

Chapter 4

Natural Gas Liquids: What Are They, Where Do They Go, and Under What Contract Terms?

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§ 4.01. The Midstream Segment — What Is It?

[1] — The Natural Gas Industry Segments.

To provide context for the midstream segment, its function, and its importance to the natural gas industry requires an understanding of the other industry segments. For purposes of this chapter, there are four basic segments in the natural gas industry.

Production. The production segment involves the exploration and development of natural gas reserves, both offshore and onshore. Businesses in the production segment are expert in finding and exploring for recoverable (able to be produced) natural gas reserves and acquiring the right to drill, access, and produce those reserves in an efficient manner from subsurface formations usually owned by others. The right to explore and drill to recover natural gas reserves is usually acquired by the production company through a lease with the landowner who owns the natural gas in any number of subsurface formations. In exchange for this right, including the right to recover and sell the natural gas for profit, the production company pays the landowner a royalty, or percentage or portion of the realized proceeds from the sale of the natural gas.

The various forms of possible payments between the production company and landowner, and their calculation, are beyond the scope of this chapter. In recent years, the industry standard for such payments has been changing, as payments have become increasingly subject to negotiation. This is due, in part, to the general increase in public knowledge and understanding of the value of natural gas (including of the value of the liquids entrained therein) and the extent to which “shale plays” (drilling for natural gas in shale rock