

## Oh-Ho-Ho it's Magic – The Missing Link for Gulf Coast Crude

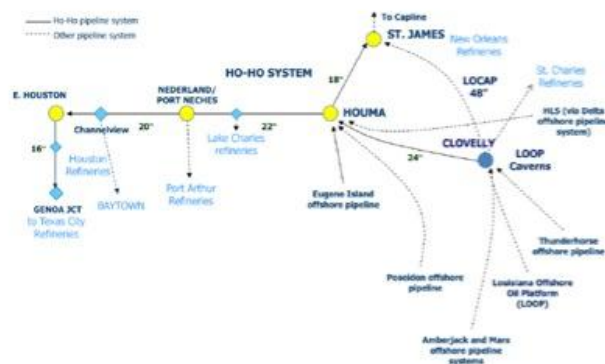
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Shell is progressing toward early 2013 completion of the Houston, TX to Houma, LA (Ho-Ho) pipeline reversal. Bakken and Canadian Crude via Cushing, Eagle Ford crude from South Texas and Permian Basin crude from West Texas pipeline projects will all be showing up in the Houston area early next year via new or expanded pipeline projects. The Ho-Ho reversal will provide a missing link for these crudes to flow seamlessly to Louisiana Gulf Coast refineries. Today we describe the Ho-Ho project and its significance.

### Current System

The map below shows the current Ho-Ho system that flows east to west from Louisiana to Texas. The Houma terminal is connected to the onshore storage and terminal facility at Clovelly that serves the Louisiana Offshore Oil Port (LOOP) as well as several Gulf of Mexico crude production systems. LOOP is a huge floating dock built to handle the largest crude vessels afloat – ultra large crude carriers (ULCC's) that can carry 2 MMBbl of oil. LOOP can import up to 1 MMBbl/day of crude (about 25 percent of daily Gulf Coast imports). Over 90 MMBbl of crude storage is located between Clovelly and St. James, including the LOOP salt dome caverns. Gulf of Mexico production from the Eugene Island, Poseidon and Heavy Louisiana Sweet (HLS) fields also flows into Houma. From Houma this crude either flows north and east to St. James, LA from where it can be transported north to Chicago on the Capline pipeline or west to refineries in Lake Charles, Port Arthur, Baytown, Houston and Texas City. Refineries in these markets consume over 4 MMb/d of crude.

CURRENT HO-HO SYSTEM WITH OFFSHORE FLOWS AND MAJOR DELIVERY POINTS



Source: Shell Open Season Data

### Ho-Ho Reversal

The Ho-Ho project reverses the flow of crude from Houston to Houma. Pipeline capacity from East Houston to Nederland (Port Arthur Refineries) will be 250 Mb/d and from Nederland to Houma will be 360 Mb/d. The existing Houma to St. James leg will stay unchanged with capacity of 260 Mb/d. The Houma to Clovelly leg will be reversed with 500 Mb/d capacity.

### Westward Ho

In addition to the Ho-Ho reversal, Shell is also moving ahead with a project to build a brand new westbound pipeline from St James to Nederland and Houston that will, in effect, replace the existing Ho-Ho east to west flow (see the detailed map below – the Westward Ho is shown as a dotted orange line). The Westward Ho project is still seeking shipper interest and is not expected to be online before 2015. The project plan calls for up to 900 Mb/d of capacity to move crude from St James (i.e. imports through LOOP and the offshore Gulf of Mexico production system) west to Port Arthur, Baytown, Houston and Texas City refineries.

## Significance

The Ho-Ho reversal project is part of a wholesale change in Gulf Coast pipeline infrastructure to facilitate the flow of domestic crude to market from growing shale production basins in North Dakota, the Permian Basin and the Eagle Ford. Much of this new crude production has been landlocked in the Midwest, together with growing Western Canadian crude supplies because there were no pipelines to move crude past the Cushing Oklahoma pipeline hub to the Gulf Coast refining center. That logjam has led to price discounts of \$20 /Bbl or more between Midwest crudes priced against West Texas Intermediate (WTI) and Gulf Coast crudes such as Light Louisiana Sweet (LLS) priced against the international Brent benchmark. Impatient crude producers and marketers have developed significant rail transport capacity to bypass this logjam and get their crude to the Gulf Coast as they wait for pipelines to be built. Crude production in the South Texas Eagle Ford basin has less far to travel to the Gulf Coast and those supplies have started to arrive in Houston but are not able to easily flow further west to Louisiana Gulf Coast refineries.

Ho-Ho is significant because it links together several key pipeline projects that are recently completed or under development to carry crude supplies into the Houston and Port Arthur area and provides a direct route for oil from these projects to reach the Louisiana refineries in and around the St James and Mississippi river basin region. The map below is a representation of how the Ho-Ho reversal will link together new pipelines into Houston and Port Arthur. The map is quite detailed so if you have difficulty reading it you can download a PDF version via the link at the end of the blog (let us know at [info@rbnenergy.com](mailto:info@rbnenergy.com) if you can't download the map and we will send you a copy).



Source: Shell Open Season data and RBN Energy

The Ho-Ho reversal project is the blue line running left to right across the map from East Houston to Houma. On the left side of the map, there is a pipeline link into the East Houston terminal flowing north from Genoa Junction. The Genoa terminal can receive crude flowing east from the Enterprise Rancho pipeline that links the new (2012) Enterprise 350 Mb/d pipeline bringing crude from the Eagle Ford (see [Knocking on Heaven's Door Part II](#)). Rancho also intersects with the southbound Enterprise and Enbridge (50/50) Seaway pipeline that was reversed earlier in 2012 to bring 150 Mb/d of crude south from Cushing (see [Seaway Reversal](#)).

The proposed Keystone XL Gulf Extension pipeline, due in service in 2014 will bring another 700 Mb/d of crude (mostly Canadian heavy) from Cushing to Houston, linking with Ho-Ho just east of the Houston terminal. The Magellan Longhorn reversal will bring 225 Mb/d of Permian Basin crude to Houston in two phases during 2013 connecting to the East Houston terminal. A further 80 Mb/d of Permian crude will arrive in Houston early in 2013 via the Nederland and Houston terminals of the Energy Transfer Partners West Texas Gateway project increasing by another 90 Mb/d later in 2013 with the Permian Express project. (For more details on the Permian Basin pipeline projects see [The New Adventures of Good Ole Boy Permian](#)).

The Eastern terminal of the Ho-Ho project, to the right on our map, is linked as we said earlier to St James. This will allow crude flowing east from the Eagle Ford and Permian basins to enter the Capline pipeline flowing north to Patoka and Chicago Midwest markets. Ho-Ho will also allow the flow of Bakken crude from North Dakota down Seaway or Keystone from Cushing across the Gulf Coast to St James. There are two important points to note here. First the link to St James allows pipeline flow of shale condensate from the Eagle Ford and Bakken basins directly into Capline where it can flow north to Flanagan and up to Western Canada on the Southern Lights pipeline for use as diluent for Canadian bitumen crude (see [Fifty Shades Lighter](#)). Seems kind of crazy to us for Bakken crude to come as far south as St James and then head north again to Canada on Capline but stranger things have happened. The second point to note is that Ho-Ho facilitates direct pipeline flow from North Dakota to St James LA that should undercut the cost of transporting crude by railcar from the Bakken. As we have seen that railcar traffic currently plays a prominent role in overcoming logistic challenges getting crude out of North Dakota before pipeline links are completed (see [A Tank Car Train for Hire Part II](#)).

The Westward Ho project is equally significant because it re-establishes westbound flow from LOOP and St James to the Texas coastal refining centers that the Ho-Ho reversal will halt in early 2013. In the short term, this westbound flow could be considered less important because the new domestic and Canadian crude production that the Ho-Ho reversal brings to Louisiana should effectively replace imports through LOOP. However, growing offshore Gulf of Mexico production from the Mars, Jack, St. Malo, and Big Foot fields will benefit from regaining access to Texas markets via Westward Ho. During the interim period between the Ho-Ho reversal and the Westward Ho getting completed in 2015, Gulf of Mexico offshore production coming ashore in Louisiana will have no means of flowing to Houston by pipeline. Texas coastal refineries currently reliant on imports via LOOP will have to make alternative arrangements for their supplies. These constraints may

cause some pricing anomalies and storage build in Louisiana.

Thinking about all these changes in crude flows is enough to give us a headache. Making sense of it all means working through the incoming and outgoing flows to understand the consequences for Texas and Louisiana refinery supply. That's what we will do next time in Part II of Oh-Ho-Ho it's Magic.

Its Magic (Whoa-Oh-Oh) was recorded in 1974 by Pilot

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