HART
GAS PROCESSORS REPORT
Global Gas & NGL Must-Read Projects, Prices & Feedstock and Product Market Intelligence

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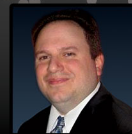

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API's Gerard: U.S. Economy Needs Gas, Oil Production to Thrive

Rather than increasing costs for U.S. natural gas and oil producers through increased taxes and regulatory costs, the United States government should be improving access to domestic oil and gas reserves to improve the economy, according to Jack Gerard, president and CEO of the American Petroleum Institute (API).

To back this claim up while speaking last week in Washington, D.C. to discuss its *State of American Energy* report, Gerard also cited a Wood Mackenzie study that stated increased access to currently restricted energy-rich regions would create new jobs, help to grow the economy and increase revenue to the government.

The Wood Mackenzie study, titled *Energy Policy at a Crossroads: An Assessment of the Impacts of Increased Access Versus Higher Taxes on U.S. Oil and Natural Gas Production, Government Revenue and Employment,* was sponsored by API. It found that if access to these areas were increased by 2035, there would be an additional 530,000 jobs while adding US$150 billion in taxes and increase domestic production by 4 million barrels of oil equivalent per day (boe/d).

Should the country continue to hinder access to these resources while also raising taxes on the oil and gas industries, the study stated would reduce domestic production by 700,000 boe/d by 2020 while eliminating as many as 170,000 jobs by 2014. In addition, these policies could cause producers to halt production on marginally economical plays thus reducing domestic production by as much as 1.7 million boe/d.

"U.S. oil and natural gas companies are a major force in our economy and, with the right policies in place, could drive even greater economic benefits. These companies produce most of the nation's energy, put millions of people to work and deliver billions in taxes and royalties to our government," he said.

The regions that the study included that are currently off-limits to producers are the eastern Gulf of Mexico, parts of the Rockies, the Arctic National Wildlife Refuge (ANWR) and the Atlantic and Pacific Outer Continental Shelves.

"Our industry is eager to initiate new projects. But without an adequate level of business certainty, with concerns about policies that might curtail this industry's ability to access new resources, those projects might never get off the drawing board. Companies need to know they can get access to the domestic resources where oil and natural gas can be developed," he said.

In This Week's Edition of Gas Processors Report

FEATURE
API's Gerard: U.S. Economy Needs Gas, Oil Production to Thrive

INSIDE LOOK AT PROCESSING TRENDS
MarkWest Liberty to Build Third Marcellus Processing Plant

Chesapeake Energy to Reduce Long-Term Debt by 25%

Q4 2010 Frac Spread: Ethane, Iso-butane, C_{5+} Saw Greatest Improvements

MIDSTREAM NEWS
Kinder Morgan, Copano Further Expand Eagle Ford JV

Armstrong Takes Helm of Williams

Talisman, Gasco Fined for Environmental Violations

FRACTIONATION SPREAD
Mont Belvieu Margins Outperform Conway Counterparts

BOX SCORE
Ethane Prices Fall at Both Hubs as Producers Switch to Propylene

PIPELINE NEWS
Bear Tracker Energy to Build, Own, Operate Bakken Gas Gathering System

INTERNATIONAL NEWS
Noble Energy Discovers Second Large Gas Field in Israel as Gov't Seeks to Increase Taxes on Gas

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Gerard said that until producers know the requirements for permits and how to gain access to these lands that they will look elsewhere in the world to develop their projects taking jobs and revenue with them.

The study also assumed increased taxes of $5 billion in the scenario of those areas not being open. This increased taxation level was higher than the figures that were bandied about last year by the U.S. Congress and Obama Administration.

"[W]hat we do this year could have a profound impact on our country's energy future…and with it, our economic prosperity," he said while noting that even in a challenging economic environment that the energy industry has been able to create 57,000 new good-paying, stable jobs in Pennsylvania and West Virginia alone in developing the Marcellus shale; North Dakota ranked number one in Gallup's Job Creation Index due to its oil production; oil and gas companies invested over $2 trillion in the last decade; and the industry provides over $95 million daily to the U.S. government in the form of taxes, rent, royalties and bonus payments.

> "Every sector of the economy depends on affordable energy, every business owner, every worker, every household and family member, every consumer depends on affordable, reliable supplies of oil and natural gas."
>
> – Jack Gerard
> President and CEO,
> American Petroleum Institute

While all of these developments are obvious boons to the U.S. economy, Gerard noted that without policies designed to encourage the continued production of oil and gas in the country then the outlook will get "gloomier."

"Our report contains a wealth of facts and figures about the state of American energy. But its conclusion is this: Energy growth is economic growth. Energy security is economic security. And when we invest in energy, we invest in America…With the right policies in place at all levels of government, our industry stands ready to be the engine of economic growth and recovery this country needs in 2011 and for decades to come," Gerard said.

He also noted that the continued production of oil and gas isn't just important for the country from an economic recovery point of view, but also to help the economy thrive and not drop to further lows. Gerard said that U.S. Energy Information Administration's *International Energy Outlook 2010* projects global energy consumption increasing by nearly 50% between 2007 and 2035 while oil and gas will continue to meet nearly 50% of all domestic and global energy demand until 2035.

"Every sector of the economy depends on affordable energy, every business owner, every worker, every household and family member, every consumer depends on affordable, reliable supplies of oil and natural gas," he said.

While some policymakers and parts of the public may view oil and natural gas as not being as "clean" as other fuel sources, Gerard noted that not only are these fuel sources expected to continue to be the dominant fuel sources globally, but that the increased use of natural gas will help curb carbon emissions.

"We can build an even more vibrant natural gas sector. With a clean burning, abundant and affordable resource, the political will must be there to make it a reality," he said. In addition, he noted that the oil and gas industries spent $58.4 billion in low- and zero-emissions technologies, including solar, geothermal, biofuels, fuel cells, hydrogen power and wind energy, from 2000 to 2008. "That's more than either the federal government or all other U.S.-based private industries combined."

Although most of this past year's coverage of the BP Horizon oil spill in the Gulf was negative toward the industry, Gerard stated that the industry's response to the disaster was commendable.

"In the days and weeks after the incident, I'm proud of the way the industry responded. The industry responded quickly, moving vessels, materials and manpower to the area. We ultimately brought together industry experts from around the world and created task forces to identify ways we could enhance the focus on safety, even before we knew the cause of this disaster," he said.

These task forces have helped to create new safety precautions incorporated into new government regulations in order to further limit disasters and accidents, which are rare in the industry, according to Gerard.

"While the strength of our existing system is precisely why incidents like the one last year are rare, there is always room for improvement. That's why work on advancing safety will never be 'done;' we will continually strive to improve our performance," he said.

– Frank Nieto

INSIDE LOOK AT PROCESSING TRENDS

MarkWest Liberty to Build Third Marcellus Processing Plant

MarkWest Liberty Midstream & Resources announced it will build its third natural gas processing plant in the Marcellus shale when it constructs a 120-million-cubic-feet cryogenic plant in Logansport, W. Va., by mid-2012.

The plant will include an associated natural gas liquids (NGL) pipeline and will handle liquids-rich gas from EQT Corp.'s Equitrans pipeline from northern West Virginia. The bulk of the facility's capacity has already been contracted by EQT and will be transported to MarkWest Liberty's fractionation, storage and marketing complex in Houston, Pa.

MarkWest Liberty is a partnership between MarkWest Energy Partners and The Energy & Minerals Group and has been active in the Marcellus. The company previously announced the Mariner pipeline and marine project with Sunoco Logistics Partners LP to transport up to 50,000 barrels per day of ethane to the Gulf Coast *(see Gas Processors Report 06/08/10)*.

The project also calls for the construction of a 45-mile pipeline from the Houston, Pa., complex to an interconnection with a Sunoco Logistics pipeline in Delmont, Pa., that will transport the ethane to refrigerated storage facilities along the East Coast and transport them via ship to the Gulf Coast markets. Additionally, the Sunoco Logistics pipeline crosses many of the larger pipelines into the Northeast, which will provide multiple ethane blending options to shippers.

In addition, MarkWest Energy Partners recently signed an agreement to acquire a Kentucky natural gas complex and pipeline from EQT for US$230 million as EQT looks to shift its focus to development in its key shale regions from processing activities *(see Gas Processors Report 01/06/11)*. Under the acquisition agreement, expected to close in this quarter, MarkWest will expand capacity at the site, and EQT will execute a long-term agreement with MarkWest to provide processing services and extend another agreement for transportation and other services. MarkWest also will complete a natural-gas pipeline that is under way.

"We continue to expand our midstream presence in the rich-gas area of the Marcellus, and the Logansport complex will allow EQT and other producers to fully develop their Marcellus acreage in Wetzel and Doddridge counties. We are excited to access significant new Marcellus acreage and to take advantage of the tremendous downstream takeaway options for residue gas on the Equitrans system, including Equitrans' planned expansion to five interstate pipelines," Frank Semple, MarkWest Energy Partners' CEO, said.

– Frank Nieto

Chesapeake Energy to Reduce Long-Term Debt by 25%

Chesapeake Energy Corp. officials announced plans to reduce the company's long-term debt by 25% over the next two years by substantially reducing leasehold spending and various asset monetizations by utilizing the advantages of its strong asset base, which it called the industry's largest U.S. natural gas and oil resource base.

Having accumulated this asset base, the company will seek to cut back on spending to acquire new leases while selling off leases and other assets not part of the company's core asset base.

These asset sales will also result in the company reducing its previously announced two-year production growth rate of 30%-40% to 25%, thus the company has dubbed its 2011-12 strategic and financial outline the 25/25 plan.

"We are excited to announce our updated 2011-12 strategic and financial plan that features our plan of 25% long-term debt reduction while also delivering what we believe will be best-in-class 25% production growth. This plan represents a fundamental shift from our aggressive asset accumulation of the past few years to a multi-year period of asset harvest, characterized by a clear focus on capital discipline and maximizing returns. We believe we have assembled the best assets in the U.S. and have the technology, experience and financial and human capital to convert these assets into rapidly growing production, proved reserves and cash flow. Successful execution of our 25/25 plan should very substantially reward our shareholders in both the short and longer term," Chesapeake CEO Aubrey McClendon said.

Sales should be strong given remarks made by McClendon last fall at the company's annual investor meeting where he remarked that the days of discovering the latest "it" shale plays are likely over and the era of consolidating holdings is upon us (see Gas Processors Report 10/20/10).

"If you decided, 'I'm going to pass on the Barnett, pass on the Haynesville, (and) pass on the Marcellus,' and you were going to wait for the next four or five – there won't be any," he said at the meeting.

Tudor, Pickering, Holt & Co. estimated that Chesapeake's 25/25 plan would reduce the company's debt by US$3 billion.

The company also announced that its preliminary estimates for fourth quarter (Q4) 2010 daily production rose

11% from the previous year's quarter to 2.9 billion cubic feet of natural gas equivalent (bcfe) from 2.6 bcfe. This was down 4% from the previous quarter's production of 3.0 bcfe.

This quarter to quarter production drop was the result of its $1.15 billion volumetric production payment (VPP) agreement with Barclays Bank PLC covering its Barnett shale assets *(see Gas Processors Report 10/06/10)*. This agreement was for 390 billion cubic feet of proved natural gas reserves and approximately 280 million cubic feet per day of production in 2011.

Chesapeake's average daily production in Q4 2010 comprised 2.6 billion cubic feet of natural gas and 59,500 barrels of oil and natural gas liquids (NGL). For the year, the company averaged 2.8 bcfe of production, a 14% increase over the 2.5 bcfe that it averaged in 2009.

The company will continue to move production toward more liquids-rich production due to stronger oil and liquids production and lower natural gas prices. With this mind, the company is also seeking to strongly hedge gas production.

The company has hedged 95% of its natural gas production for 2011 to an average price of $5.84 per million Btu (/MMBtu) and 5% of its oil production hedged at $99.39 per barrel (/bbl) in 2011. For 2012, Chesapeake has hedged 17% of its natural gas production at $6.19/MMBtu and 1% of its oil hedged at $109.50/bbl. The company's proved reserves for 2011 are approximately 16.9 trillion cubic feet of natural gas equivalent. – Frank Nieto

Q4 2010 Frac Spread: Ethane, Iso-butane, C_{5+} Saw Greatest Improvements

(Note: This is not this week's Frac Spread)

Ethane, iso-butane and C_{5+} posted strong gains in frac spread margins in the fourth quarter of 2010 as iso-butane and C_{5+} benefitted from increased demand from refiners and ethane benefitted from increased utilization rates from crackers as well as increased petrochemical demand in the quarter.

For the quarter, ethane posted the largest gain in margin at Conway with a 15% improvement from the start of the quarter while C_{5+} had the largest gain at Mont Belvieu with a 13% improvement throughout the quarter.

The second biggest gain at Conway was for C_{5+}, which improved 14% from the start of the quarter. Ethane had the second largest margin improvement at Mont Belvieu as it showed a 13% improvement during the quarter.

Iso-butane had the third greatest improvement in margin in the quarter at both hubs as it improved by 8% at Conway and 9% at Mont Belvieu as the demand for winter grade gasoline picked up in the quarter.

The theoretical natural gas liquids (NGL) barrel price rose 13% at Conway to US$50.78 per barrel (/bbl) with a margin of $35.65/bbl, an 8% improvement from the start of the quarter. The theoretical barrel price at Mont Belvieu improved 11% to $52.73/bbl with a margin of $37.57/bbl, a 9% improvement from the beginning of fourth quarter.

The most profitable NGL to make at both hubs was C_{5+} at $1.60 per gallon (/gal) at Conway and $1.66/gal at Mont Belvieu. This was followed, in order, by iso-butane at $1.33/gal at Conway and $1.32/gal at Mont Belvieu; butane at $1.20/gal at Conway and $1.22/gal at Mont Belvieu; propane at 90¢/gal at Conway and 95¢/gal at Mont Belvieu; and ethane at 24¢/gal at Conway and 33¢/gal at Mont Belvieu.

– Frank Nieto

Frac Spread (Cents/Gal)

Q4 2010	Conway	Change from Last Week	Mont Belvieu	Last Week
Ethane	51.13		60.37	
Shrink	27.45		27.51	
Margin	23.68	15.33%	32.86	12.51%
Propane	128.10		132.50	
Shrink	37.92		38.01	
Margin	90.18	1.90%	94.49	5.15%
Normal Butane	162.40		164.90	
Shrink	42.93		43.04	
Margin	119.47	2.05%	121.86	6.09%
Iso-Butane	174.00		173.30	
Shrink	41.23		41.33	
Margin	132.77	8.31%	131.97	8.81%
Pentane+	206.00		212.00	
Shrink	45.91		46.02	
Margin	160.09	13.52%	165.98	13.18%
NGL $/Bbl	50.78	12.46%	52.73	11.13%
Shrink	15.12		15.16	
Margin	35.65	7.50%	37.57	8.96%
Gas ($/mmBtu)	4.14	26.22%	4.15	16.90%
Gross Bbl Margin (in cents/gal)	81.82	6.94%	87.60	8.70%
NGL Value in $/mmBtu				
Ethane	2.81	20.93%	3.32	14.47%
Propane	4.45	8.06%	4.60	8.27%
Normal Butane	1.75	7.49%	1.78	8.72%
Iso-Butane	1.08	12.08%	1.08	10.64%
Pentane+	2.66	16.12%	2.73	13.97%
Total Barrel Value in $/mmbtu	12.76	12.60%	13.52	11.12%
Margin	8.62	7.04%	9.37	8.74%

Price, Shrink of 42-gal NGL barrel based on following: Ethane, 36.5%; Propane, 31.8%; Normal Butane, 11.2%; Isobutane, 6.2%; Pentane+, 14.3%, Fuel, frac, transport costs not included. Conway gas based on NGPL Midcontinent zone, Mont Belvieu based on Houston Ship Channel.

Shrink is defined as Btus that are removed from natural gas through the gathering and processing operation.

MIDSTREAM NEWS

Kinder Morgan, Copano Further Expand Eagle Ford JV

Kinder Morgan Energy Partners LP and Copano Energy LLC announced they will expand their 50/50 Eagle Ford shale joint venture by adding more capacity as well as additional processing and fractionation services.

The companies will add more than 200,000 million Btu per day (MMBtu/d) of incremental gathering and processing capacity in the play by building a US$100 million, 54-mile, 24-inch crossover pipeline between existing Kinder Morgan pipelines that will have a capacity of over 400 million cubic feet per day (MMcf/d), as well as a 20-mile, 20-inch pipeline that will deliver gas to Formosa Hydrocarbons Co.

The joint venture reached a long-term agreement with Formosa for additional processing and fractionation, as well as expand the company's operational flexibility while providing Formosa with long-term supplies of natural gas liquids (NGL) feedstocks.

"This expansion of our joint venture with Kinder Morgan provides significant additional capacity for Eagle Ford Shale producers and will allow the joint venture to more fully utilize the 600 MMcf/d of capacity on its 30-inch pipeline," said R. Bruce Northcutt, Copano Energy's president and chief executive officer. "We expect this additional capacity to be substantially contracted for by early 2011. We are also pleased with the new long-term relationship with Formosa, which brings additional market diversity for the expected growing volume of natural gas liquids from this play."

Copano will serve as the JV's operator and managing partner. The JV has expanded its capacity and scope twice since announcing the agreement in 2009 due to the interest generated by producers in the Eagle Ford.

The first project under the JV was to be a 22-mile natural gas gathering pipeline running from LaSalle County, Texas, to Duval County, Texas, but will now "significantly extend beyond the original 22 miles previously announced," according to a company release.

The companies increased the committed capacity to the JV on Kinder Morgan's Laredo-to-Katy pipeline and Copano's Houston Central natural gas processing plant from 150,000 million MMBtu/d to 375,000 MMBtu/d.

Armstrong Takes Helm of Williams

Effective January 3, Alan Armstrong has taken the helm of integrated, gas-focused Williams Cos. Inc. and its general partner and wholly owned subsidiary Williams Partners GP LLC. Armstrong succeeds retired CEO Steve Malcolm. Concurrent with his new role as CEO, Armstrong has joined the parent company's board and is also the general partner's new chairman.

Having held the position of chairman and CEO since 2002, Malcolm retired from Williams at the end of 2010. He was formerly chairman and CEO of Williams Partners GP LLC, a wholly owned subsidiary of Williams and the general partner of Williams Partners LP, since its formation in 2005.

Prior to becoming CEO, Armstrong was senior vice president and president of Williams' midstream business since 2002. He joined Williams in 1986. Armstrong was also a director of Williams Partners GP and led its midstream business since its inception in 2005. Armstrong is currently president of the Gas Processors Association (GPA) and is on the board of the Natural Gas Supply Association. He also chairs the board of visitors at the University of Oklahoma's College of Engineering.

In October 2010, Williams' board appointed Frank MacInnis to succeed Malcolm as chairman of Williams. A director of the company since 1998, MacInnis chairs the board's nominating and governance committee and is a member of its compensation committee. He is also the first non-executive to become chairman of Williams' board. MacInnis was CEO of EMCOR Group Inc. for more than 16 years until he stepped down in May 2010.

Malcolm's retirement brings to a close a career at Williams that began in 1984, when he joined as director, business development. President and chief operating officer since September 2001, Malcolm was named CEO in January 2002, and was then elected chairman of the board in May that same year.

According to W.R. Howell, the lead director of Williams' board, Malcolm took the reins at Williams "in the midst of an extraordinarily challenging period in this 102-year-old company's history."

"Under his leadership, Williams honed its focus on natural gas businesses and earned a track record of both growth and a level of financial discipline that allowed the company to

recapture and sustain its investment-grade status," he says. As well, Malcolm led the creation and growth of Williams Partners, which is currently one of the largest master limited partnerships, Howell added.

Williams focuses on E&P, midstream gathering and processing and interstate gas transportation primarily in the Rockies, Gulf Coast, Pacific Northwest, Eastern Seaboard and Pennsylvania Marcellus shale. The company holds a 77% ownership interest in its midstream interstate gas pipeline and midstream assets in MLP Williams Partners, which operates most of its midstream assets.

Talisman, Gasco Fined for Environmental Violations

Talisman Energy USA Inc. was fined US$24,608 by the Pennsylvania Department of Environmental Protection (DEP) office in Williamsport due to a diesel fuel spill at its Putnam 77 Marcellus natural gas well pad in Armenia Township, Bradford County.

The DEP said in a press release that the spill traveled into a neighboring farm field, but did not impact surface water or wetlands, which DEP said the company was "fortunate" while adding that the cause of the spill has not been identified.

The spill required the removal of 3,800 tons of contaminated soil and 132,000 gallons of contaminated water, which included 450 gallons of diesel fuel.

Talisman officials expressed deep regret for the spill and announced the company had entered into a settlement agreement with the DEP that fully meets the regulatory directives of the department.

While Talisman had to pay a state violation for a spill, Gasco Energy Inc. agreed to pay the U.S. Environmental Protection Agency (EPA) $350,000 to resolve alleged violations of the Clean Air Act at the Riverbend Compressor Station , which it used to operate, on the Uintah and Ouray Indian Reservation near Vernal, Utah. In addition, the company agreed to provide for air pollution controls at its Uinta basin facilities, including on dehydrators, compressor engines and storage tanks.

The company allegedly violated several provisions of the Clean Air Act including emissions standards for hazardous air pollutants, as well as federal permitting, emissions monitoring and reporting requirements.

"Under this agreement, Gasco and its successors will make significant investments to reduce emissions from facilities throughout the Uinta basin. EPA will continue to work with partners, including oil and gas operators, to protect air quality resources for the benefit of those who live in the basin," Jim Martin, EPA's regional administrator in Denver, said. – Frank Nieto

FRACTIONATION SPREAD

Mont Belvieu Margins Outperform Conway Counterparts

Frac spread margins for natural gas liquids (NGL) were largely down this week, but only ethane suffered any large drops in margin as it had the largest price drop at both hubs this week. Margins were helped this week by the fact that natural gas feedstock prices also fell at both hubs with the Conway price dropping 1% to US$4.43 per million Btu (/MMBtu) and the Mont Belvieu price dropping 2% to $4.37/MMBtu.

The Conway margin for ethane had by far the largest drop in margin this week as it fell 22%, continuing the trend of heavy drops in margin for ethane at the hub for much of the past month. The Mont Belvieu margin had the largest drop in margin at the hub as it was down 6% from last week.

The second largest drop in margin at Conway was for iso-butane at 4%. Iso-butane also had the second-largest price drop at the hub this week. The second largest drop in margin at Mont Belvieu was for C_{5+}, which was down 1%.

Overall Mont Belvieu margins performed much stronger than their Conway counterparts as propane and butane each improved their margins by 1% this week and iso-butane's margin fell less than 1%. Only Conway propane experienced an improvement in margin at the hub this week as it rose 1%.

The Mont Belvieu theoretical NGL barrel price was also stronger this week than at Conway. The Texas barrel price was down 1% to $53.05 per barrel (/bbl) with a margin of $37.09/bbl, a 1% drop from the previous week. The Conway theoretical price fell 2% to $49.56/bbl with a margin of $33.37/bbl, a 3% drop from the prior week.

The most profitable NGL to make this week remained C_{5+} at $1.57 per gallon (/gal) at Conway and $1.67/gal at Mont Belvieu. This was followed, in order, by iso-butane at $1.21/gal at Conway and $1.31/gal at Mont Belvieu; butane at $1.14/gal at Conway and $1.23/gal at Mont Belvieu; propane at 88¢/gal at Conway and 93¢/gal at Mont Belvieu; and ethane at 16¢/gal at Conway and 30¢/gal at Mont Belvieu.

Natural gas in storage for the week of December 31, 2010, the most recent data available from the U.S. Energy Information Administration, was down 135 billion cubic feet to 3.097 trillion cubic feet (Tcf) from 3.232 Tcf recorded the previous week. This was 2% lower than the 3.145 Tcf figure recorded last year at the same time and 7% greater than the five-year average of 2.907 Tcf.

The U.S. National Weather Service's forecast for the coming week includes normal winter temperatures along the East Coast into the Gulf Coast as well as parts of the Southwest and Pacific Northwest. The forecast includes colder than normal temperatures in the Midwest with warmer than normal temperatures expected in the Southwest.

– Frank Nieto

Current Frac Spread (Cents/Gal)

January 13, 2011

	Conway	Change from Last Week	Mont Belvieu	Last Week
Ethane	45.64		58.84	
Shrink	29.37		28.97	
Margin	16.27	-21.62%	29.87	-5.88%
Propane	128.60		133.36	
Shrink	40.58		40.03	
Margin	88.02	0.80%	93.33	1.06%
Normal Butane	160.02		167.86	
Shrink	45.94		45.32	
Margin	114.08	-1.74%	122.54	1.00%
Iso-Butane	165.03		174.62	
Shrink	44.12		43.53	
Margin	120.91	-3.95%	131.09	-0.41%
Pentane+	205.78		215.83	
Shrink	49.13		48.46	
Margin	156.65	-0.12%	167.37	-0.83%
NGL $/Bbl	49.56	-2.16%	53.05	-0.88%
Shrink	16.18		15.96	
Margin	33.37	-2.65%	37.09	-0.58%
Gas ($/mmBtu)	4.43	-1.12%	4.37	-1.58%
Gross Bbl Margin (in cents/gal)	76.60	-2.52%	86.37	-0.54%
NGL Value in $/mmBtu				
Ethane	2.51	-9.55%	3.24	-3.81%
Propane	4.46	0.19%	4.63	0.26%
Normal Butane	1.73	-1.56%	1.81	0.29%
Iso-Butane	1.03	-3.21%	1.09	-0.71%
Pentane+	2.65	-0.36%	2.78	-1.00%
Total Barrel Value in $/mmbtu	12.39	-2.58%	13.55	-1.07%
Margin	7.96	-3.38%	9.18	-0.83%

Price, Shrink of 42-gal NGL barrel based on following: Ethane, 36.5%; Propane, 31.8%; Normal Butane, 11.2%; Isobutane, 6.2%; Pentane+, 14.3%, Fuel, frac, transport costs not included. Conway gas based on NGPL Midcontinent zone, Mont Belvieu based on Houston Ship Channel.

Shrink is defined as Btus that are removed from natural gas through the gathering and processing operation.

BOX SCORE

Ethane Prices Fall at Both Hubs as Producers Switch to Propylene

The first full week of January 2011 saw natural gas liquid (NGL) prices largely fall from the previous week with ethane prices suffering the most as some ethylene producers have switched to heavier NGLs including propane due to a shortage of propylene in the petrochemical market, according to *En*Vantage.*

The Mont Belvieu price for ethane fell 2% to 59¢, its lowest price since it was 56¢ the week of October 21 while the Conway price falling even farther at 5% from last week. The Kansas price of 46¢ was the hub's lowest price since it was 43¢ the week of October 27. These prices pushed ethane's relationship with crude prices to approximately 29%. *En*Vantage* stated that ethane is undervalued, and they advised processors to not hedge ethane prices through the end of the year.

Iso-butane prices had the second largest drop in value this week at both hubs with the Conway price down 3% to US$1.65, the lowest price at Kansas since it was $1.54 the week of November 10. The Mont Belvieu price fell 1% to $1.75, its lowest price since it was $1.73 the week of November 24. The prices at both hubs have fallen for three straight weeks as the market seems to have tightened for iso over the past month.

Iso-butane's sister product, butane, had mixed results between the two hubs this week as it gained very slightly at Mont Belvieu and fell 1% at Conway. The Mont Belvieu price of $1.68 was 1¢ higher than the price last week and was the highest price at the hub in nearly a month when it was $1.70. The fluctuating butane price is due to refiners producing more of their own butane by operating at higher rates, lessening the need for importing butane.

Propane was the lone NGL to experience gains of any sort at both hubs, as it rose slightly at both Conway and Mont Belvieu. The Texas price rose to $1.33, which is where it has hovered at for much of the past month while the Kansas price increased to $1.29, its highest price since it was slightly higher the week of February 10. This uptick was largely due to increased heating demand.

While C_{5+} remains the most profitable NGL to make and has the strongest relationship to crude prices, prices at both hubs for C_{5+} were down slightly as the price seems to have balanced a bit this week. The Mont Belvieu price of $2.16, although down 1% from last week, remained the second-highest price at the hub since the week of September 3, 2008. The Conway price of $2.06 was down 1¢ from last week and remained within the average price at the hub for the past five weeks.

– Frank Nieto

Box Score

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Jan 5 - 11, '11	58.84	133.36	167.86	174.62	215.83	$53.05
Dec. 29, '10 - Jan 4, '11	61.17	133.02	167.37	175.86	218.00	$53.52
Dec. 22 - 28, '10	64.63	133.45	167.65	178.50	212.15	$53.80
Dec. 15 - 21, '10	64.01	131.20	169.92	177.36	208.45	$53.27
December '10	61.75	129.45	169.76	177.25	209.47	$52.77
November '10	62.88	125.42	161.66	166.63	197.78	$50.96
4th Qtr '10	59.07	126.07	162.01	168.24	198.89	$50.59
3rd Qtr '10	44.99	106.98	138.23	143.25	171.45	$42.37
2nd Qtr '10	50.97	108.43	145.01	157.23	178.04	$44.64
1st Qtr '10	70.80	123.84	151.72	165.09	183.29	$50.45
Jan 6 - 12, '10	77.74	138.16	164.54	177.78	188.44	$54.58
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Jan 5 - 11, '11	45.64	128.60	160.02	165.03	205.78	$49.56
Dec. 29, '10 - Jan 4, '11	50.46	128.36	162.56	170.50	206.52	$50.65
Dec. 22 - 28, '10	52.53	128.05	166.80	174.00	208.33	$51.39
Dec. 15 - 21, '10	51.14	125.40	169.57	171.90	205.90	$50.77
December '10	51.74	124.32	167.51	170.70	205.49	$50.57
November '10	48.20	119.49	154.72	158.68	189.78	$47.36
4th Qtr '10	47.01	120.80	157.16	161.69	193.86	$47.80
3rd Qtr '10	31.16	101.46	132.39	141.93	163.91	$39.04
2nd Qtr '10	31.56	103.03	130.96	145.20	172.55	$39.90
1st Qtr '10	59.82	123.81	143.58	160.70	181.55	$48.69
Jan 6 - 12, '10	70.56	135.33	164.33	173.50	189.48	$53.79

Data Provided by Intercontinental Exchange. Individual product prices in cents per gallon.
NGL barrel in $/42 gallons

PIPELINE NEWS

Bear Tracker Energy to Build, Own, Operate Bakken Gas Gathering System

Bear Tracker Energy LLC, a midstream energy company that is backed by a capital commitment of up US$200 million commitment from GSO Capital Partners LP, signed definitive agreements with what the company called "a large U.S. independent oil and natural gas E&P company" to build, own, operate and expand a natural gas gathering system in the Bakken shale.

The system, along with the compression and other facilities, will handle natural gas from 18 townships in Burke and Mountrail counties in North Dakota. This gas will be delivered for further handling at a Stanley, North Dakota, facility. Construction on the system will begin this quarter and are estimated to begin operations by mid-year. Further details were not divulged.

Headquartered in Denver, Colorado, Bear Tracker Energy is a full service midstream oil and natural gas company with expertise in gathering, processing, compression, treating, fractionation and marketing. Robert Clark, who previously served as the president and CEO of two other midstream startups – Bear Paw Energy LLC and Bear Cub Energy LLC, is the chairman and CEO of Bear Tracker Energy with Dave Keanini, who previously served as Anadarko Petroleum Corp.'s general manager for its Rockies midstream division, serving as president and COO.

INTERNATIONAL NEWS

Noble Energy Discovers Second Large Gas Field in Israel as Gov't Seeks to Increase Taxes on Gas

The Israeli government is proposing to raise tax rates on natural gas companies just as a new major play has been found in the country. The Israeli government proposed a tax of between 20%-55% on natural gas production in the country. Producers have criticized these proposals by stating they will hinder development.

It is expected that this production will increase as Noble Energy recently announced the discovery of a second large natural gas field in the country with the Leviathan offshore field, which it says has the potential for up to 450 billion cubic meters in gas reserves.

The discovery of this field follows the company's 2009 discovery of the Tamar gas field, which has the potential for up to 8.4 trillion cubic feet of natural gas *(see Gas Processors Report 08/07/09)*.

The Leviathan field is located about 81 miles off the coast of Haifa, Israel, but faces obstacles to development besides the possibility of high government taxes. It will be more costly to develop Leviathan compared to Tamar and the export markets for the production is currently down with more liquefied natural gas (LNG) on the market along with gas accessed through pipeline from Russia to satisfy European gas demand.

"It's not a great time for Israel to enter a lot of the markets. European consumption is going down, new suppliers are coming on. I'm not sure there's a buyer waiting by the door at this point," Brenda Shaffer, an energy expert at the University of Haifa, was quoted as saying by *Reuters*.

Noble Energy anticipates beginning production out of Tamar in 2013 with Leviathan production beginning in 2017. Government officials stated they would postpone the collection of increased taxes on Tamar production by a few years to encourage development of the field.

– Frank Nieto

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