MIDSTREAM Monitor

Nov. 14, 2014 | Volume 32 | Issue 45

‘Age of Gas’ Nears For Energy Business

By Paul Hart, Editor-In-Chief

A new “age of gas” may be dawning in the worldwide energy industry that will alter assumptions about supply, demand and cost, a GE Oil & Gas economist told the INGAA Foundation at its annual meeting. The Dana Point, Calif., conference, marking the organization’s 25th anniversary, attracted some 350 attendees.

Michael Farina, senior marketing leader for the General Electric Co. unit, opened the meeting’s keynote address by saying that “gas is at the center of the energy industry” now and that has “created a number of megatrends” that will impact existing assumptions. With degrees in economics from the University of Colorado and Colorado State University, Farina was director of natural gas consulting at Cambridge Energy Research Associates before joining GE.

"Gas is an important part of where the world is going and we need to go out and talk about that," he told the INGAA Foundation members—not just within the oil and gas business but more broadly with energy consumers, governments and other interest groups. He projected that gas could fill 26% of the world's primary energy supply by 2030, moving in front of coal, oil, nuclear, renewables and other basic energy sources.

Attractive gas prices and stable supply will, in time, back out demand for fuel oil, coal and other energy sources, he predicted.

Farina pointed to four key drivers of a move toward greater gas usage—supply diversity, environmental impact mitigation, the growth of worldwide infrastructure network, and growing cooperation and collaboration among suppliers, infrastructure operators and consumers.

Supply diversity is of particular concern to midstream operators, such as INGAA members, he said. Distributed supply sources from multiple areas are creating a need for new and repurposed assets. Gas processing and transportation networks worldwide continue to evolve from simple point-to-point systems, to hub-and-spoke networks, and finally to multiple, linked networks.

Collaboration with customers, in particular the power industry, is a necessity, Farina said, adding some power firms view recent government moves to limit coal's use as a temporary trend. Some power generation executives worry that gas supplies will fall in outlying years and that will cause prices to rise to the point where coal will again be competitive. That would make construction of new gas-fired power plants, or conversion of existing coal-fired plants, uneconomic.

"Gas has to hit a sweet spot, a strike zone, where the price is high enough to support investment and supply but low enough to be competitive," he said.

The Marcellus and Utica plays in the Northeast U.S. "are one of the big stories, we have gone from shortage to abundance," Farina said. Those two plays, coupled with growing production from other North American unconventional sources, could easily move domestic production from around 72 billion cubic feet per day (Bcf/d) this year to more than 100 Bcf/d by 2020 or shortly thereafter. Development of unconventional shales abroad lingers at primary stages but could have a significant impact in outlying years.

For the U.S. to reach a 100 Bcf/d level, five things need to occur. Farina said the shale plays must produce in the long term, gas infrastructure (particularly in the Northeast) must grow, the U.S. must have a stable power-sector policy, development of a gas-based transportation fuel industry must happen and there needs to be a more complete integration of a North American gas grid, he said. Combined, "this will create a tremendous opportunity for investment," he predicted.

Abundant North American gas supplies stand ready to greatly impact the worldwide market for gas and that can happen through a gas "network evolution. That is one of the key themes and North America is ahead of the curve," compared to other gas-producing nations, in supplying its infant LNG export industry, he said.

Summarizing his presentation, Farina told the INGAA meeting that “we have a historic story to tell.” Conveying the gas story, and responding to its potential, will allay the fears of the power industry and other potential gas customers.

Judge Shuts Down Resistance To Kinder Morgan Merger

By Deon Daugherty, Associate Editor

With a ruling by Delaware Chancery Court Judge Travis Laster, the $44 billion mega-merger of Kinder Morgan’s internal roll-up is on track for a Nov. 20 shareholder vote.

Including the assumption of debt, combining the Kinder Morgan companies puts a $71 billion value on the deal.

Some shareholders are concerned about tax implications of the merger, among ofther factors.

The injunction was sought by some unitholders related to the merger transaction in which the corporation, or general partner, Kinder Morgan Inc. will acquire all of the publicly-held shares and units of Kinder Morgan Energy Partners, Kinder Morgan Management LLC and El Paso Pipeline Partners. The judge said in the ruling that, according to the language of the partnership agreement, the merger only requires the affirmative vote of a majority of the outstanding limited partner units “voting together as a single class.”

Some investors had filed a class action lawsuit against the pipeline giant, alleging the transaction would create unexpected—and significant—tax impacts. Although the judge’s order allows the Nov. 20 vote to take place, it doesn’t end the potential for litigation.

CEO Rich Kinder said management expects the deal to close by Thanksgiving.

"We believe merging the companies benefits our shareholders and unitholders, simplifies the Kinder Morgan story by transitioning to one security and paves the way for superior growth at KMI for years to come," Kinder said in a statement. "KMI projects a dividend of $2.00 per share for 2015, a 16% increase over the budgeted 2014 KMI dividend target of $1.72 per share, and the company expects to grow the dividend by approximately 10% each year from 2015 through 2020 while producing excess coverage of over $2 billion."

Legal wrangling

In other Kinder Morgan legal news, lawyers representing the company's Trans Mountain pipeline have filed an injunction and a $6 million lawsuit for lost revenue against five people to stop protestors who are holding up survey work on Burnaby Mountain in British Colombia. Expansion of the pipeline between Alberta and the coast of British Columbia would almost triple capacity to almost 900,000 barrels of oil per day (bbl/d).

According to a story on CBCNews in Canada, a teenager recently chained himself under a Kinder Morgan worker's vehicle, confronting a pipeline survey crew, telling them, "Go back to Texas."

A Diverse Midstream Faces Supply-Demand Imbalance

By Paul Hart, Editor-In-Chief

The midstream's job today amounts to nothing less than "repiping North America," according to a wide-ranging midstream panel discussion featured at the INGAA Foundation's 2014 annual meeting.

Mike McGonagill, senior vice president and COO for Alliance Pipeline, served as panel moderator and made that observation as he opened the panel session. "Things have totally changed in this business" from a few years ago, he added, before multiple unconventional plays changed the future of North America's energy business.

Joining McGonagill were Tony Chovanec, senior vice president, fundamentals and supply, Enterprise Products Partners LP; Greg Floerke, senior vice president, northeast region, MarkWest Energy Partners LP; and Chris Humes, vice president of operations, Crestwood Midstream Partners LP.

Chovanec observed that in addition to diverse growth demands, the midstream itself is a diverse business with multiple, interlocking functions. "The midstream is hard to describe—we don't all look alike," he told the conference, held in Dana Point, Calif.

Growth is the big midstream story now, he added, pointing out Enterprise alone has built or converted the use of some 6,000 miles of pipe in the last six years, focusing on NGL and crude oil systems. The firm's current projects include an ethane-only system around the Gulf Coast that will supply the growing petrochemical capacity of that region. "That's all about demand," he said of the ethane system, noting growing ethane demand caused Enterprise to have to move from batch ethane movements to the new, dedicated system.

"At Enterprise, we spend as much time on the demand side of the equation as we do the supply side of the equation," he added. "And make no mistake, gas is very well supplied."

The firm's buildout will help meet the growing demand for U.S. exports moving abroad from the Gulf Coast. "We are already the largest exporter of propane in the world," Chovanec pointed out, in addition to the firm's construction of one of the first ethane-export terminals in the world at Morgan's Point on the Houston Ship Channel—as well as its much-publicized processed condensate exports, which started in the third quarter. Morgan's Point is scheduled to open in the third quarter of 2016 and will have a capacity of 200,000 barrels per day (bbl/d).

On the supply side, he noted the firm has a staff of geologists and petroleum engineers to monitor where production will come from "and they have helped us make investment decisions over the years."

Floerke focused on a region that may see the greatest midstream change of any right now—the Northeast. MarkWest's assets are at the center of the Marcellus-Utica production region and, as a result it has become a keen observer of the region's upstream and midstream trends.

"We do gather, we do compress, but the heart of our business is processing, that's cryogenic to remove the gas from the liquids stream, then fractionation to break the liquids down into its pieces," he explained, noting MarkWest assets were in place before the shale boom.

"Coal was king in the area when we started and there was some associated gas with that production," Floerke said, noting a much smaller MarkWest had gathering and processing assets in place when the shale plays "were barely being talked about."

Since that time, the region has seen "exponential" growth in production and the accompanying midstream capacity required to gather, process and transport it. MarkWest alone now has 2.5 billion cubic feet per day (Bcf/d) of gas processing capacity in the Marcellus, generating some 200,000 bbl/d of NGL output, he said. It has a smaller footprint in the nearby Utica but capacity there has grown rapidly, nearing 1 Bcf/d.

Following on Chovanec's comments about ethane demand, Floerke noted that some 55% of NGL supply in the region is ethane, which must find a market "and the economics for ethane recovery are not very good right now," he said. "The ability to blend an ethane-rich gas stream is becoming tougher and tougher" for residue gas pipelines. Such ethane-focused pipelines as ATEX and Mariner West are midstream's response to that supply-demand imbalance.

But ethane is not a strictly midstream issue, Floerke said, adding "the issue goes back to the well pad and will become the controlling factor" in future growth of the Marcellus and Utica plays, he predicted.

Humes discussed the diverse regional operations of Crestwood, which has assets from coast to coast. Crestwood has functions in two operating groups, natural gas and crude oil-NGL, that operate in four geographic regions, Northeast, Central, Rocky Mountain and California.

He added the firm operates in the four major functions of the midstream value chain: gathering, processing, transportation and storage. Its regulated gas group transports some 2.1 Bcf/d and its unregulated, gathering network moves approximately 2.5 Bcf/d and cryogenically processes 600 million cubic feet per day.

"We're trying to grow organically or with bolt-on acquisitions" in the current robust midstream business, Humes added. Even though geographically diverse, Crestwood sees the Northeast "as one of our biggest growth areas" as the Marcellus and Utica develop and require new transportation capacity— a region he called "the most prolific natural gas play in history."

He said the firm projects the region to be producing 20 Bcf/d by 2020 with some 1 million barrels per day of NGL. "And it just takes a long time to get a piece of pipe permitted up there," he added, making the necessary midstream buildout more difficult.

In contrast to the gas-related supply and demand issues in the Northeast, Crestwood is responding to primarily oil- and liquids-related capacity demand in the Bakken and Niobrara. It is, however, adding a new 200 MMcf/d processing plant serving Niobrara productions in Wyoming.

Its projection for the central region, covering the Barnett and Fayetteville plays, is for production to remain flat in the near future. Crestwood is adding new gas processing capacity on the New Mexico side of the Permian Basin. To the north, it's adding capacity in the Granite Wash in the Texas Panhandle.

Spectra Shines With Strong Fundamentals

By Joseph Markman, Associate Editor

The sun rises over Spectra Energy Corp.'s Kingsport LNG terminal in Kingsport, Tenn., a component of the company's expansion plans. (Source: Spectra Energy Corp.)

A weak Canadian dollar cut into Spectra Energy Corp.'s earnings in the third quarter, but both the Houston-based company and its MLP, Spectra Energy Partners LP (SEP), posted results that beat estimates.

Spectra's ongoing EBITDA in the quarter slipped to $704 million from $758 million recorded in third-quarter 2013, while SEP delivered $401 million, a $51 million jump from its EBITDA of the same quarter last year.

"This trend will continue with future drop-downs," said Pat Reddy, CFO for both entities, during a recent conference call to discuss results with analysts. "But while we will lose net income, Spectra Energy will continue to benefit from the growth in GP and LP distributions from [DCP Midstream Partners LP (DPM)]. In addition, DCP [Midstream LLC] had lower gains associated with the issuance of DPM units compared with last year's quarter."

Spectra's distributable cash flow of $236 million beat 2013's 3Q performance by $10 million. The expectation of distribution on full-year coverage to be 1.5 times is on schedule and ahead of the company's original 1.4 times estimate. SEP posted DCF of $247 million for the quarter, on track for 1.2 times on a full-year basis.

Spectra’s stock close of $39.08 as of Nov. 6 is up 9.7% for the year, ahead of many of its peers. Kinder Morgan Inc. is up 7.0%, CenterPoint Energy is up 7.6%, Questar is up 5.3% and ONEOK is up 2.8% so far in 2014. SEP’s stock has jumped ahead by 25.7% since the start of the year.

The collective target price from analysts following the company is $41.56 and the average rating is hold.

Spectra is looking at $35 billion of expansion projects between 2013 and 2020, of which $16 billion is already in play. Among them:

Kingsport expansion project in East Tennessee;

Spraberry supply lateral off the Sand Hills NGL line;

Access South and Adair Southwest projects in the Texas Eastern pipeline;

Stratton Ridge, a component of the Gulf Coast LNG project;

Dawn to Parkway transmission pipeline in Ontario, Canada;

“Our U.S. transmission business has made great strides towards its $3 billion in expansion project goal, getting very close to that target at this point,” said Greg Ebel, chairman, president and CEO of Spectra. “Year to date, the business has secured $2.3 billion of new projects.”

Ebel pointed to strong fundamentals underpinning the company’s prospects.

“Keep in mind, the projects we’re delivering are firm, fixed-fee projects, with very long-term contracts,” he said. “We've got the financial strength and flexibility to continue executing on our expansion plans and we’re able to move quickly and decisively to optimally leverage our structure and our balance sheet. And we’re able to finance all this growth with an advantaged cost of capital vs. our peers.”

Frac Spread: Crude Downturn Continues To Hurt NGL Prices

By Frank Nieto, Senior Editor

Crude oil prices continue to fall as geopolitical issues impact both the West Texas Intermediate (WTI) and Brent markets. The WTI price fell below $75 per barrel (/bbl), nearing a level that could halt some U.S. unconventional production.

While a halt is unlikely over the short term, an extended dip below $70/bbl would raise that fear. The bottoming out of crude prices, which has resulted in backwardation, should improve in second-half 2015 as lower prices increase demand.

Until crude prices improve, it is likely that heavy NGL prices will also feel similar pains. Pentanes-plus (C_{5+}) prices have fallen 36% in the past six months to $1.54 per gallon (/gal) at Conway and 30% to $1.58/gal at Mont Belvieu during the same period.

Butane and isobutane experienced similar price decreases. Mont Belvieu prices have lost about 20 cents/gal in value in the past six months while the product has lost about 14 cents/gal in value at Conway.

Propane prices experienced a price drop at both hubs following another period of abnormally warm weather throughout most of the country the weekend of Nov. 8. Prices for the week fell 5% at Mont Belvieu to 85 cents/gal, its lowest price since the week of June 26, when it had the same value. The Conway price fell 3% to 92 cents/gal, its second highest price in a month. The Conway market is more dependent on propane as a heating and crop-drying fuel, hence the higher price than the Gulf Coast price.

Ethane prices improved at both hubs as the return of some cracking capacity is helping increase demand. The Conway price rose 9% to 21 cents/gal, its highest price since it was 22 cents/gal the week of Sept. 17. The Mont Belvieu price increased 4% to 23 cents/gal, its highest price since the first week of October when it was also 23 cents/gal.

Natural gas prices showed improvement ahead of the expectation for increased heating demand as the price increased 10% to $4.09 per million Btu (/MMBtu) at Conway and 9% to $4.17/MMBtu at Mont Belvieu.

According to Barclays Capital, this rapid price rebound was due to the colder-than-normal temperatures being experienced throughout the country. However, the investment firm anticipates normal range-bound expectations for the rest of this quarter.

"Looking over the longer-term, with storage ending October at 3.571 trillion cubic feet (Tcf) and production growth set to continue, supply should be ample over the course of the winter and we expect to end the withdrawal season in March 2015 marginally above the average since 2007—helping the market forget that March 2014's low storage level ever happened," Barclays Capital said in a recent research note.

Indeed, levels continue to grow at impressive rates. The U.S. Energy Information Administration reported that storage increased by 40 billion cubic feet to 3.611 Tcf the week of Nov. 7 from 3.571 Tcf the previous week. This was only 6% off the 3.831 Tcf figure posted last year at the same time and 6% below the five-year average of 3.848 Tcf. These figures are impressive given the major pull on storage levels this past winter.

While gas prices have increased ahead of heating season, NGL prices have taken a drastic downturn and resulted in frac spread margins experiencing downturns. The theoretical NGL bbl price fell 2% to $34.23/bbl at Conway with a 9% drop in margin to $19.29/bbl. The Mont Belvieu price experienced a sharper drop in price with a 4% decline to $33.03/bbl with a 12% decrease in margin to $17.80/bbl.

The most profitable NGL to make at both hubs remained C_{5+} at $1.09/gal at Conway and $1.12/gal at Mont Belvieu. This was followed, in order, by isobutane at 84 cents/gal at Conway and 69 cents/gal at Mont Belvieu; butane at 72 cents/gal at Conway and 66 cents/gal at Mont Belvieu; propane at 55 cents/gal at Conway and 47 cents/gal at Mont Belvieu; and ethane at negative 6 cents/gal at Conway and negative 5 cents/gal at Mont Belvieu.

The National Weather Service anticipates colder-than-normal temperatures along the East Coast and throughout the Midwest and into the Gulf Coast the week of Nov. 19, which should push gas prices further up.

NGL PRICES						
Mont Belvieu	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Nov. 5 - 11, '14	23.14	84.84	108.92	110.08	157.90	**$33.03**
Oct. 29 - Nov. 4, '14	22.34	89.62	110.82	112.78	167.60	**$34.31**
Oct. 22 - 28, '14	20.72	85.92	107.42	110.04	169.10	**$33.47**
Oct. 15 - 21, '14	21.20	90.00	108.26	109.30	169.32	**$34.07**
October '14	21.83	94.21	113.04	114.47	176.33	**$35.53**
September '14	23.16	106.29	125.24	127.18	205.79	**$40.15**
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	**$40.27**
2nd Qtr '14	29.26	106.55	124.12	130.23	222.81	**$42.31**
1st Qtr '14	34.50	129.51	137.62	141.49	212.60	**$46.16**
4th Qtr '13	26.76	119.81	142.56	145.02	210.66	**$44.03**
Nov. 6 - 12, '13	24.21	118.50	142.40	145.16	204.28	**$43.04**
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Nov. 5 - 11, '14	21.27	92.24	113.96	124.60	154.06	**$34.23**
Oct. 29 - Nov. 4, '14	19.50	95.24	112.22	128.12	161.00	**$34.77**
Oct. 29 - Nov. 4, '14	18.70	90.78	107.98	127.50	161.90	**$33.93**
Oct. 15 - 21, '14	19.50	92.12	109.12	128.40	164.10	**$34.46**
October '14	19.40	97.19	113.57	133.12	169.66	**$35.78**
September '14	21.84	105.44	124.74	139.34	199.45	**$39.94**
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	**$40.18**
2nd Qtr '14	26.26	105.44	121.26	163.00	221.62	**$42.62**
1st Qtr '14	25.46	169.48	132.08	147.10	216.86	**$49.93**
4th Qtr '13	20.19	122.54	144.49	147.58	205.01	**$43.33**
Nov. 6 - 12, '13	18.90	120.12	141.64	145.28	195.50	**$41.98**

CURRENT FRAC SPREAD (CENTS/GAL)				
November 14, 2014	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	21.27		23.14	
Shrink	27.12		27.65	
Margin	-5.85	-13.23%	-4.51	-44.50%
Propane	92.24		84.84	
Shrink	37.46		38.20	
Margin	54.78	-10.45%	46.64	-14.33%
Normal Butane	113.96		108.92	
Shrink	42.41		43.24	
Margin	71.55	-2.85%	65.68	-7.50%
Isobutane	124.60		110.08	
Shrink	40.74		41.53	
Margin	83.86	-7.91%	68.55	-8.03%
Pentane+	154.06		157.90	
Shrink	45.36		46.25	
Margin	108.70	-9.22%	111.65	-10.69%
NGL $/Bbl	34.23	-1.56%	33.03	-3.72%
Shrink	14.94		15.23	
Margin	19.29	-8.94%	17.80	-12.24%
Gas ($/mmBtu)	4.09	9.95%	4.17	8.59%
Gross Bbl Margin (in cents/gal)	44.04	-9.35%	40.76	-12.58%
NGL Value in $/mmBtu (Basket Value)				
Ethane	1.17	9.08%	1.27	3.58%
Propane	3.20	-3.15%	2.95	-5.33%
Normal Butane	1.23	1.55%	1.18	-1.71%
Isobutane	0.78	-2.75%	0.69	-2.39%
Pentane+	1.99	-4.31%	2.04	-5.79%
Total Barrel Value in $/mmbtu	8.37	-1.17%	8.12	-3.38%
Margin	4.28	-9.89%	3.95	-13.47%

RESIN PRICES – MARKET UPDATE – NOVEMBER 14, 2014					
TOTAL OFFERS: 11,051,856 lbs		**SPOT**		**CONTRACT**	
Resin	**Total lbs**	**Low**	**High**	**Bid**	**Offer**
LDPE - Film	3,264,588	0.77	0.91	0.75	0.79
LLDPE - Film	1,848,668	0.735	0.86	0.74	0.78
HDPE - Blow Mold	1,485,932	0.78	0.82	0.72	0.76
HDPE - Inj	1,363,104	0.79	0.85	0.72	0.76
PP Copolymer - Inj	832,460	0.77	0.885	0.81	0.85
LLDPE - Inj	584,736	0.81	0.86	0.74	0.78
LDPE - Inj	485,920	0.83	0.83	0.77	0.81
HMWPE - Film	440,920	0.86	0.86	0.74	0.78
PP Homopolymer - Inj	308,368	0.805	0.89	0.8	0.84

Shell Acquires Land For Pa. Ethane Cracker

Shell Chemical LP exercised its option to acquire land in Monaca, Pa., which could be used to build a $4 billion world-scale ethane cracker in the heart of the Marcellus Shale, from Horsehead Holding Corp. The site currently houses a former zinc plant that would need to be torn down. Details on the purchase, including closing date and purchase price, were not disclosed.

Company officials were quick to point out that this acquisition is not an indication that Shell will construct the cracker, but is instead another step in the decision-making process. The company needs to own the land in order to continue along with permitting applications and other studies.

"This is not a final decision," Shell spokeswoman Kimberly Windon said in a statement. "This step means that we have determined the site is suitable if we decide to build the proposed cracker." The company will make a final investment decision once necessary permits are obtained.

Should Shell proceed with construction, the facility would have a capacity of 1.5 million tons per year of ethylene and include three polyethylene units when it would come online in 2019.

While Shell's proposed cracker has garnered most of the attention, it is not the only proposal in the region. Last month at Penn State's Gas Utilization Conference in Canonsburg, Pa., David Peebles, vice president of the Odebrecht Group, said that his company's proposed Ascent Project in Parkersburg, W.Va. was not in direct competition with the Shell cracker project as there is enough gas in the region to support multiple projects.

Jim Cutler, CEO of Appalachian Resins, echoed similar sentiment when he told *Midstream Business* in September that his company was moving its proposed 600 million pounds per year cracker from Madison County, W.Va., to Monroe County, Ohio.

Azure Midstream Files MLP IPO

Azure Midstream Holdings LLC, a midstream natural gas gathering and processing company based in Dallas, announced the filing of a registration statement for the initial public offering of common units representing limited partner interest in its newly formed, wholly owned subsidiary, Azure Midstream Partners LP. The company intends to contribute a significant equity ownership interest in its East Texas and North Louisiana midstream assets to the MLP.

Azure's asset base serves numerous producers in the Haynesville, Cotton Valley and Bossier formations via its 1,365 miles of gathering and compression system. The intended use of proceeds from the offering is to reduce indebtedness at the operating company that holds Azure's midstream assets. The offering is expected to occur in the first quarter of 2015.

The partnership intends to apply to list the common units on the New York Stock Exchange under the ticker symbol “AZUR.” The number of common units to be offered and the price range for the offering have not yet been determined.

Citigroup and BofA Merrill Lynch are acting as joint book-running managers for the proposed offering. The offering will be made by only means of a prospectus.

Cheniere To Obtain $1.5 Billion In Financing

Cheniere Energy Inc. entered into a subscription agreement with RRJ Capital II Ltd. under which investment funds managed by RRJ will purchase a total of $1 billion in unsecured convertible payable in kind notes issued by Cheniere. RRJ will have the right to transfer a portion of the convertible notes to Temasek Holdings Ltd. and its affiliates. Proceeds will be used to fund a portion of the costs of developing, constructing and placing into service the Corpus Christi liquefaction project, which is being designed for up to three trains with an expected aggregate annual production capacity of approximately 13.5 million tons per year, related pipeline infrastructure, and general corporate purposes.

The convertible notes will have a maturity of six and a half years, and accrue interest at a rate of 4.875% per year, which is payable in-kind by increasing the principal amount of the convertible notes outstanding. The notes will be convertible into the common stock of Cheniere at an initial conversion price of $93.64, which represents 130% of the closing price of the common stock of Cheniere on Nov. 10, 2014.

"RRJ is making a substantial investment in Cheniere in connection with our Corpus Christi liquefaction project. RRJ was a significant equity investor in our Sabine Pass liquefaction project and we look forward to working with them again," said Charif Souki, chairman and CEO of Cheniere. "This investment satisfies a portion of the equity needed to finance the Corpus Christi liquefaction project. We continue to make progress on the project and expect to commence construction in early 2015."

Closing is expected to occur Nov. 28, 2014, subject to customary closing conditions.

China’s Move With US On Pollution Spurs Climate Deal

Bloomberg

The U.S. and China announced a joint plan to reduce carbon emissions on Nov. 11, ahead of next year’s U.N. climate change summit in Paris.

China's decision to move with U.S. President Barack Obama in reining in greenhouse gases jump-starts the global fight against climate change, removing an excuse for inaction in developing nations.

Chinese President Xi Jinping broke ranks with India, Brazil and South Africa in setting a target for the first time to reduce fossil-fuel emissions by 2030. Obama pledged to double the pace of cutting carbon dioxide starting in 2020.

The U.S. and China are the biggest polluters, responsible for almost 40% of greenhouse gas emissions.

"This unrealistic plan, that the president would dump on his successor, would ensure higher utility rates and far fewer jobs," Mitch McConnell of Kentucky, the Republican leader in the Senate, said in a statement from his office in Washington.

Environmental groups were also skeptical the diplomatic breakthrough will be enough to hold global warming to 2 degrees Celsius since the industrial revolution, the guideline endorsed by world leaders as the maximum that can be safely endured.

The new targets mean that emissions in the U.S. and China will converge by 2030 at 12 tons per capita, more than double the global average today, according to India's Centre for Science and Environment.

The deal, announced by Obama and Xi in Beijing, is significant for the U.S. because it starts to remove one of the reasons Congress in Washington had not to act on climate.

The Senate opposed then-President Bill Clinton's effort to ratify the 1997 Kyoto Protocol because it set limits for industrial nations only and left none for developing nations including China and India.

Obama's attempts to pass cap-and-trade legislation to limit carbon emissions during his first term were blocked by Congress. This time around, Obama plans to bypass Congress using existing legislation and his regulatory powers, the White House said.

To date, developing countries have resisted setting pollution targets, saying richer nations that created the problem should move first. India, Brazil and South Africa have called for the UN to consider the historical emissions of all nations in fixing how much each country should act. Even so, they've agreed to come up with contributions to a new deal by the end of March.

The UN-led process underway envisions all nations setting pledges in the first quarter. That will lead to a deal in Paris in December 2015, which will take affect starting in 2020, when the current limits in the Kyoto Protocol lapse. The European Union has promised to cut emissions by 40% by 2030 from 1990 levels, the most ambitious program announced to date.

Enterprise Products, Oiltanking Partners Announce Merger Agreement

Enterprise Products Partners LP and Oiltanking Partners, LP entered into a merger agreement. Under the terms of the merger agreement, Oiltanking Partners would merge with a subsidiary of Enterprise in a unit-for-unit exchange. Unitholders of Oiltanking Partners (other than Enterprise and its subsidiaries) would receive 1.3 Enterprise common units for each Oiltanking Partners common unit.

This exchange ratio represents a 5.6% premium to Oiltanking Partners unitholders based on the respective closing prices for Enterprise and Oiltanking Partners common units on Sept. 30, 2014, the day before the merger was originally proposed. Relative to the respective closing prices for Enterprise and Oiltanking Partners common units on Nov. 10, 2014, the day before the parties entered into the merger agreement, the 1.3 exchange ratio represents a 10.4% premium to Oiltanking Partners unitholders. Based on the latest cash distribution declared by Enterprise and Oiltanking Partners with respect to the third quarter of 2014, this exchange ratio would result in a 74% increase in cash distributions for Oiltanking Partners unitholders.

Upon completion of the merger, which is expected to occur in early 2015, the total consideration paid by Enterprise for the Oiltanking Partners general partner and related incentive distribution rights and the limited partner units would be approximately $6 billion.

Contact Information:

FRANK NIETO Senior Editor
fnieto@hartenergy.com

Contributing Editors: Velda Addison, Darren Barbee, Nissa Darbonne, Deon Daugherty, Rhonda Duey, Caroline Evans, Bethany Farnsworth, Dale Granger, Leslie Haines, Mary Hogan, Paul Hart, Susan Klann, Caryn Livingston, Mike Madere, Joseph Markman, Richard Mason, Emily Moser, Jack Peckham, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Bryan Sims, Kristie Sotolongo, Steve Toon, Theresa Ward, Scott Weeden, Peggy Williams

Graphic Designer: Felicia Hammons

ORDER TODAY!

Call: **1-212-608-9078** I Fax: **1-212-608-9357**

HARTENERGY

1616 S. Voss, Suite 1000 • Houston TX 77057-2627 • USA

Copyright 2014. All rights reserved. Reproduction of this newsletter, in whole or in part, without prior written consent of Hart Energy is prohibited. Federal copyright law prohibits unauthorized reproduction by any means and imposes fines up to $100,000 for violations. Permission to photocopy for internal or personal use is granted by Hart Energy provided that the appropriate fee is paid directly to Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923. Phone: 978-750-8400; Fax 978-646-8600; E-mail: info@copyright.com.