

# MIDSTREAM

## Monitor

Dec. 31, 2014 | Volume 32 | Issue 50

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## Analysts Predict Price-Induced Pain In 2015

*By Joseph Markman, Associate Editor*



The post-November OPEC meeting swoon in oil prices has deflated the market value of many midstream players and darkened the 2015 outlook for three in particular—Breitburn Energy Partners LP, Midcoast Energy Partners LP and Targa Resources Partners LP.

That's the assessment of Global Hunter Securities following its year-end visit with executives. While many midstream players expressed confidence to GHS analysts that production of crude and NGL would continue to grow, the company's recently released report reflected concern that weak global demand growth could persist in rattling commodity markets.

“We are moving to the sideline for both [Breitburn] and [Midcoast],” Sunil Sibal, New York-based director and senior MLP/energy infrastructure analyst, wrote in explanation of his downgrades from “accumulate” to “neutral.” “For [Breitburn] we believe that the distribution levels are unsustainable in the current commodity price environment and are modeling a ~40% distribution cut from current levels which we believe will allow the management to work through the weak commodity price cycle. For MEP, our move to the sidelines is driven by the expectation that the management’s distribution growth guidance will likely prove aggressive due to commodity price headwinds.”

While Sibal believes that Targa will meet its 2015 distribution growth guidance of 11% to 13%, his downgrade from “buy” to “accumulate” reflects the possibility of continued weakness in commodity markets, which GHS expects.

“Our models incorporate an average WTI [West Texas Intermediate] and natural gas price of \$67 per barrel [/bbl] and \$3.76 per thousand cubic feet [/Mcf] for 2015 per our E&P team expectations,” Sibal wrote. “We are modeling an average NGL/WTI crude price ratio of ~40.0% in 2015, which results in a price of \$0.65/gal for the composite NGL barrel. For 2016, our estimates incorporate \$69.50/bbl WTI, \$3.80/Mcf natural gas and \$0.69/gal for the composite NGL bbl.”

If that price outlook appears to be bleak, it’s sunshine and rainbows compared to the potential of a trading range between \$20/bbl and \$50/bbl for crude, as presented by Anatole Kaletsky, chief economist of Hong Kong-based GaveKal Dragonomics, in a *Reuters* blog.

“Technological and environmental pressures are reducing long-term oil demand and threatening to turn much of the high-cost oil outside the Middle East into a ‘stranded asset’ similar to the earth’s vast unwanted coal reserves,” Kaletsky wrote. “Additional pressures for low oil prices in the long term include the possible lifting of sanctions on Iran and Russia and the ending of civil wars in Iraq and Libya, which between them would release additional oil reserves bigger than Saudi Arabia’s on to the world markets.”

The GHS report also listed MLPs boasting traits that it favors heading into 2015:

Higher cash flow contribution from fee-based activities: Enterprise Product Partners LP, Western Gas Partners LP, Enbridge Energy Partners LP;

Low direct sensitivity to crude oil price changes in 2015 and 2016: Enterprise, Plains All American Pipeline LP, Enbridge;

High distribution coverage: Enterprise, Western Gas; and

Exiting 2014 with low leverage: Enterprise, Targa.

# Freight Costs Likely To Increase In 2015

*By Deon Daugherty, Associate Editor*



Although the first half of 2014 saw Bakken crude profits strain under the economics of crude-by-rail, as new tank car regulations and requirements at the wellhead kick in during 2015, production from North Dakota crude could be further hit in its netbacks, said analysts at RBN Energy LLC in a note to investors.

Crude netbacks, the market price minus the transport cost from the wellhead, could diminish in 2015 as the movement of choice in the Bakken region—specifically, rail—becomes more expensive and the price of oil, well, tanks.

RBN noted that production in the Bakken has skyrocketed 270% during the last three years. During that period of growth one of the greatest challenges has been moving the crude to the markets. Sparsely populated North Dakota isn't a huge consumer and the state is far from the nation's large refining centers.

When the pipelines weren't moving hydrocarbons fast enough from the Cushing, Okla., hub, crude-by-rail worked to the Bakken's benefit.

"Railroads appeared to be solving the North Dakota crude transport challenge while producers waited for slower pipeline infrastructure to be built out," analyst Sandy Fielden wrote. "And for the East and West Coast markets where pipeline infrastructure seems unlikely to get built because of geography (the Rockies) or population density (East Coast), rail provided a 'pipeline on wheels' to get stranded crude to refineries."

But fears that followed railroad derailments, including one in the small town of Lac-Megantic outside Quebec that left dozens dead, slowed the Bakken's crude-by-rail surge, RBN said. What's more, the economics of riling Bakken crude to coastal markets was struck by narrowing price differentials

between the Midcontinent crude's WTI benchmark, which is priced in Oklahoma, compared to coastal crudes priced at the Gulf Coast, and international Brent, which sets prices on the East Coast, RBN said.

"When coastal crude prices were much higher than WTI, it made sense to pay higher rail freight costs to ship crude to those markets," Fielden said. "As the difference between WTI and coastal crudes narrowed, so did the incentive to use rail transport."

And it's in the cost-conscious environment that appears to be shaping 2015, higher transportation costs will weigh on rates of return, which RBN said will leave the Bakken more vulnerable than other basins closer to coastal markets.

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## Report: Tank Car Rules Could Prove Costly

*By Paul Hart, Editor-In-Chief*



A new research report found that proposed federal railroad tank car safety standards will be costly to implement and also will increase air pollution. It added the impact on both crude oil and ethanol shipments could be substantial.

The report, prepared by The Brattle Group for the Railway Supply Institute's Committee on Tank Cars, was presented to the U.S. Pipeline and Hazardous Materials Safety Administration (PHMSA) in December. The economic research firm said the PHMSA rules, if implemented, could cost the U.S. economy as much as \$60 billion in added transportation expense.

Much of that higher cost would come because of the necessity to shift crude and ethanol transport to more-expensive trucks as rail tank cars go into short supply. Trucks would need to take on new loads as existing tank cars are removed from service for modifications or are retired before new cars could replace them.

“The numbers show that almost two-thirds of rail tank cars will need to be idled for some period of time during the proposed modification program,” said Dr. Kevin Neels, a principal at Brattle and a co-author of the report. “Almost 1 million tank car years of capacity could be lost due to early retirement and idle time associated with cars awaiting modification.”

The report estimated the shift could result in 65,000 trucks carrying an additional 1.4 million loads during 2018 alone. It also said trucks, less efficient than trains, could result in 11 million additional tons annually of CO<sub>2</sub> going into the atmosphere.

Such a significant shift in transport methods may not even be feasible, the report determined. “If the modal shift is not feasible, up to 300 million barrels (bbl) of oil and 100 million bbl of ethanol would be at risk of being stranded or production levels reduced,” the Railway Supply Institute, the sponsoring rail industry trade group, said in an announcement.

The report noted indirect effects of the proposed new regulations could be “severe,” including decreased crude production and higher fuel prices. Constraints on ethanol shipments—given the federal government’s mandate for adding alcohol to gasoline—could magnify gasoline price problems.

“The proposed regulations reduce the ability of the existing fleet to provide rail transportation of flammable liquids through four distinct mechanisms,” the report said. “First, while tank cars are in the shop undergoing modification, they are unavailable for revenue service. Second, some fraction of the existing fleet is expected to be retired from flammable liquids service rather than modified. Third, tank cars that cannot be modified by the stated deadline will be unable to comply with the provisions of the proposed regulations, and so will have to be removed from service until such time as they can be modified. Finally, some sub-fleets are expected to experience a loss of capacity as a result of the modification process.”

Brattle’s report, entitled “A Review of the Pipeline and Hazardous Materials Safety Administration’s Draft Regulatory Impact Analysis,” was conducted from September through November. The research group analyzed available data on North America’s current and proposed fleet of tank cars.

The report said PHMSA underestimated overall costs of implementing the new tank car rules that would likely occur if the agency’s proposal for fleet modifications is mandated.

Also, it determined PHMSA overstated benefits of the new rules in such key areas as accident rates and liquid volumes spilled per incident. Brattle added the agency underestimated direct compliance costs, underestimated the size of the fleet requiring modification, and assumed that unsubstantiated economies of scale would reduce modification costs.

Most important of all, the report said PHMSA did not account for the loss of rail transportation of crude and ethanol production that could occur if tank cars cannot be modified by its deadlines.

“The Railway Supply Institute Committee on Tank Cars is committed to aiding in the creation of a comprehensive industry response that will enhance the safe transportation of crude oil and ethanol by rail,” said Tom Simpson, president of the trade group. “Our experts have submitted a tank car-related proposal to PHMSA that will do just that. We have been calling on DOT [U.S. Department of Transportation] since 2011 to identify tank car standards that can be efficiently and rapidly implemented.”

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## Texas Railroad Commission Revises Rule For Pipeline Common Carrier Permits

*By Ty Johnson and Kirstin Gibbs, Bracewell & Giuliani LLP*



The Texas Railroad Commission (TRRC) recently promulgated certain rule amendments designed to clarify how much information a pipeline operator must file to be classified, for TRRC regulation purposes, as a common carrier or a private pipeline.

The revisions require pipeline operators to substantiate their claim to be a common carrier or private pipeline when applying for a permit. Currently, the permit application, known as a T-4, requires the pipeline applicant only to “mark [the] appropriate block” to establish its classification as a common carrier or private pipeline. The revised rule, however, will add new informational requirements and certifications that a pipeline operator must submit. Specifically, for a new application the applicant must provide a sworn statement providing the operator’s factual basis supporting the classification and purpose being sought for the pipeline, including an attestation to the applicant’s knowledge of the eminent domain provisions in the Texas code. In addition, the applicant must provide documentation supporting the classification and purpose being sought.

The revised rule also provides that a pipeline must renew an existing permit annually by filing an application for a pipeline permit accompanied by (1) contact information for an individual who can respond to questions; (2) a statement confirming the current classification and purpose of the pipeline as a common carrier, gas utility, or private pipeline, and (3) any other information requested by the TRRC.

The proposed rule garnered numerous comments, several of which the TRRC included in the final rule, but many were rejected as raising issues outside the scope of the TRRC's jurisdiction or as otherwise unnecessary. Specifically, the TRRC *declined* to:

Expand its application process to encompass an investigation and an adversarial testing of the common carrier assertions made by the pipeline;

Establish standards of proof of common carrier status, including (a) documentation of third-party shippers, and (b) whether "common carrier" should be defined to address affiliate issues;

Establish standards for revoking common carrier status;

Include a public notice and hearing requirement for an application;

Assess a fee to support TRRC staffing and review of applications; and

Extend the timeline allowed for TRRC review of an application.

Notably, the revised rule does not provide an administrative mechanism by which third-parties can challenge the classification of a pipeline as a common carrier. The TRRC stated that such action should be brought in court as the TRRC does not have the authority to render such a decision. Further, the TRRC clarified that the issuance of a T-4 permit classifying a pipeline as a common carrier does not preempt a challenge to that pipeline's status in court.

The TRRC also provided commentary on the nature of a T-4 permit. The TRRC stated that a T-4 permit is only a permit to operate an intrastate pipeline, and it is not a permit for construction, nor is it authorization to exercise eminent domain authority in the acquisition of a right-of-way. The TRRC explained that it uses the T-4 permit process to classify a pipeline so it can exercise the specific statutory authority application to each pipeline within its jurisdiction. An example of such application might be ensuring that common carriers pipelines have filed a tariff with the TRRC.

The TRRC's revised rule follows a 2012 Texas Supreme Court decision in which the court found that a carbon dioxide pipeline, owned by Denbury Green Pipeline-Texas LLC, did not qualify as a common carrier. In *Denbury*, the court found that the issuance of a T-4 permit to a pipeline, with the "common carrier" box checked, does not necessarily grant the pipeline common carrier status. To qualify for common carrier status, the pipeline had to show a "reasonable probability" that the pipeline at some point would serve the public and that this burden fell on the pipeline. The Texas Supreme Court sent the issue back to the lower court for further review, and in March 2014, a state district court judge agreed

that Denbury had submitted adequate support for its common carrier status. The case remains on appeal.

The new rule will take effect on March 1, 2015.

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## Frac Spread: Propane Facing Rough 2015

*By Frank Nieto, Senior Editor*



As 2014 drew to a close, NGL prices experienced positives for the first time in more than a month as ethane prices surged the week of Dec. 17 and only saw a small decrease in value the final week of the year.

The NGL market also benefited from a downturn in gas prices as ethane frac spread margins rose significantly to the point where they are almost theoretically positive. It is unlikely that margins will turn to a positive state in the first half of 2015 as the market is still working to restore balance after cracking capacity was limited throughout 2014 with both scheduled and unscheduled turnarounds. Though capacity has largely returned, it will take some time to work of the storage overhang that built up in the past 12 months.

Conway ethane rose 15% from 15 cents per gallon (/gal) in the first full week of December to 18 cents/gal the last full week of the month. The Mont Belvieu price experienced a 14% improvement during the same time period, as the price improved from 16 cents/gal to 18 cents/gal.

One potential headwind facing ethane margins is the possibility that increased propane cracking could undermine a return to balance of the ethane market. "Ethane prices are showing signs that they are detaching from natural gas prices, but there is a very long road ahead before ethane frac spreads turn positive out in the field. Increases in ethane cracking and greater ethane rejection are starting to put



support under spot ethane prices despite the rapid fall in gas prices,” En\*Vantage said in its *Weekly Energy Report* for Dec. 25.

The biggest headwind facing ethane is the potential for it to lose its status as the preferred feedstock. Propane, butane and naphtha are all making gains among ethylene manufacturers due to lower prices. According to En\*Vantage, propane cracking could increase by more than 400,000 barrels per day (bbl/d) in the spring as the fundamentals for propane remain very weak. Even with increased heating demand, propane will need improved LPG export demand to work off the huge storage figures and restore balance to the market. Despite lower Mont Belvieu propane prices, LPG prices in Europe and Asia are not supportive of increased export levels at this time.

Propane ended 2014 with a 7% decrease in price to 52 cents/gal at Mont Belvieu and an 11% decrease to 46 cents/gal at Conway. Both prices are the lowest in more than a decade. While it is likely that improvements will occur with improved heating demand, it will take some time for prices to fully recover.

Heavy NGL prices fell at a faster rate than crude prices, and are pushing frac spread margins well down in value. Though margins for butane, isobutane and C<sub>5+</sub> are firmly positive, they are at their lowest levels in years. This occurred despite the accelerated drop in gas prices, which fell 7% to \$3.01 per million Btu (/MMBtu) at Conway and 5% to \$3.02/MMBtu at Mont Belvieu.

The most profitable NGL to make at both hubs was C<sub>5+</sub> at 73 cents/gal at Conway and 72 cents/gal at Mont Belvieu. This was followed, in order, by isobutane at 52 cents/gal at Conway and 40 cents/gal at Mont Belvieu; butane at 48 cents/gal at Conway and 37 cents/gal at Mont Belvieu; propane at 19 cents/gal at Conway and 24 cents/gal at Mont Belvieu; and ethane at negative 2 cents/gal at both hubs.

Natural gas storage levels decreased by 26 billion cubic feet to 3.22 trillion cubic feet (Tcf) the week of Dec. 26 from 3.246 Tcf the previous week, according to the U.S. Energy Information Administration. This was 8% higher than the 2.988 Tcf posted last year at the same time and 3% below the five-year average of 3.301 Tcf.

<b>NGL PRICES</b>						
<b>Mont Belvieu</b>	<b>Eth</b>	<b>Pro</b>	<b>Norm</b>	<b>Iso</b>	<b>Pen+</b>	<b>NGL Bbl</b>
Dec. 24 - 30, '14	18.16	51.50	68.25	69.68	105.48	<b>\$21.53</b>
Dec. 17 - 23, '14	18.31	55.12	70.30	72.10	109.56	<b>\$22.43</b>
Dec. 10 - 16, '14	16.30	54.06	67.68	69.16	115.94	<b>\$22.21</b>
Dec. 3 - 9, '14	15.62	57.76	78.40	79.22	130.58	<b>\$24.37</b>
November '14	23.50	88.90	111.20	112.90	164.60	<b>\$34.22</b>
October '14	21.83	94.21	113.04	114.47	176.33	<b>\$35.53</b>
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	<b>\$40.27</b>
2nd Qtr '14	29.26	106.55	124.12	130.23	222.81	<b>\$42.31</b>
1st Qtr '14	34.50	129.51	137.62	141.49	212.60	<b>\$46.16</b>
4th Qtr '13	26.76	119.81	142.56	145.02	210.66	<b>\$44.03</b>
Dec. 25 - 31, '13	32.44	126.82	138.10	138.94	216.66	<b>\$45.75</b>
<b>Conway, Group 140</b>	<b>Eth</b>	<b>Pro</b>	<b>Norm</b>	<b>Iso</b>	<b>Pen+</b>	<b>NGL Bbl</b>
Dec. 24 - 30, '14	18.25	46.15	79.40	81.73	106.73	<b>\$22.08</b>
Dec. 17 - 23, '14	19.27	51.86	83.76	82.00	111.60	<b>\$23.49</b>
Dec. 10 - 16, '14	15.05	52.36	76.36	78.00	115.90	<b>\$22.66</b>
Dec. 3 - 9, '14	15.33	56.60	88.78	95.42	129.28	<b>\$25.23</b>
November '14	20.00	95.80	113.00	129.00	156.50	<b>\$34.68</b>
October '14	19.40	97.19	113.57	133.12	169.66	<b>\$35.78</b>
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	<b>\$40.18</b>
2nd Qtr '14	26.26	105.44	121.26	163.00	221.62	<b>\$42.62</b>
1st Qtr '14	25.46	169.48	132.08	147.10	216.86	<b>\$49.93</b>
4th Qtr '13	20.19	122.54	144.49	147.58	205.01	<b>\$43.33</b>
Dec. 25 - 31, '13	19.40	144.06	150.64	152.80	220.50	<b>\$47.28</b>

<b>NGL PRICES</b>						
<b>Mont Belvieu</b>	<b>Eth</b>	<b>Pro</b>	<b>Norm</b>	<b>Iso</b>	<b>Pen+</b>	<b>NGL Bbl</b>
Dec. 17 - 23, '14	18.31	55.12	70.30	72.10	109.56	<b>\$22.43</b>
Dec. 10 - 16, '14	16.30	54.06	67.68	69.16	115.94	<b>\$22.21</b>
Dec. 3 - 9, '14	15.62	57.76	78.40	79.22	130.58	<b>\$24.37</b>
Nov. 26 - Dec. 2, '14	19.52	69.30	92.10	93.07	141.20	<b>\$28.16</b>
November '14	23.50	88.90	111.20	112.90	164.60	<b>\$34.22</b>
October '14	21.83	94.21	113.40	114.47	176.33	<b>\$35.53</b>
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	<b>\$40.27</b>
2nd Qtr '14	29.26	106.55	124.12	130.23	222.81	<b>\$42.31</b>
1st Qtr '14	34.50	129.51	137.62	141.49	212.60	<b>\$46.16</b>
4th Qtr '13	26.76	119.81	142.56	145.02	210.66	<b>\$44.03</b>
Dec. 18 - 24, '13	31.89	126.06	137.18	137.34	214.80	<b>\$45.36</b>
<b>Conway, Group 140</b>	<b>Eth</b>	<b>Pro</b>	<b>Norm</b>	<b>Iso</b>	<b>Pen+</b>	<b>NGL Bbl</b>
Dec. 17 - 23, '14	19.27	51.86	83.76	82.00	111.60	<b>\$23.49</b>
Dec. 10 - 16, '14	15.05	52.36	76.36	78.00	115.90	<b>\$22.66</b>
Dec. 3 - 9, '14	15.33	56.60	88.78	95.42	129.28	<b>\$25.23</b>
Nov. 26 - Dec. 2, '14	15.50	71.57	102.83	108.97	145.20	<b>\$29.22</b>
November '14	20.00	95.80	113.00	129.00	156.50	<b>\$34.68</b>
October '14	19.40	97.19	113.57	133.12	169.66	<b>\$35.78</b>
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	<b>\$40.18</b>
2nd Qtr '14	26.26	105.44	121.26	163.00	221.62	<b>\$42.62</b>
1st Qtr '14	25.46	169.48	132.08	147.10	216.86	<b>\$49.93</b>
4th Qtr '13	20.19	122.54	144.49	147.58	205.01	<b>\$43.33</b>
Dec. 18 - 24, '13	19.30	139.30	153.88	153.96	217.40	<b>\$46.68</b>

<b>CURRENT FRAC SPREAD (CENTS/GAL)</b>				
<b>January 2, 2015</b>	<b>Conway</b>	<b>Change from Start of Week</b>	<b>Mont Belvieu</b>	<b>Last Week</b>
Ethane	18.25		18.16	
Shrink	19.96		20.02	
<b>Margin</b>	-1.71	20.45%	-1.86	31.20%
Propane	46.15		51.50	
Shrink	27.57		27.66	
<b>Margin</b>	18.58	-16.59%	23.84	-8.61%
Normal Butane	79.40		68.25	
Shrink	31.21		31.32	
<b>Margin</b>	48.19	-4.14%	36.93	-1.32%
Isobutane	81.73		69.68	
Shrink	29.98		30.08	
<b>Margin</b>	73.35	3.86%	39.60	-2.28%
Pentane+	106.73		105.48	
Shrink	33.38		33.49	
<b>Margin</b>	73.35	-3.21%	71.99	-3.25%
NGL \$/Bbl	22.08	-6.01%	21.53	-4.03%
Shrink	11.00		11.03	
<b>Margin</b>	11.08	-5.21%	10.50	-3.27%
Gas (\$/mmBtu)	3.01	-6.81%	3.02	-4.73%
Gross Bbl Margin (in cents/gal)	24.38	-5.71%	23.79	-3.51%
<b>NGL Value in \$/mmBtu (Basket Value)</b>				
Ethane	1.00	-5.29%	1.00	-0.82%
Propane	1.60	-11.01%	1.79	-6.57%
Normal Butane	0.86	-5.21%	0.74	-2.92%
Isobutane	0.51	-0.33%	0.43	-3.36%
Pentane+	1.38	-4.36%	1.36	-3.72%
Total Barrel Value in \$/mmbtu	5.35	-6.40%	5.32	-4.04%
<b>Margin</b>	2.34	-5.87%	2.30	-3.11%

<b>CURRENT FRAC SPREAD (CENTS/GAL)</b>				
<b>December 26, 2014</b>	<b>Conway</b>	<b>Change from Start of Week</b>	<b>Mont Belvieu</b>	<b>Last Week</b>
Ethane	19.27		18.31	
Shrink	21.41		21.02	
<b>Margin</b>	-2.14	73.91%	-2.71	64.85%
Propane	51.86		55.12	
Shrink	29.59		29.04	
<b>Margin</b>	22.27	10.22%	26.08	24.79%
Normal Butane	83.76		70.30	
Shrink	33.50		32.87	
<b>Margin</b>	50.26	25.78%	37.43	24.18%
Isobutane	82.00		72.10	
Shrink	32.17		31.57	
<b>Margin</b>	49.83	15.77%	40.53	22.42%
Pentane+	111.60		109.56	
Shrink	35.82		35.16	
<b>Margin</b>	75.78	-1.55%	74.40	-1.83%
NGL \$/Bbl	23.49	3.68%	22.43	0.98%
Shrink	11.80		11.58	
<b>Margin</b>	11.69	18.88%	10.85	20.70%
Gas (\$/mmBtu)	3.23	-7.98%	3.17	-12.43%
Gross Bbl Margin (in cents/gal)	25.86	19.83%	24.65	22.62%
<b>NGL Value in \$/mmBtu (Basket Value)</b>				
Ethane	1.06	28.04%	1.01	12.33%
Propane	1.80	-0.95%	1.91	1.96%
Normal Butane	0.90	9.69%	0.76	3.87%
Isobutane	0.51	5.13%	0.45	4.25%
Pentane+	1.44	-3.71%	1.41	-5.50%
Total Barrel Value in \$/mmbtu	5.72	4.85%	5.54	2.06%
<b>Margin</b>	2.49	28.04%	2.37	31.03%

RESIN PRICES – MARKET UPDATE – DECEMBER 31, 2014					
TOTAL OFFERS: 10,012,812 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HMWPE - Film	2,998,256	0.715	0.76	0.67	0.71
HDPE - Blow Mold	2,391,404	0.68	0.74	0.64	0.68
LDPE - Film	1,874,944	0.72	0.77	0.66	0.7
LLDPE - Film	895,472	0.72	0.765	0.66	0.7
HDPE - Inj	790,460	0.63	0.735	0.67	0.71
PP Homopolymer - Inj	784,092	0.76	0.79	0.73	0.77
LLDPE - Inj	190,000	0.77	0.77	0.68	0.72
LDPE - Inj	88,184	0.73	0.73	0.71	0.75

Source: Plastics Exchange – [www.theplasticsexchange.com](http://www.theplasticsexchange.com)

## Veresen Forms Veresen Midstream With KKR

Veresen Inc. announced the formation of a new entity, Veresen Midstream Limited Partnership, which will be owned equally by Veresen and affiliates of global investment firm Kohlberg Kravis Roberts & Co. LP (KKR). Veresen Midstream entered into definitive agreements to acquire certain natural gas gathering and compression assets supporting Montney development in the Dawson area of British Columbia from Encana Corp. and the Cutbank Ridge Partnership (CRP). CRP is a partnership between Encana and Cutbank Dawson Gas Resources Ltd., a subsidiary of Mitsubishi Corp.

Veresen Midstream also agreed to undertake up to CA\$5 billion (US\$4.29 billion) of new midstream expansion for Encana and CRP in the Montney region under a 30-year fee-for-service arrangement. Veresen Midstream will be Veresen's primary growth vehicle for its Canadian natural gas and NGL midstream business.

Key highlights of the transaction include:

Establishing Veresen Midstream in the core of the Montney, one of North America's most prolific and competitive resource plays;

Requiring no up-front funding from Veresen; Veresen Midstream will be funded through committed non-recourse debt and a cash equity contribution from KKR, while Veresen will fund its equity investment by contributing its Hythe/Steeprock assets valued at US\$790 million;

Providing Veresen Midstream with a large, multi-year capital program to build contracted midstream infrastructure under favorable economic terms, and a platform to pursue additional third-party growth opportunities;

Establishing a long-term, fee-for-service gas gathering, compression and processing agreement with Encana and CRP; and

Establishing that cash flow will be neutral to Veresen in 2015, but accretive as Veresen Midstream's new capital projects enter service.

In addition to cash on hand, acquisition of this infrastructure will also be funded from new Veresen Midstream credit facilities.

Veresen Midstream and CRP will enter into a midstream services agreement with respect to the newly acquired infrastructure and future infrastructure to be built within an area of mutual interest. Veresen will provide day-to-day management of Veresen Midstream.

These transactions are expected to close in first-quarter 2015 and are subject to normal closing conditions, including receipt of approvals under the Competition Act and the Investment Canada Act.

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## **Reliance Makes Shipping Deal With Mitsui For Ethane Import Project**

Reliance Industries Ltd., India's largest private company, signed shipping agreements with Japanese transport company Mitsui O.S.K. Lines Ltd. (MOL) for the transport of liquefied ethane from North America to India.

Under the agreement, MOL will supervise the construction of six very large ethane carriers ordered by Reliance. MOL will also operate and manage the vessels after they are built and delivered.

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## **Oil Trades Near Lowest Since '09 With Supply At Year-End Record**

*Bloomberg*

Oil traded near the lowest since 2009 amid speculation that U.S. crude inventories will stay at the highest for the time of year in at least three decades.

West Texas Intermediate fell as much as 1.7% before erasing losses. U.S. stockpiles are projected to remain at 387.2 million barrels (MMbbl) during the last week of the year, the highest for the period in

data going back to 1982, a *Bloomberg News* survey shows before government data. U.S. oil drillers idled the most rigs since 2012 during the week of Dec. 22 to 26, Baker Hughes Inc. said on its website.

Oil has slumped 46% during 2014, set for the biggest annual decline since 2008, as the highest U.S. production in more than three decades contributed to a global surplus estimated by Qatar at 2 million barrels a day (MMbbl/d). Saudi Arabia, which is steering OPEC to resist cutting output, has said it's confident that prices will rebound as economic growth boosts demand.

## Crude inventories

U.S. crude inventories have risen to almost 13% above the five-year average level of 343.1 MMbbl for this time of year, Energy Information Administration (EIA) data showed. Supplies of gasoline and distillate, including diesel and heating oil, were expected to increase, according to the *Bloomberg* survey.

U.S. domestic production expanded to 9.14 MMbbl through Dec. 12, the most in weekly data that started in January 1983, according to the EIA.

The slide in oil prices has contributed to the steepest annual slide in the ruble since 1998, given crude is Russia's main export earner. OPEC has so far resisted calls from cash-strapped Venezuela to act and stem the rout in prices.

U.S. production growth may slow next year as companies reduce spending and drilling, said James Williams, an economist at WTRG Economics, an energy-research firm in London, Arkansas.

U.S. rigs targeting oil declined by 37 to 1,499 in the week ended Dec. 26, the lowest since April, Baker Hughes said on its website, extending the three-week decline to 76.

## Bullish investors

The low prices have led bargain-seeking investors to turn bullish on embattled energy stocks, plowing record amounts into the industry.

More than \$3.13 billion went into exchange-traded funds holding stakes in Exxon Mobil Corp., Schlumberger Ltd. and other energy stocks in December, according to data compiled by *Bloomberg*. That's four times the average for the year and more than the prior record in December 2007, when oil was trading near \$91 a barrel.

Investors are betting on a higher long-term price for crude oil. Brent, the global benchmark, has traded around \$60 a barrel since mid-month, after dropping by half from its June high. A stabilization in futures prices since Dec. 15 has helped energy stocks rebound for the past two weeks.



## Alaska Halting Development Of North Slope Transmission Line

Declining crude prices resulted in spending cuts on several major projects in Alaska as the state is attempting to deal with a \$3.5 billion budget deficit. These projects include the Alaska Stand Alone Pipeline, a 727-mile, 36-inch diameter natural gas transmission line that will connect North Slope production to the ENSTAR Pipeline.

“The state’s fiscal situation demands a critical look and people should be prepared for several of these projects to be delayed and/or stopped,” a spokesman for Gov. Bill Walker told *The Alaska Dispatch*.

The project, which is key to the development of a pipeline to transport gas from the North Slope to the Lower 48 states, has not been cancelled, but additional funding and related hiring and contracting have been ceased. The state will continue to fund salaries and contractually required spending related to the project for the time being. It is expected that a decision on the long-term outlook for this and other projects will be decided in early 2015.

While the state’s coffers are currently well stocked at just under \$10 billion, lower oil prices are expected to negatively impact economic activity in the state, thus lowering the amount of taxable income available.

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## US Easing Of Oil Exports Challenges OPEC’s Strategy

*Bloomberg*

The Obama administration’s move to allow exports of ultralight crude without government approval may encourage shale drilling and thwart Saudi Arabia’s strategy to curb U.S. output, further weakening oil markets, according to Citigroup Inc.

A type of crude known as condensate can be exported if it is run through a distillation tower, which separates the hydrocarbons that make up the oil, according to U.S. government guidelines published on Dec. 29. That may boost supplies ready to be sold overseas to as much as 1 million barrels a day (MMbbl/d) by the end of 2015, Citigroup analysts led by Ed Morse in New York said in an emailed report.

Saudi Arabia led OPEC to maintain its production quota at a November meeting even as a shale boom boosted U.S. output to the highest in more than three decades. That prompted speculation OPEC was willing to let prices fall to force some companies with higher drilling costs to stop pumping.

“U.S. producers are under the gun to reduce capital expenditures given lower prices,” Citigroup said in the report. “Now an export route provides a new lease on life that can further weaken crude oil markets and throw a monkey wrench into recent Saudi plans to cripple U.S. production.”

Current U.S. export capacity is at about 200,000 bbl/d, which could be expanded to 500,000 bbl/d by the middle of 2015, according to the bank.

## Oil embargo

While the guidelines on the website of the Commerce Department’s Bureau of Industry and Security are the first public explanation of steps companies can take to avoid violating export laws, they don’t mean an end to the ban on most crude exports, which Congress adopted in 1975 in response to the Arab oil embargo.

“While government officials have gone out of their way to indicate there is no change in policy, in practice this long-awaited move can open up the floodgates to substantial increases in exports by end-2015,” Citigroup said. The U.S. produces about 3.81 MMBbl/d of light and ultralight crude, according to the bank.

Oil producers have been testing the prohibition on crude exports as U.S. output surged amid technological advances that have opened up shale rock formations to development in Texas, North Dakota and elsewhere. The government earlier this year signaled a new way to export oil by approving permits for Pioneer Natural Resources Co. and Enterprise Products Partners LP to sell processed condensate.

The guidelines seek to clarify how the Commerce Department will implement export rules and follow a “review of technological and policy issues,” Eric Hirschhorn, the undersecretary for industry and security, said in a statement.

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