

# N.D.'s flaring is getting Badlands to the bone

Before the home stretch of the 2014 political season, a new polyethylene manufacturing facility was announced to be constructed in North Dakota next year with completion in 2017. The announcement came from Badlands NGL, and the facility is estimated to cost over \$4 billion



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dollars which will be the largest private sector investment made in state history. That announcement clearly indicates a trend in natural gas and infrastructure that will change the future of North Dakota for generations.

First is the economic investment. It is a remarkable time in North Dakota when CHS makes a then-record \$3 billion dollar fertilizer facility announcement only to be upstaged a week later by Badlands NGL. Badlands' \$4.2 billion announcement became largest private sector investment made in state history. Off-the-record, energy officials and experts are indicating there are more billion dollar announcements coming to the Bakken in the future.

Let's not forget about Hess, ONEOK and North Dakota LNG's announcements either. Overall we are talking about \$10-15 billion dollars in natural gas infrastructure being invested into North

Dakota. This is a trend in the Williston Basin that Badlands NGL's, LLC Chairman and CEO William Jeffrey Gilliam understands.

"North Dakota elected officials and agencies have provided Badlands with by far the most business-friendly and pro-development environment in the United States," Gilliam said. "We have been fortunate to attract many of North Dakota's leading business and community leaders as Badlands investors."

Second is flaring. The value-added manufacturing facility will use the Williston Basin's surplus of NGL sourced ethane gas coming out as a byproduct of oil production. According to Gilliam, the NGL facility will significantly reduce

the amount of natural gas flared into the atmosphere addressing some of the environmental and market concerns.

"The state and the nation have a huge over surplus of ethane, and what we are looking at doing is building a 1.5 million metric ton ethane gas to polyethylene plant here in North Dakota," Gilliam said. "We are looking at that and getting it done hopefully by the end of 2017. We believe right now we are running out of places to sell ethane gas, what this is going to do is not only give us places to sell it so that drilling can continue at the same pace it is going, but also in fact provide better markets and better prices for ethane gas to producers here in the Williston Basin."

When asked whether the infrastructure in North Dakota is set up to handle this type of expansion and growth, Gilliam believes the challenges western North Dakota brings will be no issue at all in construction and execution of the project.

"The infrastructure in terms of building this facility we are going to have challenges," Gilliam said. "I don't think there is any question about that, but the good news is the engineering company we are working with Tecnicas Reunidas from

Madrid, Spain, and also with Vinmar projects the folks who are going to be buying the polyethanol from us, they're used to developing projects like this in more difficult and challenging environments that the United States and North Dakota. Tecnicas Reunidas has built major facilities in Siberia, they have \$2.5 billion dollars of backlog in western Canada right now. Vinmar is starting up

a polyethylene in Egypt this year. In some ways this is going to kind of almost seem like a walk in the park for them."

Third is the price and future of natural gas. North Dakota has been experiencing low natural gas prices for the past several years. Given the investment into natural gas, locally, nationally and globally, will these trends indicate a rise in the resource or even perhaps traded globally?

"Looking at the price of natural gas is a little bit outside our sphere, but we look at it just because it affects us," Gilliam said. "The most recent information we've gotten from a study that we have going on with RBM Energy in Houston right now is, if you look at the NYMEX curves they've been projecting prices get-



Submitted Photo

Official photo taken by the capitol photographer at the press conference announcing the project on October 13.

ting back up but they've been wrong every year for six years. I think if we look at right now the logical amount of gas that's going to be produced in the United States I would say the long term, five to six year forecast is either neutral to negative not positive. I don't think it is going to go up in price."

Then there is the regional and local impact with products and servicing of the facility. The ripple effect if you will. A quick overview of the Badlands facility's projections indicates it will convert the ethane to polyethylene, which is used to make a wide variety of end use consumer and industrial products. The facility will be able to produce 3.3 billion pounds annually and employ 500 in manufacturing, marketing, administrative, safety, financial and executive positions. Gilliam explains further who would be a potential customer of theirs too.

"For our polyethylene, someone who is compounding polyethylene resin into pipe that would go into the ground here," Gilliam said. "Someone who is making specialty film for food packaging or medical packaging. ... I will give you an example of how we think we are going to be a bit different than a major plant that Exxon builds or that Dow builds. Maybe we are building the same technology as they are but we are very, very actively looking to go to customers and ask customers to give us a tighter specification, give us a higher purity thing you'd like to see, and we think we can adapt ourselves to be a bit more customer sensitive be-

cause we only have one plant and Dow and Exxon have lots of plants. They're moving a bit more product than us. So I would say that if you look at the IHS Study for the state, folks that are closer to here than the Gulf Coast customers, in the Industrial Midwest, we think that customers like that who want to work folks like us that are willing to do new applications for them and everything. That's our perfect customer."

When asked about next year and whether the change in distribution of energy will be through rail or pipelines, Gilliam thought it would be the year of the pipe, with a little additional perspective.

"I think it will be more of the pipe than the rail (in 2015). I think with the crude oil pipelines that are either announced or look like they may be announced I think that is a necessary infrastructure thing," Gilliam said. "But I would point out something else, folks certainly are expressing concern about domestic crude prices right now, people say why is this happening? You know there is an interesting thing. Look at the amount of crude that we are producing in the United States today versus 10 years ago. But we have exactly the same number of refineries, and we have a law against exporting crude. If we don't have some solutions for more refineries and the ability to export, no matter how well we do with production, technology, this that and the other thing, I fear that we could start seeing a real ceiling on crude prices in this country. And it's a very artificial ceiling."