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FEATURES

Former MarkWest Executive: Marathon Merger A 'Bad Deal'

By **DARREN BARBEE**, Hart Energy

The former chairman of MarkWest Energy Partners LP's (NYSE: MWE) management company wants to scuttle a multibillion dollar merger between MarkWest and Marathon Petroleum Corp. (NYSE: MPC) and its MLP, MPLX LP (NYSE: MPLX).

John Fox, former CEO, chairman and director of MarkWest Energy GP LLC, which manages the MarkWest MLP, questioned why the MLP is selling itself for "pennies on the dollar."

In July, Marathon and MPLX said they would purchase MarkWest Energy Partners for a deal then worth $15.7 billion.

Marathon and its MLP stand to increase raw earnings by nearly $1 billion. MarkWest is the second-largest gas producer in the U.S. and processes about 75% of total rich-gas production from the Marcellus and Utica.

Marathon, MPLX and MarkWest Merger			
	MPLX	MarkWest	Pro Forma MPLX
LP Equity Value ($B)	$6	$16	$21
Net Debt ($B)	1	4	5
EV ($B)	6	20	26
Adjusted EBITDA ($MM)	275	975	1250
Source: MPLX, MarkWest, Marathon			

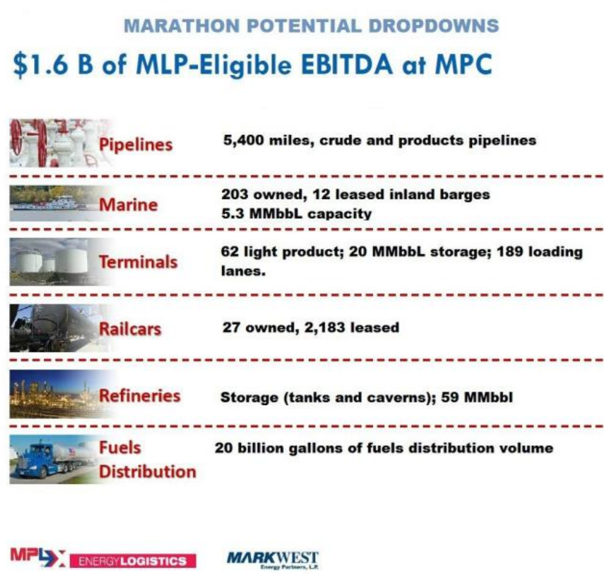
The companies have said the combination will create a large-cap, diversified MLP with an expected compound annual distribution growth rate of 25% through 2017. However, Fox said that most of the proceeds will eventually end up in Marathon's pocket.

Marathon spokesman Chuck Rice said the company is disappointed with the comments.

"We continue to believe the proposed combination is compelling and we look forward to the Dec. 1 vote and finalizing the combination of MPLX and MarkWest," Rice said. "We are very enthusiastic about the prospects for the combined partnership."

Under the terms of the deal, MWE common unitholders would receive 1.09 MPLX common units for each of their common units. Marathon would contribute $675 million in cash and its MLP would assume all of MarkWest's cash and about $4.2 billion in outstanding debt.

MarkWest would also gain access to a portfolio of $1.6 billion in MLP-eligible EBITDA, the companies said. It would also own 71% of the merged company, followed by Marathon (21%) and MPLX (8%).

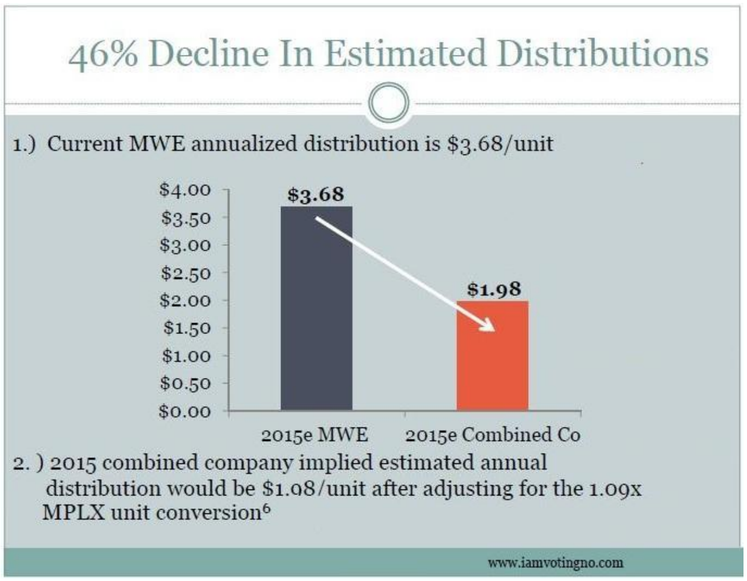


"The announcement is a clear positive to MPC shareholders," Jeff Dietert, head of research, Simmons & Co. International, said in July.

Fox says the $675 million cash payment would be paid back to Marathon in less than three years through incentive distribution rights (IDR) to Marathon. Fox described the IDR as rights to payment of an increasing percentage of the cash distributed, and they are generally held by an MLP's general partner.

"During the period from 2016-2019, Marathon Petroleum, as owner of MPLX GP, is projected to realize an estimated benefit of nearly $2 billion in cash from IDRs that would otherwise accrue to the limited partners of MarkWest were it to remain a stand-alone entity," Fox said.

Not pulling any punches, Fox has launched the website, iamvotingno.com, which calls the merger a "bad deal" that will cut distributions to MarkWest unitholders by "an estimated 46% with only intent to get back to parity in three to five years." Fox owns 1.4 million MarkWest common units.



Fox said the market has effectively judged the deal since its announcement: the unit price of MPLX has fallen 44% since the merger.

Fox, who in 1988 co-founded Denver's MarkWest Hydrocarbon Inc.—now an MWE subsidiary—said the merger threatens to significantly reduce distributions to former MarkWest unitholders.

MarkWest is better off as a standalone. In a June presentation, the company noted that 90% of its 2015 net operating margin is fee-based.

"Beyond the obvious avoidance of a draconian distribution cut and the enormous IDR burden, a standalone MarkWest has a tremendous growth platform," he said. "MarkWest is the largest gas processor in the prolific Marcellus/Utica gas field, processing about 60% of the total rich-gas production from this field."

Analysts, however, still see promise for MarkWest through the merger.

On Sept. 15, Kristina Kazarian, analyst, Deutsche Bank, said the MPLX merger is MarkWest's "next step to offer an even wider downstream menu for producers."

The creation of in-basin demand for NGL in the Northeast is a key goal for MarkWest and will be a major focus for the $6 billion to $9 billion in incremental projects that the MPLX deal is expected to bring.

"We see further development around Cornerstone as a likely first announcement," she said. "From a timing perspective, the deal is still in SEC review but appears on track for a mid-fourth quarter vote and end-fourth quarter close."

What Does The Gas Market Need? Midstream's Help

Mike Latchem, managing director and CEO of Lucid Energy Group, and Gary Conway, principal, president and CEO of Vaquero Midstream LLC speak at Hart Energy's Midstream Texas conference.

By **PAUL HART**, Hart Energy

SAN ANTONIO—The natural gas business needs many things right now to right itself and assistance from midstream operators will help re-balance supply and demand. That was the consensus of three midstream executives who discussed the current gas market during a roundtable at Hart Energy's Midstream Texas conference.

Mike Latchem, managing director and CEO of Lucid Energy Group; Gary Conway, principal, president and CEO of Vaquero Midstream LLC; and Robert E. Dunn, president of Prism Midstream LLC; focused on the Permian Basin, but noted midstream's role in improving the gas market is much the same in all North American plays. Also, the crude oil and NGL markets tie closely to what happens to gas, they added.

The energy industry's goal is to "reset the market," Latchem said, and then asked, "What do we need as a gas market?"

Above all, midstream operators "need to sell service first," he said. "Lucid will continue to do what we do best—build a reputation for service. It's our job to figure out the netback costs to producers and see if we can come up with creative solutions. If we do that, we will always have investment opportunities.

"We will have a ceiling on gas prices, that will be floating just above our heads, for quite some time," Latchem continued.

Meanwhile, the midstream must "debottleneck demand" so that producers can reach more markets. "Our challenge in midstream is going to be to find a way to help that netback price for producers," Latchem said.

Conway agreed, adding “we need to do what we can on our part; the prices are going to be what the prices are going to be.”

In the meantime, the midstream needs to be “resilient, we need to take some of the risk ourselves and go ahead and get some of the infrastructure in place so that when the markets do come back, and prices are where they need to be for these producers, they’re not hampered,” Conway continued.

Dunn discussed new markets for U.S. gas, specifically mentioning exports to Mexico, which he estimated will create 4 billion cubic feet per day (Bcf/d) in new demand during the next few years. An additional 4 Bcf/d will open up as new U.S. petrochemical plants come in the next couple of years.

“And for those of you who have been around a long time, the fertilizer plants will be back,” Dunn added.

Lucid entered the Permian’s core Midland Basin in 2012 and has seen steady growth. “In spite of the markets dropping, we continue to grow, month to month,” Latchum said.

Currently, Lucid has more than 675 miles of new pipelines with 345 million cubic feet per day (MMcfd) of capacity and five interconnected processing plants that serve several major and independent producers. “Our focus is on gas development,” he emphasized.

“What’s unique about the Permian—and other oil plays—is they provide a unique opportunity for gas guys like us to take a first bite of the apple,” Latchem said. “Gas services have to be provided from the start of production.”

Conway discussed the sprawling Permian from Vaquero’s vantage point on the southern side of the Delaware Basin. He noted drilling in the area increased 200% from 2010 to 2015, overwhelming existing midstream infrastructure.

“The incumbent systems that were legacy to this area, they are too small and they weren’t designed for the composition of gas” produced from unconventional formations, he said. “We have more pipe there now, but I don’t know that we’ve solved all the problems. We need to have a better idea” of differing gas-oil ratios, high initial production rates and differing specifications for production from the region’s stacked plays.”

Crude is not always the greatest issue for midstream operators, he noted.

Latchem also touched on the varying requirements of producing zones in the Midland Basin, noting, for example, that the firm had to add nitrogen rejection at one of its plants.

From a sales standpoint, Vaquero can offer producers great flexibility and the opportunity to reach multiple markets via the Waha Hub, Conway said, noting the nearby gas hub connects the Delaware to 12 pipelines that can move production throughout the U.S. And not too far to the south is Mexico and its expanding gas market.

“Mexico is a really big player here,” Conway emphasized.

Prism’s Dunn discussed the Permian’s midstream needs as well as East Texas, where the firm recently acquired a 153-mile gas gathering system serving Woodbine and Eaglebine producers in Madison, Leon and Houston counties. The firm plans to covert part of that system to crude service, he added.

In the Permian, “We went out there looking for processing opportunities but when we first started up, getting crude oil out was the critical need,” Dunn said. Prism provides crude oil, condensate, frac sand and tubulars service through its Pecos, Texas, terminal. Its Bedrock plant outside Ozona, Texas, provides liquids handling, primarily for Wolfcamp producers. It will add a new stabilizer in early 2016.

When will the price recovery begin? The question brought chuckles from the roundtable participants.

“If I knew that I would be calling you from my yacht,” Dunn quipped. “If we can get a $4 to $5 gas market, we will see a lot of new gas that will be easy to develop.”

Latchem agreed, mentioning the Haynesville as an unconventional play that has seen little activity but an area that could come back quickly with even modest price upticks.

There are many price predictions but Dunn said "it really all depends on crude." In particular, higher crude prices will open up demand for U.S. LNG since international LNG prices are typically based on a crude price formula.

"The real swing will be tied to LNG and that's tied to crude oil. But with the recovery in crude oil prices, U.S. LNG will be very competitive," Dunn added. What happens with new pipeline capacity to the Northeast and New England will have a significant impact on gas demand and prices too, he said.

Fresh Off Merger Pitch, Western Refining Drops Down Key Pipeline

By **EMILY MOSER**, Hart Energy

Foreshadowing possible transactions to come, Western Refining Logistics LP (NYSE: WNRL) said Nov. 2 it has acquired a 375-mile segment of the TexNew Mex pipeline and an 80,000 barrel (bbl) crude oil storage tank from its sponsor, Western Refining Inc. (NYSE:WNR).

The deal comes just six days after Western Refining, an El Paso, Texas-based refiner, made a bid to acquire Northern Tier Energy LP (NYSE: NTI). Northern Tier, like Western, has midstream assets which could be similarly dropped down into the MLP as a way to more easily cash in on them.

Western Refining Logistics, which was formed by Western Refining to own, operate and acquire assets, will acquire the pipeline segment in a $180 million deal. Such dropdown deals are part of a long-term strategy by Western to shore up its MLP.

With additional midstream assets, the MLP could ship crude oil from the Delaware and San Juan basins to the U.S. Gulf Coast.

"Management reiterated that the development and drop-down of logistics assets in the Delaware and San Juan basins serves as an important step towards growing distributions at the WNRL level," said Jeff Dietert, analyst with Simmons & Co. International, in a Nov. 2 report.

The MLP currently has about 300 miles of pipelines and about 7.9 MMbbl of active storage capacity, as well as other assets.

Merger

The proposed Western/Northern Tier merger would create a company with twice the miles of pipeline—600 miles—and increased exposure to crude production in western Canada, the Permian and San Juan basins and the Bakken Shale.

The combination would also increase Western's storage capacity to 11.9 MMbbl from 8.1 MMbbl.

"WNR's long-term strategy is to continue to develop newly-constructed logistics assets in the Delaware and San Juan basins, which will enhance the crude oil advantage of our refineries," said Jeff Stevens, president and CEO of WNR and WNRL, in a statement.

However, the proposed Western/Northern Tier merger has split some analysts. Some believe it gives Western a top-tier refinery portfolio with three of the highest-margin refineries in the U.S. Others say Northern Tier is undervalued and may seek a higher asking price.

Western Refining owns about 38% of Northern Tier's outstanding common units. On Oct. 26, the company made a bid to acquire the remaining interest of Northern Tier's publicly-held common units at a 14% premium.

However, Northern Tier could find an easier path to monetizing its midstream assets, analysts said.

Refined Deal

The TexNew Mex pipeline and crude oil storage tank are expected to generate $18.5- to $19 million of EBITDA in 2016, the release said.

The line extends from WNRL's crude oil station in Star Lake, N.M., in the Four Corners region to the company's T Station in Eddy County, N.M. The storage tank is located at WNRL's crude oil pumping station in Star Lake.

The pipeline supplies WNR's El Paso refinery with "cost-advantaged crude oil," Stevens said.

As production grows in the Four Corners region, the TexNew Mex pipeline will also provide a "potential outlet for crude oil shipments to Midland and the U.S. Gulf Coast," Stevens added.

In connection with the closing, Western and WNRL amended certain commercial agreements. As part of the amendments, Western will provide minimum volume commitments for 10 years of 13,000 bbl/d on the TexNew Mex pipeline and about 80,000 bbl of crude oil storage.

The primary consideration for the assets consists of $25 million in cash, $145 million in revolver borrowings and $10 million in WNRL common units issued to Western.

WNRL also issued to Western a new class of WNRL partnership interests in connection with the acquisition that entitle WNR to 80% of the economics resulting from crude oil throughput on the TexNew Mex pipeline above 13,000 bbl/d. WNRL will be entitled to 20% of the economics resulting from crude oil throughput above this minimum volume commitment.

The terms of the transaction were approved by Western's board of directors. Terms were also approved by the conflict committee serving the board of WNRL's general partner, which is composed of independent directors.

A&D Outlook: Upstream Rebounds, Midstream Strong, Fourth Quarter Hazy

By **DARREN BARBEE AND EMILY MOSER**, Hart Energy

A&D aficionados know that even after all the number crunching, earnings calls and whispers from insiders, navigating the way ahead for deals might as well be done with an astrologer's astrolabe.

Industry watchers at large financial firms variously foresee a run up of activity—or more of the same. Some predict more bankruptcies, others don't see it happening.

Third-quarter 2015 transactions in the oil and gas sector were powered by midstream megadeals. The upstream sector also saw a rebound with deals in the Permian, Eagle Ford and Utica/Marcellus, PwC said.

Perhaps one certainty as 2016 approaches is that companies will aggressively protect their balance sheets in the coming year.

Increasingly, E&Ps are weighing their asset positions and considering a question best posed by punk rock band The Clash: "should I stay or should I go?"

Some companies, such as Occidental Petroleum Corp. (NYSE: OXY) and Encana Corp. (NYSE: ECA) decided to go in the third quarter of 2015.

In the upstream segment, deal volume was up 50% from the second quarter of 2015. Upstream deals in the third quarter totaled 27 transactions worth $8.8 billion.

However, values were still 36% lower than the same period in 2014, said Doug Meier, PwC's U.S. oil and gas sector deals leader.

The most active shale plays during the third quarter of 2015 held no surprises. The Permian, Eagle Ford, Utica and Marcellus led the way with deals of $50 million or more.

Active Shale Deals, Third-Quarter 2015

Play	Number of deals	Value ($B)
Permian	7	$4.1
Eagle Ford	5	$2.8
Utica/Marcellus	1	$20
Source: PwC		

But midstream did the heavy lifting in the quarter. Fourteen midstream transactions accounted for 70% —or $63.5 billion—of overall deal value, Meier told Hart Energy.

Deloitte Consulting LP says the industry's "wait and see" mode will give way to a ramp-up in deals by the last months of 2015.

Steve Crower, director of the oil and gas team at SDR Ventures, predicts M&A activity will remain flat for now. Companies will continue slimming their portfolios through noncore asset sales, he said.

While companies typically hold on to their noncore assets, in a downcycle "everyone is literally chopping off their arms to stay alive," Crower told Hart Energy.

‘Marginal Stuff’

In the third quarter, Occidental said it had agreed to sell its Williston Basin assets for about $600 million.

During an Oct. 28 earnings call, Stephen I. Chazen, president and CEO, spoke candidly about the position’s value: the Bakken always generated negative cash flow or, at best, neutral cash flow for the company.

Instead, the company decided to sell in a depressed market to use the money in the Permian Basin.

“We just can't see a situation where we would invest in it, given what we have in the Permian,” Chazen said. “So it's really a statement that says, okay, we just don't see how it competes for capital inside the company in any reasonable price scenario that we can come up with.”

E&Ps have taken a significant number of impairments and write-offs, said Seenu Akunuri, PwC U.S. oil and gas valuation practice leader.

Case in point: Encana, which is carefully watching its debt.

In August, the Calgary, Alberta-based company said it would jettison its Haynesville natural gas assets for $800 million.

The Haynesville has “always been marginal stuff and nobody needs money more than Encana,” Crower said.

In addition to its sale of 112,000 net acres in Louisiana, Encana said Oct. 8 it would sell its Denver-Julesburg (D-J) Basin assets for $900 million. Proceeds will be used to pay down debt.

Encana planned to spend more than 80% of its capital on the company’s most strategic U.S. and Canadian assets: the Permian, Eagle Ford, Duvernay and Montney.

Resolute Energy Corp. (NYSE: REN) also recently decided it would part with its Powder River Basin assets in Wyoming for $55 million. The deal followed the May sale of Midland Basin assets in Texas for $42 million.

Akunuri said oil and gas company valuations continue to be depressed as executives realize oil prices may stay at $40 to $60 longer than expected.

“We expect deal activity to pick up over the next 12 months as the market will see companies with free cash flow and strong balance sheets acquire assets and businesses from motivated sellers,” he said.

However, even midstream companies are feeling pressure on their share prices and in the financial markets, suggesting their yearlong A&D spree may be slowing.

Middle Dearth?

Midstream transactions made up 70% of the total overall deal value in the third quarter of 2015. Yet in the third quarter of 2015, the environment started to change for infrastructure companies, Meier said.

“Midstream companies kind of got hammered in two regards, one their share prices or unit prices declined very significantly over the third quarter,” Meier said.

Megadeals are driven by gaining the benefit of scale, synergies and expected growth in distributions or dividends at a time when U.S. onshore production levels have started to decline, he said.

Some companies may target companies that have lower leverage on their balance sheets, potentially reducing the buyers’ overall leverage in the process.

But in the third quarter, midstream ran into tightening debt and equity markets as sources of financing.

Third-quarter transactions had likely been in progress for some time, Meier said. “There’s a lag between when the deal process starts and when the announcement happens,” he said.

Despite the declining market, Meier said midstream opportunities haven't been exhausted. They've just become more expensive due to higher costs of capital.

"We've seen in previous downturns that those companies that are stronger players still have the ability access to capital," he said.

Cheap Bait

Nevertheless, Deloitte questions whether banks will continue their leniency with industry companies during the downturn.

A debate churning among industry experts is whether banks will lose faith in companies or an influx of money will shore up E&Ps.

So far, lenders have been forgiving. But impatient financial institutions might start forcing some highly-leveraged upstream companies into bankruptcy, Deloitte said. Assets would emerge on the market as companies enter restructuring.

"The oil and gas industry players will soon be under increasing pressure to rationalize assets in their portfolios to respond to requirements of debt-holders and to make external adjustments to business structures," Deloitte said.

The upstream sector will likely be at the forefront since its cash flows are most affected by low oil prices, the firm said.

"Highly leveraged companies will likely be looking to sell assets to survive and in certain situations filing for bankruptcy protection," Akunuri said.

However, Crower doesn't see a "forest of bankruptcy" in the near future for the industry.

Banks have been "incredibly flexible" with redeterminations so far this downturn, he said.

Of the 40 E&P companies that Wells Fargo Securities covers, 13 companies have seen a mixed reaction from bankers, according to an Oct. 16 report.

The 13 companies either saw some borrowing bases lowered or no change and a couple were increased, said David Tameron, senior analyst with Wells Fargo, in the report.

Overall, the 13 companies now have a cumulative borrowing base of $14.4 billion, down 1% from $14.6 billion before redeterminations.

During the "Great Recession," it was a different story. As commodity prices took a hit, redeterminations were brutal, especially in 2009, Crower said.

Learning from the past, he said banks have realized that "knee-jerk reactions only make the vultures wealthy."

"2008-09 was basically a panic—everybody ran for the door—and you're not seeing that now," he said.

Crower sees a wave of new money coming into the industry as private equity buyers swoop in to pick up good assets that E&Ps are shaving off at a bargain.

Meier said that for the second quarter in a row, "we saw significant numbers of private equity led equity commitments to the E&P space."

Private equity investors "love an environment where things are cheap," Crower added.

FRAC SPREAD

Frac Spread: Storage Levels Are Troubling For Spring Markets

By FRANK NIETO, Hart Energy

A warm fall is dragging natural gas prices down to their lowest levels in three years as the Henry Hub price fell below the $2.00 per million Btu (/MMBtu) threshold. While prices can be expected to improve in the near term, Barclays Capital warned this week could be a sign of things to come.

"Although the market knew the bearish signals were present, high storage levels, new Northeast supply and the potential for a mild winter, the fact a sell-off happened this close to winter wrong-footed some. The winter should bring the market some respite, but the October sell-off may have provided a taste of what's to come in spring 2016," the investment firm said in its November 2 *Natural Gas Outlook*.

The headwinds facing natural gas prices have been known for months, but they came to a head this past week with the mild temperatures with the likelihood that storage levels will continue to build much later than normal.

NGL PRICES						
Mont Belvieu	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Oct. 28 - Nov. 3, '15	18.62	43.08	60.66	60.58	100.38	**$19.61**
Oct. 21 - 27, '15	19.23	41.88	58.18	58.00	97.38	**$19.16**
Oct. 14 - 20, '15	19.65	43.48	59.36	59.38	100.52	**$19.73**
Oct. 7 - 13, '15	20.27	48.64	64.96	65.10	106.18	**$21.27**
October '15	19.60	44.85	61.25	61.31	100.33	**$20.02**
September '15	18.71	45.45	58.34	59.01	96.20	**$19.46**
3rd Qtr '15	18.26	40.99	54.16	55.19	100.10	**$18.80**
2nd Qtr '15	17.93	46.30	58.11	59.66	126.14	**$21.48**
1st Qtr '15	18.38	53.01	66.35	67.81	110.53	**$21.94**
4th Qtr '14	20.22	76.90	96.73	98.28	149.25	**$30.10**
Oct. 29 - Nov. 4 '14	22.34	89.62	110.82	112.78	167.60	**$34.31**
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Oct. 28 - Nov. 3, '15	16.44	40.10	57.12	62.22	100.10	**$18.92**
Oct. 21 - 27, '15	16.80	38.76	54.22	58.92	96.16	**$18.32**
Oct. 14 - 20, '15	16.54	40.20	56.68	62.10	98.98	**$18.85**
Oct. 7 - 13, '15	16.63	45.02	62.50	69.90	103.40	**$20.25**
October '15	16.68	41.60	58.28	64.61	99.19	**$19.20**
September '15	16.10	43.19	53.66	62.28	96.61	**$18.82**
3rd Qtr '15	15.47	36.28	48.59	54.34	99.10	**$17.59**
2nd Qtr '15	15.50	40.55	52.40	56.80	121.50	**$19.89**
1st Qtr '15	17.81	49.00	66.13	76.84	106.32	**$21.49**
4th Qtr '14	18.69	78.64	102.72	113.19	146.37	**$30.77**
Oct. 29 - Nov. 4 '14	19.50	95.24	112.22	128.12	161.00	**$34.77**

According to PIRA Energy Group, this sell-off is in anticipation of a "storage crisis" in the producing region due to capacity constraints and high storage carries. "With a threadbare margin available to avoid extreme congestion and a related meltdown of Henry Hub prices, the past month's mild weather, and more of the same expected for November have been more than the market could handle. Consequently, the past week's Henry Hub price…should not be perceived as an 'out of the blue' shock," the firm said in a research note.

Despite the negative outlook for heating and crop drying demand, propane prices improved at both Conway and Mont Belvieu as propane prices are increasing in Europe and Asia. In addition, En*Vantage reported that export arbs are widening as transport costs decrease with the addition of new VLGC (very large gas carrier) ships are being brought online.

Of course, these positives are still battling the major headwind - record storage levels. Even as LPG exports increase with new capacity coming online, overhangs will not be worked off during this winter. This will put the propane market in much the same boat as natural gas once the spring arrives as the market will be severely oversupplied.

Along with propane, other NGL prices were improved across the board with the exception of ethane, which was down on the news that the U.S. Energy Information Administration (EIA) reported an increase in ethane stocks in August. This was the most recent data available and was a surprise that EIA reported an increase given that there had been a decrease in storage levels the previous month and ethane crackers were running at 95% of total capacity.

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Oct. 29 - Nov. 4 '14	19.50	95.24	112.22	128.12	161.00	**$34.77**

En*Vantage speculated that this build could have come from ethane being sold from petrochemical companies' private inventories. However, the volumes that would be necessary for such a large build would have disrupted prices and ethane has held firm for several months.

Heavy NGL prices experienced gains along with crude, which helped to increase the theoretical NGL barrel (bbl) at both Conway and Mont Belvieu. The price at Conway rose by 3% to $18.92/bbl with an 8% gain in margin to $11.51/bbl. The Mont Belvieu price improved by 2% to $19.61/bbl with a 6% gain in margin to $12.12/bbl.

The most profitable NGL to make at both hubs remained C5+ at 78 cents per gallon (/gal) at both hubs. This was followed, in order, by isobutane at 42 cents/gal at Conway and 40 cents/gal at Mont Belvieu; butane at 36 cents/gal at Conway and 39 cents/gal at Mont Belvieu; propane at 22 cents/gal at Conway and 24 cents/gal at Mont Belvieu; and ethane at 3 cents/gal at Conway and 5 cents/gal at Mont Belvieu.

Natural gas storage levels for the week of October 30, the most recent data available from the EIA, rose by 52 billion cubic feet to 3.929 trillion cubic feet (Tcf) from 3.877 Tcf the previous week. This was 10% greater than the 3.558 Tcf posted last year at the same time and 4% greater than the 3.782 Tcf five-year average.

RESIN PRICES – MARKET UPDATE – NOVEMBER 6, 2015					
TOTAL OFFERS: 15,393,148 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	3,749,888	0.56	0.66	0.52	0.56
PP Copolymer - Inj	2,865,208	0.55	0.66	0.61	0.65
HDPE - Inj	2,103,864	0.55	0.62	0.51	0.55
LDPE - Film	1,772,024	0.52	0.65	0.54	0.58
HMWPE - Film	1,424,576	0.53	0.585	0.52	0.56
HDPE - Blow Mold	1,213,564	0.52	0.6	0.51	0.55
PP Homopolymer - Inj	1,028,368	0.59	0.67	0.59	0.63
LLDPE - Inj	807,288	0.59	0.62	0.56	0.6
LDPE - Inj	428,368	0.55	0.69	0.58	0.62

Source: Plastics Exchange – www.theplasticsexchange.com

This injection level was on the low end for the past month, but are still high for a time of year that typically experiences storage withdrawals. Much of this is due to the warm temperatures that have pushed back heating demand season around the country. According to the National Weather Service, heating season will continue to be pushed back the week of November 11 as the agency is forecasting warmer-than-normal temperatures in much of the nation.

MORE TOP STORIES

Obama Administration Rejects Keystone XL Pipeline

U.S. President Barack Obama on Nov. 6 rejected the Keystone XL oil pipeline from Canada to Nebraska, more than seven years after the controversial project was first proposed.

"The State Department has decided the Keystone XL pipeline would not serve the national interests of the United States. I agree with that decision," Obama said.

Keystone XL would have linked existing pipeline networks in Canada and the United States to bring synthetic crude oil and diluted bitumen from Alberta's oil sands to refineries in Illinois and, eventually, the Gulf of Mexico coast.

TransCanada Corporation, the Canadian company that had hoped to build the pipeline, first sought the required presidential permit for the cross-border section in 2008. **– REUTERS**

TransCanada To Sell Stake In Gas Pipeline For $223 Million

Canadian pipeline company TransCanada Corp. (NYSE: TRP) said it will sell a 49.9% stake in a U.S. natural gas pipeline to its MLP, TC PipeLines LP (NYSE: TCP), for $223 million.

The stake sale in Portland Natural Gas LP (PNGTS) would include $188 million in cash and debt of $35 million, the company said on Nov. 6.

TransCanada owns a 61.7% stake in PNGTS, which delivers natural gas to the U.S. northeast.

Proceeds will be used to fund TransCanada's capital program and further diversify the partnership's asset base, "positioning it for continued growth," said Russ Girling, TransCanada's president and CEO, in a statement.
REUTERS

Junk-rated Oil, Gas Loans Worry Bank Regulators

Banks' exposure to junk-rated companies and the oil and gas sector remain high, according to an annual report on loan quality by U.S. bank regulators released Nov. 5.

The regulators gave a negative classification to $372.6 billion out of $3.9 trillion in loans impacted by the review, or 9.5 percent of the loans. Classified loans increased 9.4 percent from a year ago.

While regulators cited progress by banks in improving their underwriting practices, they still complained of "persistent structural deficiencies found in loan underwriting," according to a press release that accompanied the report.

Criticism of loan quality in last year's report focused on loans to junk-rated companies, but this year's report signaled increasing worry about oil and gas loans. So called "classified" oil and gas loans - ones that received the three most negative ratings of "substandard," "doubtful," and "loss" - surged to 15 percent from just 3.6 percent a year ago.

"Aggressive acquisition and exploration strategies from 2010 through 2014 led to increases in leverage, making many borrowers more susceptible to a protracted decline in commodity prices," the release stated.

The "shared national credit review" covers loans made by at least three or more federally regulated institutions, chiefly banks. Nonbanks, including hedge funds, insurance companies, pension funds and securitization pools, often have stakes in the loans. The review is conducted by the Federal Reserve Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency.

Nov. 5's report makes use of data banks provided between Dec. 31, 2014 and March 31, 2015.

The same three regulators released updated leveraged lending guidance in 2013, aiming to avert a repeat of the type of risky bank lending that led to the mortgage and financial crises. The regulators said debt levels of more than six times earnings before interest, taxes, depreciation and amortization "raises concerns." A company's ability to repay at least 50 percent of total debt over a five-to-seven year period shows adequate repayment capacity, according to the guidance.

The heightened attention from regulators could force banks to increase their reserves against problem loans, which would negatively impact earnings.

However, Marianne Lake, CFO of JPMorgan said on the company's Oct. 13 earnings call that the bank had already taken large reserves in the last few quarters. She added "if energy prices stay around these levels and recover slowly, we're expecting, net, not to have material incremental reserves in the next quarter."**- REUTERS**

Oil Demand Could Hit Apex, Too

Just as the energy industry has brushed aside concerns that the world could run out of oil, industry executives now say they believe it is demand, rather than supply, that is nearing its apex.

In 1985, Ian Taylor, today the chief executive of the world's largest oil trader Vitol, was part of a team at Royal Dutch Shell that forecast oil prices would rise five fold to $125 a barrel in 2015 as global reserves were expected to become more scarce. Now he says it is unlikely to ever reach those levels again.

Oil today stands at around $50 a barrel, having more than halved since June 2014 after global supplies dramatically rose due in large part to the U.S. shale oil boom but also due to the unlocking of huge offshore reserves in Brazil, Africa and Asia.

"We all talk about 'peak supply' and maybe with shale that is becoming a disabused concept. I have begun feeling that... we are coming to peak demand towards 2030," Taylor said on Nov. 5 at The Economist Energy Summit in London.

"I believe we may not see $100 (a barrel) ever again," Taylor said.

Such forecasts come at a time when oil companies have slashed billions off their budgets and scrapped more than $200 billion of oil and gas projects to cope with the sharp price drop.

Lower future demand for fossil fuels could wreck the finances of producing countries like Saudi Arabia, Russia and Venezuela that depend on high oil prices to fund public spending, but would be an overall boon for the world. The overwhelming majority of people live in countries - whether rich like the United States, middle-income like China or poor like Bangladesh - that consume more energy than they produce.

The United Nations believes sharp reductions in fossil fuel use are also necessary to protect the earth from catastrophic effects of climate change.

Higher fuel efficiencies for cars and the industry's switch towards less-polluting sources of energy such as gas, biofuels, solar and wind power, mean that oil demand could plateau in the coming decades. Fossil fuel consumption could be further clipped if governments tighten regulations in order to combat climate change at a U.N. conference in Paris next month.

BP earlier this week said the world is no longer at risk of running out of oil or gas for decades ahead. Existing technology is capable of unlocking so much fossil fuel that global reserves would almost double by 2050 to 4.8 trillion barrels of oil equivalent (boe), the British giant said.

With new exploration and technology, the resources could leap to a staggering 7.5 trillion boe, it said.

Back To The Past

"Peak demand" does not mean people will consume less energy overall. On the contrary, global energy consumption is expected to soar in the coming decades as the planet's population grows and Asian and African economies develop.

But while the world's total energy consumption is set to increase by more than one third from 2012 to 2040, oil's share is set to shrink from 31 percent to 26 percent, according to the International Energy Agency's 2014 World Energy Outlook.

The IEA forecasts global oil demand to rise modestly by around 0.5 percent per year through to 2040 to 103.9 million barrels per day, driven by non-OECD countries.

Eldar Saetre, Chief Executive Officer of Norwegian oil company Statoil, sees oil demand actually declining, although oil companies will still have to invest to replace existing capacity as it declines.

"In our scenario, we see much lower oil consumption than we have today," he told reporters on the sidelines of the conference.

"You still need a lot of additional (oil) capacity because of natural decline... Overall, we see the same type of combined levels for oil and gas but lower oil and more gas."

The change is expected to hit Western economies first, with demand set to go back to levels last seen in 1966, according to Dev Sanyal, BP's Executive Vice President, Strategy and Regions.

"We do believe the aspect that people were set about 25 years ago, which was peak oil, has now clearly gone away. There is a lot of supply of both oil and gas. The big challenge in OECD economies is peak demand."

Still, some firms are expecting robust demand in developing countries will keep the world's thirst for oil strong. The President of New Energies at France's Total, Philippe Boisseau, said he did not expect global demand to plateau, even though OECD consumption is likely to decline.

"Even when including the huge efficiency efforts, (oil demand) will grow. So I don't believe in peak demand for the world. For Europe and the West, maybe, but not for the world."**-Reuters**

Sunoco Logistics Slows Projects Due To Low Commodity Prices

Sunoco Logistics has slowed early development work on a potential crude pipeline expansion in West Texas and the first petrochemical complex in the Northeastern United States as the downturn in energy prices hampers new projects.

Sunoco on Nov. 5 said the move affects its Permian Express pipeline system, which transports crude from West Texas to the U.S. Gulf Coast. Some executives in the industry say there is already plenty of takeaway capacity in the region and more is not needed as producers trim growth outlooks.

"Obviously the market doesn't need Permian Express III," said Michael Hennigan, president and chief executive officer, in the company's third quarter earnings call.

Sunoco had not yet given firm details on the scope of the Permian Express III project, but has said its 200,000 barrels per day (bpd) Permian Express II that opened in July could be doubled.

Nov. 5's statements reinforce a sentiment that emerged last earnings season, as midstream operators - including Sunoco - questioned the need for more Permian crude pipelines. In August, Magellan Midstream Partners, which runs two major Texas and Colorado oil pipelines in joint ventures with Plains All American, said it would be "hard-pressed" to see additional long-haul crude lines needed in the region.

Plains All American on Nov. 4 said its 2016 capital spending would be up to 30 percent below its original 2015 plan of $2.2 billion.

The buildout of pipelines in the Permian has prompted the arbitrage between Permian-sourced crudes and other hubs to deteriorate, a market shift that caused revenues in Sunoco's crude oil marketing group to fall by more than 58 percent year-over-year.

"When the arbitrage isn't there, we don't move barrels," Hennigan said.

In the third quarter of last year, WTI at the Midland hub in the Permian Basin traded as low as a $18 a barrel discount to WTI, but in the same quarter of this year traded at times over a $2.00 a barrel premium to the U.S. benchmark.

The company also said development of its previously announced propane dehydrogenation (PDH) facility at Marcus Hook, Pennsylvania, has slowed as low energy prices dampen customer interest. The facility, which would be the first of its kind in the region, would convert Marcellus and Utica sourced-propane into proplyene for export to Northwest Europe.

"We're disappointed that the commodity environment is slowing things down," Hennigan said.

Sunoco is a unit of Energy Transfer. **– REUTERS**

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