Gas Processors Report

Global Gas & NGL Must-Read Projects, Prices & Feedstock and Product Market Intelligence

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DCP Midstream's Cargile: Spend Keeping Pace with Developers in the Eagle Ford

As producers continue to focus on liquids-rich plays, DCP Midstream LLC remains in a strong position as the company adds to its already large presence in the Eagle Ford and other liquids-rich plays as it aims to build a super-system in the play.

Last month, the company announced it had signed long-term gas gathering and processing agreements with Pioneer Natural Resources USA Inc., Reliance Eagleford Upstream Holding LP and Newpek LLC (collectively, the Pioneer JV) in the Eagle Ford (see *Gas Processors Report* 01/20/11). Terms call for DCP Midstream to provide a full scope of midstream energy services to handle liquid-rich natural gas from the Pioneer JV's acreage in the Eagle Ford, including building the new Eagle natural gas processing plant.

Currently, DCP Midstream has five plants in the play and is in the midst of plumbing these facilities together to create a super-system. "This will give us operational flexibility and access to multiple markets going in different directions," Rick Cargile, president of the company's southern business unit, told *Gas Processors Report*. "We have infrastructure up and down the condensate window of the play so this beefs up our capabilities and capacities in the play."

The new Eagle plant, located in Edna, will have an operating capacity of 200 million cubic feet per day (MMcf/d) and will bring the company's operating capacity in the play up to 1 billion cubic feet per day (Bcf/d).

The processing plants in the play include Giddings with an operating capacity of 90 MMcf/d with a 60 MMcf/d throughput; Wilcox with a 220 MMcf/d operating capacity and a throughput of 170 MMcf/d; Three Rivers with a 90 MMcf/d capacity and 60 MMcf/d throughput; Gulf Plains with 165 MMcf/d and 85 MMcf/d throughput; and La Gloria with 225 MMcf/d and 165 MMcf/d throughput.

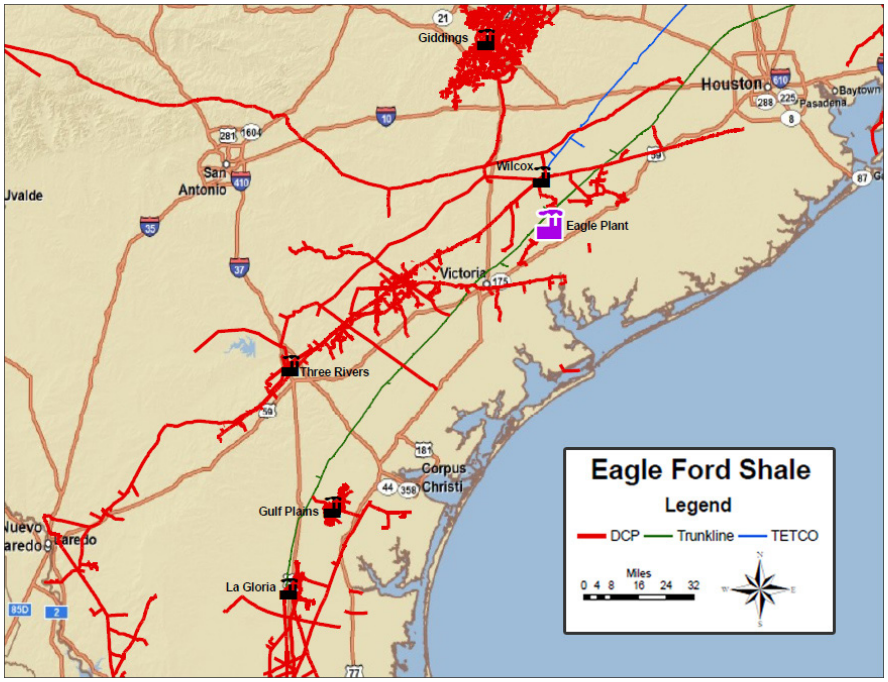
Out of these plants, Wilcox, La Gloria and Gulf Plains have fractionators attached to them with an operating capacity of approximately 85,000 barrels per day (b/d) of natural gas liquids (NGL). Currently the company is operating at about 25,000 b/d.

Cargile said that the company is spending about US$475 million to build the sixth plant in the play and to connect it and the other five plants and there is room for future growth depending on producers' needs.

In This Week's Edition of Gas Processors Report

"We have over 450,000 acres dedicated to us already in the Eagle Ford shale. We are basically contracted at full capacity now. Based on what producers tell you and how they're going to develop it, they're basically telling us they're going to fill us up. It's just a matter of time as far as development goes. We're pacing our spend to match their activity and development," he said. The Eagle plant will also be able to expand to 200 MMcf/d and the company has a location in mind for a seventh plant in the Eagle Ford.

"If you look at the 450,000 acres dedicated to us and you use 320 acres of spacing, then production could peak in eight years or so at 600 MMcf/d. If you go to 160 acre spacing you could almost double that," Cargile said. Should production reach such a level then the company would likely add even more plants to the region. "It would be a good problem to have," he said.



DCP Midstream's five current processing plants combined with a sixth plant in development allow the company to create a super-system in the Eagle Ford (image courtesy of DCP Midstream LLC)

DCP Midstream's strategy is to achieve critical mass in each region it operates in, where it is either the largest or second-largest player. A major benefit for DCP Midstream in the Eagle Ford was that it had already achieved critical mass in the region before producers began to drill in the Eagle Ford due to legacy mergers and acquisitions as the company was formed. The La Gloria and Wilcox plants were originally owned by Mobil, while Gulf Plains was owned by Union Pacific, Giddings was a Phillips 66 plant, and Three Rivers was owned by Dehi and Koch "It would take quite a large amount of funding to duplicate this system – it's pretty incomprehensible for someone to try to recreate it," he said.

Cargile added that the company was planning on using the same concept to build a super-system in the Avalon shale since it has eight plants in New Mexico, which it is planning to plumb together while expanding capacity in the Linam Ranch and Artesia plants. "We're also looking to build an Avalon and Wolfcamp plant with a capacity of 200 MMcf/d starting out and then expand it by another 200 MMcf/d as producers develop the play. We'll do the same thing as in the Eagle Ford. We'll leverage our existing footprint. It's cheaper to expand what we have and plumb it together than as the velocity of producers' development picks up we'll have a new plant coming online."

While the company will continue to seek development of bolt-on projects for its current footprints, it will continue to evaluate greenfield opportunities to grow in new areas such as the Marcellus and Bakken. "We'd also look at acquisitions [in these areas]. We have a strategy to grow and have a pretty good capital budget in order to do that," he said.

The Niobrara would represent a combination of greenfield and bolt-on development as the company responds to growth in the play. "We have a pretty extensive footprint up there with seven processing plants in Weld County, just north of the Niobrara, but it would be more greenfield because it's a bigger step out," Cargile said. – Frank Nieto

INSIDE LOOK AT PROCESSING TRENDS

Enterprise's Mont Belvieu Complex Operating at Reduced Rates After Fire

A fire on Tuesday, February 8 at the west storage facility at Enterprise Products Partners LP's Mont Belvieu complex resulted in the death of one worker and the shutdown of two fractionators at the plant as well as several other fractionators and facilities operated by other companies nearby.

The fire is believed to have occurred in a pipeline connected to the west storage facility, one of three such complexes at the site that are co-owned by Duncan Energy Partners LP. Investigations are still ongoing and the storage facility remains shut in.

The company announced that its four natural gas liquids (NGL) fractionators are online and operational, along with its butane isomerization units. The company does not believe that its processing facilities or plant production were materially affected by service disruptions from the fire. Enterprise has either diverted production to other company facilities or is in the process of doing so, according to company officials.

Rick Rainey, a company spokesperson, told *Gas Processors Report* that Enterprise does not yet have a timeframe for bringing the two additional fractionators back online and declined to say where NGLs were being flowed to at this time.

The complex has an operating capacity of 305,000 barrels per day (b/d) of NGL production and is in the process of adding another 75,000 b/d through the addition of a fifth NGL train. This would leave the company with approximately 150,000 b/d of NGL production capacity at the complex at this time, although the exact current operating capacity was not divulged by Enterprise at this time.

The Mont Belvieu complex also includes three butane isomerization units that have a total capacity of 116,000 b/d, along with 12,000 b/d of capacity at an iso-octane/iso-butylene unit, and 87,000 b/d from its propylene fractionator.

Several other companies shut down fractionators in the region as a precautionary measure, including ONEOK and ConocoPhillips. ONEOK announced that its 160,000 b/d MB1 facility was back online as of February 9, while ConocoPhillips' 109,000 b/d Gulf Coast fractionator is back online according to an *En*Vantage* report.

In addition, LyondellBasell announced that its La Porte cracker, which has a capacity of 1.75 billion pounds per year, was operating at reduced rates and might be shut down due to loss of pipeline feed pressure from the fire.

"The La Porte olefins unit is currently operating at reduced rates.We are exploring our options to increase olefins feedstock supply at La Porte that include Enterprise and other pipelines.We anticipate that we will have additional flexibility at La Porte in the near term," the company said in a release.

– Frank Nieto

Kinder Morgan Anticipates Continued Growth Across All Units in 2011

Kinder Morgan Energy Partners highlighted the economic recovery in the midstream during its recent conference call to discuss fourth quarter 2010 earnings as all five of the company's business segments showed improved results in both the fourth quarter and the fiscal year. This allowed the company to increase distributions by 8% from fourth quarter 2009 to US$1.13 per unit, or $4.40 per unit for the year, which was the company's target.

While each segment improved, the products pipeline division's results for the year came in under the company's expectations as its revenue improved $6 million in the quarter to $171 million and was 8% to $688 million for the fiscal year. "The real glaring weakness in the products pipeline was our Cochin NGL (natural gas liquids) system where we fell short of both 2009 and our plan for 2010. That was largely volumetrically driven. We just had milder weather and lack of crop drying in the upper Midwest during this past fall, so Cochin was under both 2009 and its plan," Rich Kinder, chairman and CEO of Kinder Morgan, said.

The company's natural gas segment showed an improvement over its 2009 results, and it also came in higher than Kinder Morgan's expectations for the year. In the quarter, the company's natural gas pipelines segment showed a roughly $17 million improvement to $243 million and a $48 million improvement to $836 million for the year. This was primarily driven by its 50/50 Kinderhawk gathering and treating joint venture with Petrohawk in the Haynesville shale (see Gas Processors Report 05/27/10), as well as strong results at its Casper-Douglas processing system in Wyoming.

"These good results were offset in part by lower results at our Texas Intrastate, largely resulting from compressed margins and less volatility and lower gas prices and the force majeure we experienced in the first quarter at REX (Rockies Express pipeline) and the higher Ohio tax also at REX," he said.

The company anticipates strong results from this segment in 2011 with the completion of the $1 billion Fayetteville Express pipeline in the quarter (see Gas Processors Report 10/27/10). In addition, the company's joint venture with Copano Energy in the Eagle Ford, which last month announced it would expand by adding $100 million in processing and fractionation services to handle an additional 200 million Btu per day through an agreement with Formosa Hydrocarbons Co. (see Gas Processors Report 01/13/11)

"We expect to complete all of this by year-end 2011, and the joint venture will continue to pursue additional opportunities in this promising play. The response of our customers has been very good. We expect that all of this capacity will be fully committed within a short period of time," he said.

Last week, the joint venture announced a long-term agreement to provide natural gas gathering, transportation, processing and fractionation services to Anadarko E&P

Company LP in the Eagle Ford shale resource play (*see Gas Processors Report 02/04/11*).

Kinder highlighted the growth potential for the company across its various business segments in both the U.S. and Canada. "I believe if you can combine that size of footprint with an experienced management team that knows how to successfully exploit those kind of opportunities, and then add to that the ability to access the capital markets to fund the expansions and acquisitions, I think it is a combination that bodes well for benefitting both our large number of customers and our investors both now and in the future."

For fiscal year 2011, the company has $224 million budgeted for acquisitions, but Kinder said that it is possible this could move higher during the course of the year as opportunities are presented.

"I think we'll continue to be opportunistic and again as we've said so many times, we have the ability to deploy a lot of capital, and we are willing to do that. Where we're really religious is about the returns, so if we can get returns well above our cost of capital, we'll make investments in all of our five business segments and if we can't, we won't," he said.

– Frank Nieto

Chesapeake Sells Entire Arkansas Fayetteville Position

Chesapeake Energy Corp. plans to unload its Fayetteville shale assets and certain equity interests in privately-held Frac Tech Holdings LLC and privately-held Chaparral Energy Inc. for US$5 billion. Chesapeake owns 25.8% of Frac Tech and 20% of Chaparral.

Chesapeake's Fayetteville assets include 487,000 net acres in northern Arkansas. Production is approximately 415 million cubic feet of gas equivalent per day. Proved reserves as of November 3 were 2.5 trillion cubic feet equivalent.

The sale is part of Chesapeake's 2011-12 strategic and financial 25/25 plan, where the company plans to reduce its long-term debt by 25% (see Gas Processors Report 01/13/11). The company plans to use the net proceeds from this deal and its previously announced Niobrara joint venture to retire up to $3 billion of its shorter-dated senior notes and to also reduce borrowings from its revolving bank credit facility.

Chesapeake chief executive Aubrey K. McClendon said, "We have received strong positive feedback from a number of our investors with respect to the announcement of our 25/25 Plan in early January and last week's announcement of our $1.3 billion Niobrara joint venture with an affiliate of CNOOC Ltd. We believe the three proposed asset sales announced today and the Niobrara joint venture are all likely to be completed in the first half of 2011 and will provide us with strong momentum into the second half of 2011 as we move forward in executing our plan."

Wells Fargo Securities LLC senior analyst David Tameron said, "The announcement does not come as a surprise as Chesapeake was thought to be marketing the Fayetteville for some time. We believe this announcement will be received positively as Chesapeake has been executing on its plans to convert its land machine from asset accumulation to 'asset harvest,' with the plus the (deal) Niobrara JV totaling $6.3 billion in pretax proceeds."

MIDSTREAM NEWS

Buffalo, N.Y. Votes to Ban Hydraulic Fracturing

The city of Buffalo, N.Y., has voted to prohibit the practice of hydraulic fracturing due to concerns about the technique's allegedly adverse effect on groundwater, according to a report by *Reuters.*

On February 8, the Buffalo city council voted 9-0 against the practice, which is currently in widespread use throughout the Marcellus shale. According to the report, the order will also ban storing, transferring, treating or disposing of frac waste within city limits.

Though no well projects are currently planned for the Buffalo area, city officials are concerned that waste from nearby operations was infiltrating the city's sewer system.

To date, Pittsburgh, Pa., is the only other city in the U.S. that has banned hydraulic fracturing.

Currently, the U.S. Environmental Protection Agency is conducting a study of the practice and its effects on the environment. The study's initial results are slated to be released at the end of 2012.

PAA Natural Gas Storage Closes Deal for SG Resources

PAA Natural Gas Storage acquired SG Resources Mississippi LLC and its primary asset, the Southern Pines Energy Center gas storage facility, for US$750 million.

Southern Pines is a FERC-regulated, high-performance, salt-cavern gas storage facility in Greene County, Miss. The facility was placed in service in 2008, and three caverns are currently in operation. The facility is permitted for 40 billion cubic feet (Bcf) of working capacity from four storage caverns. The fourth cavern is currently being drilled, and the facility has the capacity for further expansion, subject to permits and market demand.

Southern Pines has an aggregate of 48,000 horsepower of compression and is permitted for peak injection and withdrawal rates of approximately 1.2 Bcf and 2.4 Bcf of gas per day, respectively. Southern Pines connects directly or indirectly to eight major gas pipelines servicing the Gulf Coast, Northeast, Mid-Atlantic and Southeastern markets.

Approximately $600 million of equity financing was provided by the sale in a private placement of 17.4 million PNG common units to third-party purchasers and 10.2 million PNG common units to Plains All American Pipeline LP, as well as PAA's proportionate general partner contribution. The debt financing consisted of PNG selling a three-year, $200 million note to PAA at an interest rate of 5.25% per annum.

Pending investment in expansion activities at Southern Pines, excess proceeds will be used to reduce PNG's existing indebtedness. Giving effect to these transactions, PAA holds an aggregate 64% equity ownership in PNG, including 100% of PNG's general partner and its incentive distribution rights.

NorTex Starts Open Season for North Texas Facilities

NorTex Gas Storage Co. LLC has launched an open season for storage capacity at its Hill-Lake and Worsham-Steed gas storage facilities in North Texas. Bids are due February 17.

Up to 6 billion cubic feet of high-deliverability, multi-cycle (HDMC) firm storage capacity will be available for service starting April 1. Service levels range from single-cycle to four-cycle service, including hourly profiling customized for the power generators who dominate gas consumption in the Dallas/Ft. Worth market during the summer.

"Gas storage plays a critical role in keeping the lights and heat on during weather events in Texas," said NorTex president and chief executive Rob Foss. "As the largest independent owner and operator of gas storage in North Texas, we were pleased to be able to serve the marketplace during the latest weather event. We look forward to continuing our commitment to help deliver the energy Texas needs to keep running."

John Holcomb, marketing vice president for NorTex, added, "We are very proud that we performed flawlessly during the recent extreme cold weather earlier this month, where rolling blackouts occurred from gas supply disruptions and high demand. We value our customers and appreciate their business. NorTex holds an open season this time each year, giving new customers the opportunity to lease capacity and existing customers to take more service."

FRACTIONATION SPREAD

Ethane, Butane Margins Fall Despite Drop in Feedstock Prices

As natural gas feedstock prices fell at both hubs this week, the frac spread margins for natural gas liquids (NGL) performed fairly well with the notable exception of ethane, which saw its margins plummet as its price fell 5% at both Conway and Mont Belvieu this week.

The Conway ethane margin fell 23%, moving it closer to the point where it would be virtually unprofitable for producers to make at the hub. Despite a 13% drop in margin largely attributed to crackers having limited supplies in the Gulf Coast due to the fire at Enterprise Products Partners' west storage facility at Mont Belvieu, the frac spread for ethane at the hub remains healthy.

The only other margin to experience a decrease in margin this week at either hub was butane, which was down 2% at Conway and 1% at Mont Belvieu. These margin decreases were the same as the price drops at each hub.

Pentanes-plus (C_{5+}) had the largest improvement in margin at each hub, as it was the most improved NGL this week in terms of price increases. The Conway margin improved 7% while the Mont Belvieu margin rose 4%. These improvements were due to the very strong price improvements by C_{5+} at both Mont Belvieu and Conway this week.

The theoretical NGL barrel price fell 1% at both hubs this week with the Conway price of US$49.45 per barrel (/bbl) supporting a 1% increase in margin at $33.01/bbl and the Mont Belvieu price of $52.53/bbl experience a margin decrease of less than 1% at $37.08/bbl.

The most profitable NGL to make at both hubs remained C_{5+} at $1.67 per gallon (/gal) at Conway and $1.72/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.38/gal at Conway and $1.37/gal at Mont Belvieu; butane at $1.11/gal at Conway and $1.23/gal at Mont Belvieu; propane at 85¢/gal at Conway and 95¢/gal at Mont Belvieu; and ethane at 10¢/gal at Conway and 26¢/gal at Mont Belvieu.

Natural gas in storage for the week of February 4, the most recent data available from the U.S. Energy Information Administration, was down 209 billion cubic feet to 2.144 trillion cubic feet (Tcf) from 2.353 Tcf from last week. This was 4% below the 2.242 Tcf figure reported last year at the same time and 2% below the five-year average of 2.189 Tcf.

Storage levels most likely won't experience quite the same drop next week as the U.S. National Weather Service is forecasting that the recent frigid weather currently being experienced around the country will end. In fact, the forecast is calling for warmer than normal temperatures throughout the Mid-Atlantic and much of the Southeast, Gulf Coast and Midwest. The Northeast and Rockies regions are expected to experience normal temperatures for this time of year while the West Coast can expect colder than normal temperatures.

– Frank Nieto

Current Frac Spread (Cents/Gal)
February 11, 2011

	Conway	Change from Last Week	Mont Belvieu	Last Week
Ethane	40.12		53.56	
Shrink	29.84		28.04	
Margin	10.29	-22.93%	25.52	-12.86%
Propane	125.92		133.42	
Shrink	41.22		38.75	
Margin	84.70	2.57%	94.67	0.15%
Normal Butane	157.56		166.92	
Shrink	46.67		43.87	
Margin	110.90	-2.02%	123.05	-0.55%
Iso-Butane	182.33		179.04	
Shrink	44.82		42.13	
Margin	137.51	1.77%	136.91	0.88%
Pentane+	217.23		219.02	
Shrink	49.91		46.91	
Margin	167.33	6.72%	172.11	3.76%
NGL $/Bbl	49.45	-0.60%	52.53	-1.10%
Shrink	16.44		15.45	
Margin	33.01	1.21%	37.08	-0.39%
Gas ($/mmBtu)	4.50	-4.05%	4.23	-2.76%
Gross Bbl Margin (in cents/gal)	75.56	1.28%	86.30	-0.51%
NGL Value in $/mmBtu				
Ethane	2.21	-9.72%	2.95	-7.85%
Propane	4.37	0.30%	4.63	-0.71%
Normal Butane	1.70	-2.63%	1.80	-1.14%
Iso-Butane	1.13	0.27%	1.11	0.00%
Pentane+	2.80	4.04%	2.82	2.29%
Total Barrel Value in $/mmbtu	12.22	-1.28%	13.32	-1.78%
Margin	7.72	0.41%	9.09	-1.32%

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 5% in the Wake of Mont Belvieu Fire

Natural gas liquids (NGL) prices took a downturn this week in the wake of the fire at Enterprise Products Partners' Mont Belvieu west storage facility (*see this week's story*), as ethane supplies for cracking were limited. This resulted in ethane prices taking a 5% downturn this week at both hubs.

The Mont Belvieu price of ethane fell to 54¢, which was the hub's lowest price since it was 53¢ the week of October 13. En*Vantage estimated that ethane cracking may be down between 70,000 to 100,000 barrels per day, which would likely increase ethane inventories by over 1 million barrels for the month. "The question becomes will the ethane inventory build be mostly stranded in a y-grade stream and how much purity ethane will be available at Mont Belvieu," according to En*Vantage's *Weekly Energy Report*.

This probable shortage in ethane supplies is occurring right as the market for ethane is improving with more crackers being converted to handle NGLs, a likelihood that could increase the demand by anywhere from 10%-20% according to some of our sources. While supplies will be limited in the short-term, it is expected that it will not have a long-lasting effect on the marketplace. Already Enterprise announced that two of its four fractionators at the complex are back online and the company is re-routing supplies to other facilities.

Box Score

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Feb. 2 - 8, '11	53.56	133.42	166.92	179.04	219.02	$52.53
Jan 26 - Feb. 1, '11	58.12	134.38	168.84	179.04	214.12	$53.11
Jan 19 - 25, '11	60.58	135.48	168.52	181.06	214.18	$53.67
Jan 12 - 18, '11	58.87	136.10	169.40	179.30	216.80	$53.65
January '11	59.41	134.69	168.71	178.54	214.96	$53.39
December '10	61.75	129.45	169.76	177.25	209.47	$52.77
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
Feb. 3 - 9, '10	79.93	135.50	146.77	164.32	178.45	$52.63
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Feb. 2 - 8, '11	40.12	125.92	157.56	182.33	217.23	$49.45
Jan 26 - Feb. 1, '11	44.44	125.54	161.82	181.83	208.80	$49.75
Jan 19 - 25, '11	41.92	129.22	164.18	182.45	209.40	$49.95
Jan 12 - 18, '11	40.93	130.88	164.53	175.10	212.00	$49.99
January '11	44.01	128.53	162.52	174.39	207.59	$49.79
December '10	51.74	124.32	167.51	170.70	205.49	$50.57
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
Feb. 3 - 9, '10	70.40	136.64	141.18	174.00	174.73	$51.72

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

While Conway supplies were not directly affected by the Mont Belvieu incident, ethane prices at the hub also took a turn for the worse similar at the same rate as prices in the Gulf. Conway ethane was down to 40¢, its lowest level since it was 40¢ the week of September 22.

By and large, heavy NGLs faired much better than light NGLs this week due to the closer relationship with crude oil, which is seeing its prices soar worldwide on the back of the political unrest in Egypt.

Pentanes-plus (C_{5+}) had by far the strongest week of any NGL at both hubs, as the Conway price increased 3% to US$2.17 and the Mont Belvieu price rose 2% to $2.19. The Conway price was the highest at the hub since it was $2.26 the week of September 3, 2008 while the Mont Belvieu price was the hub's highest level since it was $2.34, also the week of September 3, 2008. The prices that week were just before the last run-up in crude prices came to a halt on the back of the global economic recession.

Mont Belvieu prices taking a downturn for the most part this week with isobutane being the only other NGL at the hub to not experience a drop in price as it remained at the exact same level as the prior week at $1.79. The Conway price was up very slightly to $1.83. This marked the third straight week that the Conway price was greater than the Mont Belvieu price.

Butane fell at both hubs with the Mid-Continent price falling at a slightly larger rate than its Gulf Coast counterpart. The Conway price was down 2% to $1.58, its lowest price since it was $1.55 the week of November 17. The Mont Belvieu price dropped 1% to $1.67, its lowest price since it was $1.65 the week of November 24.

Propane experienced mixed results between the two hubs as it was up slightly at Conway to $1.26 and down 1% at Mont Belvieu to $1.33. The Texas price was the lowest at the hub in a month while the Conway price was the second-lowest at the hub in nearly two months.

The theoretical NGL barrel price at both hubs was higher last year at the same time than it was this week despite the heavy NGLs performing much better this year due to the light NGLs, particularly ethane being so much lower valued this year. The Conway price for ethane is 34% lower than at the same time last year while the Mont Belvieu price is 27% lower than the year ago price.

– Frank Nieto

PIPELINE NEWS

TransCanada's Horn River Pipeline Approved

TransCanada Corp.'s Horn River pipeline project has received regulatory approval from the National Energy Board of Canada. The project will be the company's second pipeline in the play, following the December 2010 completion of the Groundbirch pipeline, which connects the company's Alberta System into British Columbia.

"TransCanada's Horn River pipeline will provide a second direct point of access to the growing shale gas supplies in northeast B.C.," said Russ Girling, TransCanada's president and chief executive officer. "This new pipeline will provide our customers with safe and reliable access to the Alberta System and downstream markets, and we look forward to bringing this project into service by the second quarter of 2012."

TransCanada's approximately Cdn$310 million (US$311.1 million), 96-mile Horn River pipeline consists of a new 36-inch pipeline and acquisition of an existing 24-inch pipeline.The project will provide firm service for Alberta System gas transportation contracts that grow to over 630 million cubic feet per day by 2014.

Horn River and Groundbirch shippers have committed to Alberta System transportation contracts that will reach 1.9 billion cubic feet per day by 2014. This will help offset the recent decline in conventional Western Canada Sedimentary Basin volumes and contribute to higher throughput and lower tolls on downstream pipelines including the Canadian Mainline.

TransCanada has put into service six major projects in the last 10 months. The Keystone Pipeline System Phase 1 is delivering oil; the North Central Corridor, Groundbirch and Bison natural gas pipelines are all moving gas to market; Maine's largest wind project - Kibby Wind - became fully operational in late October; and the Halton Hills Generating Station in Ontario began producing power in the fall of 2010.

TransCanada will continue bringing large-scale projects into service in the coming months including Keystone Phase 2, the Coolidge Generating Station in Arizona and the Guadalajara natural gas pipeline in Mexico.

INTERNATIONAL NEWS

Delek Proposes Natural Gas Plant, LNG Facility on Cyprus for Israeli Gas

Delek expressed interest in forming a partnership with the government of Cyprus to build a facility to process and export natural gas reserves from the recently discovered Leviathan field off the coast of Israel that contains up to 15.9 trillion cubic feet of natural gas (see Gas Processors Report 01/13/11), as well as from potential reserves inside Cypriot waters.

The facility would include a liquefied natural gas (LNG) terminal to export natural gas from the region to other markets in addition a natural gas processing plant.

According to a letter from Delek to Cypriot President Dimitris Christofias, the facility would help Cyprus meet its domestic energy needs. "We are confident that this project will enable Cyprus to satisfy its domestic energy needs from a clean and cheap source and to transform Cyprus from an importer of energy to a regional hub for exporting natural gas."

Currently Cyprus energy needs are largely met by importing crude oil. The Cyprus government has not yet responded to Delek's proposal. The Electricity Authority of Cyprus is currently negotiating with bidders to build a re-gasification and storage terminal The largest offer thus far has come from Royal Dutch Shell, with a Cyprus a 20-year US$5.9 billion contract to supply LNG to the island last month.

Delek is part of a group of companies led by Texas-based Noble Energy exploring natural gas fields off the coast of Israel. In addition to the Leviathan field, Noble Energy has also discovered the Tamar field in 2009 with up to 8.4 trillion cubic feet of natural gas (see Gas Processors Report 08/07/09).

The company 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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