprise has proposed an offshore VLCC loading terminal south of Houston. "It's a bet on Asian demand," Brent Secrest, an Enterprise senior vice president, said at an industry conference in Houston this month.


An oil refinery in Corpus Christi, Texas. PHOTO: CALLAGHAN O'HARE FOR THE WALL STREET JOURNAL

Still others have proposed infrastructure expansions that would fit smaller tankers, and the Port of Corpus Christi intends to deepen and widen its ship channel.

Even with export demand projected to increase, many expect only some of the proposed new VLCC export terminals to ultimately be built.

"Is it a good business? Yes, it is. But I think the lion's share of the market is going to go to that first mover," said Jorge Piñon, a former oil executive who now directs the University of Texas at Austin's Latin America and Caribbean Energy Program.

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