Gas Processors Report

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Inside Look at Processing Trends

Alberta Losing Its Advantage

The Alberta Advantage is becoming less apt a descriptor for the territory's ethylene margins.

Industry consultant CMAI projects the Alberta Advantage for ethylene will decline to 3¢/lb in 2007 and 2¢/lb in 2008 due in part to Gulf Coast ethane pricing closer to fuel value, the basis for pricing in Alberta. The completion of new LNG terminals on the Gulf Coast will increase the supply of ethane, potentially reducing the price differential between the Gulf and Alberta.

Merrill Lynch analyst Don Carson points out that the Alberta Advantage for ethylene dropped from an unsustainable 17¢/lb in the third quarter to 7¢/lb in the fourth quarter 2006 as Gulf Coast ethane prices reverted back to fuel value. Average ethylene prices fell 10¢/lb sequentially in the fourth quarter as converter demand was anemic, Carson noted in a Jan. 9 research report.

"In Alberta, ethane prices are based on their fuel value while in the U.S. prices are set by supply and demand," Carson points out. "In a period of strong demand for ethane, typically when producers with feedstock flexibility want to maximize ethylene production, ethane can trade at a significant premium to its fuel value."

CMAI's estimates for a lower Alberta Advantage in 2007 and 2008 are driven largely by ethane trading closer to its fuel value. "This ethane pricing scenario is caused by increased LNG imports increasing the supply of ethane into the Gulf Coast," Carson adds.

"The other market-based driver of the Alberta Advantage, the difference between spot gas prices in Alberta and the Gulf Coast, actually narrowed over the course of 2006. This measure is also considerably less volatile and therefore has less of an impact on the change in the Alberta Advantage."

Enterprise Buys Piceance Creek Pipeline from EnCana

Enterprise Gas Processing, an affiliate of Enterprise Products Partners, has purchased Piceance Creek Pipeline from EnCana Oil &Gas USA for an undisclosed sum.

The assets of Piceance Creek Pipeline consist primarily of a recently constructed 48-mile, 36-inch diameter gas gathering pipeline in the Piceance Basin of northwest Colorado. As part of the transaction, EnCana has signed a long term fixed-fee gathering contract and dedicated significant production to the system for the life of the associated lease holdings. The transaction is expected to be accretive to Enterprise this year.

The new Piceance Creek Gathering System (PCGS), with capacity of 1.6 billion cfd extends from a connection with EnCana's 32-mile, 24-inch diameter Great Divide Gathering System near Parachute, Colorado, northward through the heart of the Piceance Basin to Enterprise's 1.5 billion cfd Meeker gas treating and processing complex, which is currently under construction.

Connectivity to the Great Divide system will provide PCGS with access to production from EnCana's Mamm Creek field. PCGS is expected to be placed in service this month with initial volumes of approximately 500 million cfd of natural gas, and volumes are expected to ramp up to approximately 625 million cfd by the end of this year, with a significant portion of these volumes being produced by EnCana.

"With access to the most active producing areas in the Piceance Basin, this gathering system represents a strategically important addition to our assets and business opportunities in the region," said Robert Phillips, Enterprise president and CEO.

"This acquisition and long term gathering agreement with EnCana, along with Enterprise's previously announced Meeker treating and processing complex, and the recent 30-year midstream services agreement with ExxonMobil, positions Enterprise to be a premier midstream player in the Piceance Basin. Additionally, this new pipeline system is expected to provide producers throughout the basin with a direct conduit to the Meeker complex, as well as pipeline access to Enterprise's Mid-America NGL pipeline system and interconnects with various interstate natural gas pipelines that export gas from the Rocky Mountain region, including the new Rockies Express Pipeline."

Phase I of the Meeker complex, which is supported by commitments from EnCana, is scheduled for a mid-2007 start up, and will be capable of treating and cryogenically processing up to 750 million cfd of natural gas and extracting as much as 35,000 b/d of NGLs.

Phase II is expected to be completed in mid-2008. The expansion of the partnership's Mid-America Pipeline system, now under construction, will provide increased export capacity of NGLs produced from Meeker and elsewhere in the Rocky Mountain region, including the Piceance Basin.

Current natural gas production from the Piceance Basin, which covers approximately 6,000 square miles, exceed 1 billion cfd from more than 4,800 well and has been growing at an annualized rate averaging 25% over the past five years. With third part estimates suggesting 20 trillion cubic feet of undeveloped reserves, the Piceance Bain offers long-term opportunities for Enterprise to continue to expand its system to serve producers developing this extensive resource play.

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Superior Earmarks $25 Million For 2007 Capital Spending

Unit Corporation's Superior Pipeline Company has budgeted capital expenditures of $25 million for 2007.

In 2006, Superior completed the installation of a second natural gas treatment plant on the Panola Gathering System, acquired two natural gas processing plants to be installed on existing facilities, completed the acquisition of an additional gathering system and processing plant, and added an additional 100 miles of pipeline.

Superior's asset base consists of three natural gas treatment plants, six operated natural gas processing plants, 37 active gathering systems and approximately 600 miles of pipeline. Also during 2006, Superior connected an additional 58 wells to its gathering system.

"We are very excited about how Superior Pipeline continues to grow and add to its asset base," said Larry Pinkston, president and CEO of Tulsa-based Unit Corporation. "Superior is rapidly establishing a significant operation in the Arkoma and Midcontinent basins, two of America's important regional plays for meeting the growing need for natural gas."

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Moody's Changes DCP Midstream's Outlook to Positive

Moody's Investors Service changed its rating outlook on DCP Midstream to positive from stable.

The positive outlook reflects Moody's expectation that DCP's robust financial performance will continue over the next 12 to 18 months due to the company's strong financial position and a healthy outlook for natural gas gathering and processing.

"DCP's credit quality appears fundamentally improved through its efforts to reduce both debt and price sensitivity," said Moody's Vice President Mihoko Manabe.

Moody's acknowledges that much of the improvement in DCP's credit metrics reflects higher commodity prices. Nevertheless, Moody's believes the company appears fundamentally better positioned to withstand future price declines. DCP says it has become less sensitive to changes in NGL prices by adding provisions to keep-whole contracts that should help it avoid losses when processing spreads turn negative.

Moody's notes that DCP's balance sheet is strong and liquid. Free cash flow generated over the past few years has accumulated to roughly $800 million of cash and short term investments as of Sept. 30. The company has reduced debt by roughly 25% from the peak in 2002 and by about 50% net of cash and investments. Debt-to-funds flow from operations has decreased from a peak 9.4x in 2002 when the sector was at a cyclical low to 1.5x for the 12 months ended Sept. 6.

Moody's says DCP's ratings could be considered for possible upgrade over the next 12 to 18 months if the company sustains a strong level of financial flexibility. DCP's ratings anticipate some level of price-driven fluctuation in its financial results and are based on average metrics expected to be achieved through the gas processing price cycle.

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Fractionation Spread

Gross margins fell significantly on higher natural gas prices with the barrel at Mont Belvieu losing $8.25 to $32.94 and the barrel at Conway dropping $6.39 to $32.90.

Margins fell $2.71 at Conway to $14.78 and $3.46 at Mont Belvieu to $14.25. The total barrel value in $/mmBtu slipped 43¢ at Mont Belvieu to $9.58 and 33¢ at Conway to $9.28. The value of all the liquids weakened on stronger gas prices.

Spot gas prices moved up for the second straight day Tuesday with the return of colder weather in key consuming areas lifting demand. Forecaster AccuWeather said winter was finally making an appearance with snow forecasts from the Great Lakes to the southern Appalachian Mountains. Artic air was expected to press into the Northwest bringing snow to Seattle and Portland, while the Eastern Seaboard was forecast to experience its coldest daytime high temperatures in several weeks.

The upward trend continued in Wednesday trading with improving demand due to the weather. Spot prices are expected to keep a fairly bullish tone as long as winter weather remains. There is hope that the colder weather will push up propane prices as well, but strong inventories still present a slightly bearish tone.

The latest National Weather Service six to 10 day outlook and eight to 14 day outlook, both issued Monday, called for below normal readings for nearly the entire nation, with seasonal or above seasonal readings only in the Northeast and parts of the Southeast.

However, strong storage numbers are still keeping a check on prices. Withdrawal estimates for this week's EIA report range from 38 bcf to 62 bcf, with most in the mid-40s bcf.

Current Frac Spread (Cents/Gal)

Date: January 9, 2007	Conway	Mont Belvieu
Ethane	50.50	56.53
Shrink	38.44	39.69
Margin	12.06	16.84
Propane	85.65	86.78
Shrink	53.03	54.75
Margin	32.62	32.03
Normal Butane	105.25	107.14
Shrink	57.72	59.59
Margin	47.53	47.55
Iso-Butane	114.08	108.94
Shrink	60.03	61.99
Margin	54.05	46.95
Pentane+	131.00	125.64
Shrink	64.95	67.07
Margin	66.05	58.57
NGL $/Bbl	35.93	36.09
Shrink	21.15	21.84
Margin	14.78	14.25
Gas ($/mmBtu)	5.79	5.98
Gross Margin in $/bbl	32.90	32.94
NGL Value in $/mmBtu		
Ethane	2.78	3.11
Propane	2.97	3.01
Normal Butane	1.18	1.20
Iso-Butane	0.68	0.65
Pentane+	1.67	1.60
Total Barrel Value in $/mmbtu	9.28	9.58
Margin	3.49	3.60

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.

Spot prices also rose in Canada Tuesday with cold weather forecasts boosting demand. Spot prices at the AECO storage hub in southeastern Alberta climbed 14¢C to average C$6.43/gigajoule. Forecasters called for an Artic blast in western Canada and the U.S. Pacific Northwest later this week and in the central United States by next week, providing the heating demand for Canadian gas that was mostly absent in December.

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Midstream News

Spectra's Wyrsch Keynotes February Midstream Summit

Martha Wyrsch, president of Spectra Energy Gas Transmission, will deliver the keynote address of the Midstream Gas Assets Acquisition & Divestiture Summit set for the St. Regis Hotel in Houston Feb. 22-23.

The two-day summit is designed as an informal marketplace where midstream gas assets and buyers can come together to share perspectives on the market, gauge opportunities and network. The summit is designed to provide the latest intelligence on the current market environment for midstream gas asset deals.

Wyrsch opens the summit with her keynote address Feb. 22. The first day includes a panel discussion on the role MLPs are likely to play in the midstream gas asset A&D market. Speakers on the panel are Ron Bopp, senior vice president, corporate development, Copano Energy; Barry Davis, president and CEO, Crosstex Energy Companies; Scott Martin, director, Martin Midstream; Terry McGill, president Enbridge Energy Partners and Michael Smith, vice president, Energy Transfer, LP.

Afternoon panels look at corporate perspectives on the market and the perspectives of private equity on the midstream gas asset A&D market. The conference wraps up by noon Feb. 23 with a survey of the available information on midstream A&D assets and a panel discussion featuring insights from investment bankers on the midstream gas asset A&D market.

The conference is sponsored by Infocast. For registration information, access their website at www.infocastinc.com/midstream.html

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Propane Inventories Move Sharply Lower

U.S. propane inventories moved sharply lower last week with a 2.1-million-bbl decline that positioned the nation's primary inventories at an estimated 59.8 million bbls as of Jan. 5, according to the Energy Information Agency.

However, despite sharply lower inventories, and with propane markets beginning to enter the most critical heating months of January and February, propane inventories remain above the upper boundaries of their respective average ranges for this time of year at both the national level as well as in the major heating regions in the East Coast and Midwest.

Propane inventories continued to show the largest weekly decline in the Gulf Coast region with a 1.5-million-bbl drop, while inventories in the Midwest reported a more modest 400,000 bbl decrease during this same time.

The combined Rocky Mountain/West Coast regions reported a surprisingly sharp weekly decline measuring 600,000 bbls, while inventories in the East Coast reported a weekly build of 100,000 .bbl drop that accounted for a 5.8 % of total propane/propylene inventories, unchanged from the prior week's share.

Also, EIA will release its propane data one day later on Thursday of next week due to the Martin Luther King Holiday on Monday. Since this is after GPR's Wednesday publication date, next week's GPR will not include any EIA propane data. The data will return in the Jan. 24 issue.

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NGL Price Boxscore

Continued Softening Demand Pushes Both Barrels Down

Continued softening in heating and petrochemical demand pushed NGL prices down for the sixth straight week, with the barrel at Mont Belvieu dropping to $36.09 and the barrel at Conway slipping to $35.93.

Last year at this time the barrel at both locations was firmly in the $40 range, trading at $42.44 at Mont Belvieu and $42.06 at Conway.

Propane fell by about 4¢ at both Conway and Mont Belieu on robust storage numbers and the overall lack of winter weather. The weakness in crude prices is also wearing heavy on NGL numbers.

Ethane's fall below 60¢ came as no surprise due to the continued softening of competing ethylene feedstocks. Ethylene plant operating rates are holding the 85% level with plenty of feedstock flexibility.

Softening demand continues to be the name of the game for ethane. Merrill Lynch analyst Don Carson believes converters will likely need to replenish depleted inventories at some point in the first quarter following the de-stocking that took place in the fourth quarter, but declining energy prices continue to keep converters on the sideline for the near term as they anticipate that plunging feedstock costs will translate to flat pricing in January.

"Given lackluster demand and declining production costs however, we expect ethylene prices to roll-over flat in January before trending moderately higher in February," Carson notes in a Jan. 8 report.

Ethylene spot margins have narrowed from roughly 6¢/lb in mid-December to current levels of only 4¢/lb as selling prices have fallen more than the 2¢/lb decline in ethane-based cash costs.

"We believe that the anemic ethylene spot margins are indicative of the current demand weakness with ethylene spot prices of 32¢/lb versus the December contract price of 41.5¢/lb and spot margins of 4¢/lb below (industry weighted) contract margins of 12¢/lb. We do not expect prices to rise in January."

Mont Belvieu	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Jan. 4-9, '07	56.53	86.78	107.14	108.94	125.64	**$36.09**
Dec. 27-Jan 3, '07	59.82	90.99	109.71	108.50	131.58	**$37.62**
Dec. 20-27, '06	61.92	94.80	111.96	113.65	133.64	**$38.79**
Dec. 13-19, '06	64.18	95.37	111.63	113.65	132.46	**$39.11**
December '06	63.16	96.84	112.84	114.89	133.29	**$39.28**
November '06	59.42	94.25	110.53	110.57	128.00	**$37.80**
4th Qtr '06	61.85	94.86	111.23	111.99	130.83	**$38.52**
3rd Qtr '06	74.42	109.82	128.36	129.37	152.40	**$45.06**
2nd Qtr '06	66.87	104.95	121.77	126.29	151.66	**$42.84**
1st Qtr '06	56.30	94.33	118.84	129.01	139.94	**$39.07**
Jan. 5 - 11, '06	64.59	99.27	132.71	139.95	147.14	**$42.44**
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Jan. 4-9, '07	50.50	85.65	105.25	114.08	131.00	**$35.93**
Dec. 27-Jan 3, '07	52.00	89.27	108.92	115.88	135.83	**$37.18**
Dec. 20-27, '06	53.75	91.88	110.19	119.92	135.63	**$37.94**
Dec. 13-19, '06	51.56	93.67	107.00	119.00	139.31	**$37.85**
December '06	51.93	94.47	109.61	118.98	137.35	**$38.01**
November '06	51.91	94.67	104.79	111.94	127.25	**$36.90**
4th Qtr '06	52.31	94.13	105.88	114.65	129.25	**$37.17**
3rd Qtr'06	72.02	108.27	122.23	133.81	149.64	**$44.84**
2nd Qtr '06	63.60	104.24	117.65	130.82	162.14	**$43.51**
1 Qtr '06	53.86	92.07	117.35	136.58	147.34	**$39.60**
Jan. 5-11, '06	61.29	97.34	137.58	143.77	147.15	**$42.06**

Data Provided By ChemConnect. Individual product prices in cents per gallon.
NGL Barrel: dollars per 42 gallons.

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