HARTENERGY

MIDSTREAM Monitor

VOLUME 29 / ISSUE 41 / June 17, 2011 *Formerly* GAS PROCESSORS REPORT

In This Week's Edition

FEATURE

IHS CERA: Keystone XL Project Important To U.S. Oil Supplies

The U.S. Department of State is currently reviewing an application from TransCanada to build the Keystone XL pipeline to transport oil sands output from Alberta, Canada, to the Gulf Coast. A recent report from IHS CERA stated that if the U.S. government rejects the project, it would potentially harm U.S.-Canada relations and leave the U.S. more reliant on distant oil supplies.

The report, "The Role of the Canadian Oil Sands in the U.S. Market," noted that Canada is the largest supplier of foreign oil to the United States, representing nearly 22% of total imports in 2010.

The U.S. imported approximately 2 million barrels of oil per day (b/d) from Canada in 2010 with 1.1 million b/d of these imports coming from oil sands in Alberta. According to the report, imports from the oil sands matched oil imports during the same time period from Mexico, the second largest foreign supplier of oil. This figure is expected to grow to such a level that oil sands imports will represent the largest source of foreign oil in 2011. Currently production from Canadian oil sands in Alberta, as well as from the Bakken shale, are bottlenecked in the Midwest.

"Canadian oil sands could play a steadily growing, long-term role in supplying the

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INSIDE LOOK AT PROCESSING

ETE Acquires Southern Union Company

Energy Transfer Equity, LP, (ETE) and Southern Union Company (SUG) have reported that the two companies have entered into a definitive merger agreement in which ETE will acquire Southern Union for $7.9 billion, including approximately $3.7 billion of existing SUG debt, creating the premier group of integrated midstream companies in the United States natural gas industry.

Under terms of the agreement, which has been unanimously approved by the boards of directors of both companies, SUG stockholders will exchange their common shares for newly issued Series B Units of ETE with a value of $33per share, or approximately $4.2 billion. The implied value of the Series B Units represents an approximate 17% premium to the closing price of SUG common stock on June 15, 2011. The Series B Units, which will be registered and are expected to be listed for trading on the NYSE, will be entitled to an annualized distribution yield of not less than 8.25%, payable quarterly, based on the implied value of $33.00 per Series B Unit.

ETE's acquisition of Houston-based SUG, one of the nation's leading diversified natural gas companies, will provide ETE with direct ownership of attractive assets that are complementary to those owned and operated by ETE's two master limited partnership (MLP) subsidiaries, Energy Transfer Partners LP, and Regency Energy Partners LP. The combined footprint of ETE (together with ETP and RGNC) and SUG will include more than 44,000 miles of natural gas pipelines and approximately 30.7 billion cubic feet per day of natural gas transportation capacity, making ETE among the largest natural gas infrastructure players in the U.S.

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Petrochemical Up-Cycle Could Last 4-5 Years, According To LyondellBasell

The year 2010 marked the beginning for the new LyondellBasell Industries, according to Bhavesh V. Patel, the company's senior vice president, olefins and polyolefins. This is because the company emerged from Chapter 11 bankruptcy last April and was listed on the New York Stock Exchange in October 2010.

"Within the company, we moved to one common SAP system, completing an important part of our integration of the two companies. We've also implemented new performance-management systems and many other standard processes and procedures that will help us become one company," Patel said at last month's Barclays Capital Americas Select Conference in London.

He noted that the company had recorded $4.8 billion in EBITDA (earnings before interest, taxes, depreciation and amortization) while repaying $1.2 billion in debt, reporting numerous manufacturing throughput records and starting up new operations in Europe and Asia.

These results were achieved through the use of a "Back-to-Basics" strategy, which included achieving operational excellence, reducing costs and enhancing revenue, maintaining capital discipline, and utilizing technology-driven growth.

"Our focus is on return, it's not on market share, it's not on increasing our volume, it's more about return on capital -- and we want our return to be accretive on new investments," he said.

One of the obvious ways in which the company is seeking to enhance its revenue is by leveraging lower-priced ethane by cracking more of it. Throughout the rest of the year, LyondellBasell will invest in more ethane cracking, which will provide it with more cyclical upside entering the peak of the petrochemical cycle.

"The petrochemical business is cyclical because we tend to add capacity in lumps and demand grows at a steadier rate. So we have boom-and-bust cycles … As we sit here today in 2011, we've come off trough conditions and we're still transiting toward peak conditions. We think this next up-cycle could last for the next four or five years and it will be different than the past [cycles]," Patel said.

He noted that while naphtha is used as the major ethylene feedstock in both Asia and Europe, it only represents 12% of the ethylene feedstock in the United States because of the emergence of the shale plays and cheaper ethane.

Ethane Economics To Remain Advantageous

Patel anticipates positive global demand for ethylene, with the primary driver for this growth coming from Asia. While ethylene demand is expected to increase 1% to 2% in more mature areas such as the U.S. and Europe, the demand in China and India will increase 7% to 10%.

"The per capita consumption of plastics in China and India is among the lowest in the world. Even if they were to double, it's still very, very low. This will be the growth driver for polyolefins and many of the other products that we produce in LyondellBasell," he said.

With demand expected to increase at a sizable rate, supply will need to do the same. He noted that the industry is in the midst of a wave of capacity increases, which he said will slow down in the next two years.

"Over the next five years, based on our demand projections, we would need 35 new world-scale ethylene crackers to meet that demand rate, when, in fact, only 24 equivalent world-scale ethylene crackers are announced … So supply growth will not be high enough to meet demand growth in the coming years, and this will provide for the up-cycle in our industry," he said.

This cycle will result in the company converting more of its cracking capacity to ethane due to the large amount that will be produced during the coming years. Indeed, Patel noted that a 30% increase in ethane supply during the next three years is expected.

"As we sit here today, the demand for ethane in the U.S. is about 950,000 barrels per day (b/d) and the supply of ethane is somewhere between 950,000 b/d and 975,000 b/d. So the two are well-balanced. When all of the crackers are running well in the U.S., ethane prices tend to rise. When there are unplanned outages or significant planned outages, then the ethane consumption declines and ethane prices tend to decline. Over the next two or three years, as this new capacity comes on, we think there should be a more consistent oversupply of ethane, which should provide for very advantageous ethane economics in the U.S. for some time to come," he said.

– Frank Nieto

Resin Prices – Market Update – June 2, 2011

TOTAL OFFERS: 11,653,384 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LDPE - Film	2,337,312	0.73	0.90	0.80	0.84
PP Homopolymer - Inj	2,106,828	0.80	0.90	0.82	0.86
LLDPE - Film	1,435,012	0.75	0.81	0.73	0.77
HDPE - Blow Mold	1,226,208	0.72	0.75	0.65	0.69
HMWPE - Film	1,184,092	0.70	0.75	0.68	0.72
LLDPE - Inj	1,014,552	0.77	0.84	0.73	0.77
GPPS	770,000	0.80	0.89	0.84	0.89
HDPE - Inj	661,380	0.67	0.79	0.67	0.71
PP Copolymer - Inj	496,000	0.85	0.89	0.84	0.88
HIPS	380,000	0.98	1.00	0.92	0.97
LDPE - Inj	42,000	0.83	0.83	0.77	0.81

Source: Plastics Exchange – www.theplasticsexchange.com

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Fee-Based Assets To Remain Focal Point At Kinder Morgan

A steady strategy of focusing on owning and operating stable fee-based assets has worked well for Kinder Morgan Energy Partners. "Strategy at Kinder Morgan hasn't changed in the 14 years that Kinder Morgan's been around," C. Park Sharper, the company's president, said at last month's National Association of Publicly Traded Partnerships (NAPTP) MLP Investor Conference in Greenwich, Conn.

This strategy is reflected in the company's 50/50 joint venture (JV) with Copano Energy LLC, Eagle Ford Gathering LLC. This JV includes 111 miles of pipeline from the Eagle Ford shale to Kinder Morgan's Freer compressor station in Duval County, Texas, as well as processing and fractionation services for Formosa Hydrocarbon.

In addition, the JV will add pipeline connections to other company assets in the region to further maximize them and take advantage of the booming development of the liquids-rich play.

"We try to get the most out of our assets. We increase utilization. We look for opportunity for growth from those assets. That's opportunities to expand the assets, opportunities to extend the assets, opportunities to add new assets to that base," Sharper said.

The company's goal is to grow its distributions by 5% each year, which will require capital investments. The company anticipates spending $1.4 billion on acquisitions and expansions in 2011. However, he noted that the company budgeted for $1.5 billion in acquisitions and expansions in 2010 and wound up spending $2.5 billion.

"We exceeded our budget because we basically budget for what we know is going to happen. Those tend to be expansion projects that we've identified and are already executing on. We won't necessarily include expansion projects where we don't have contracts secured on that unless we have a very high degree of confidence that we're going to get those contracts in the near future," Sharper said.

The same is true for acquisitions, where the company will only include deals it has already identified. Because of this philosophy, the company will again exceed its announced $1.4 billion and likely spend over $2.5 billion.

Kinder Morgan anticipates much of the long-term growth in the midstream to be driven by increased demand for natural gas due to the increased supply levels of the product. This increased demand will come from the power generation, consumer, retail and transportation sectors.

"I don't know how significant it'll be, but you would expect that people will convert from heating oil to natural gas in this kind of price environment. What that means for a midstream provider is phenomenal opportunity…What you're talking about is more natural gas being produced, more natural gas being consumed, which means more natural gas has to be transported," he said.

This will translate into increased demand for existing pipeline assets, as well as expansions of those same assets and building new pipelines.

– Frank Nieto

IHS CERA… *(continued from page 1)*

KEY NORTH AMERICAN HUB PRICES	
2:38 PM CST / June 8, 2011	
Gas Hub Name	**Current Price**
Carthage,TX	4.32
Katy Hub, TX	4.45
Waha Hub, TX	4.40
Henry Hub, LA	4.39
Perryville, LA	4.36
Houston Ship Channel	4.45
Agua Dulce TX	4.67
Opal Hub, Wyo.	4.29
Blance Hub, NM	4.25
Cheyenne Hub, Wyo.	4.22
Chicago Hub	4.46
Ellisburg NE Hub	6.00
New York Hub	4.63
AECO, Alberta	4.04

Source: Bloomberg

U.S. market for many years to come. However, U.S. pipeline infrastructure needs to catch up with changing supply trends and expanding supply – namely, rising output from Canada, as well as the rapidly growing output from the Bakken Formation in North Dakota and Montana," the report said.

The $7 billion, 1,711-mile pipeline would have the capacity to transport 700,000 b/d of oil sands output to the Gulf Coast, thus increasing the use of North American oil in the U.S. and helping to contain and perhaps lower gasoline prices, according to IHS CERA.

Although the U.S. is the primary market for Canadian crude oil, the bulk of these imports are directed to the Midwest. This transportation includes two new pipeline projects – the 450,000 b/d Alberta Clipper and the 590,000 b/d Keystone pipelines – that will ship volumes from Canadian oil sands into the Midwest.

"The increasing oil sands exports to the Midwest mean that refineries there will eventually (around 2015, in IHS CERA's outlook) no longer be able to process any additional oil sands crudes. This is because the capacity to refine oil sands in the U.S. Midwest – a market facing flat

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to declining petroleum demand – will not keep pace with oil sands production growth," according to the report.

IHS CERA noted that Midwestern refiners are increasing their capacity to refine dilbit volumes from Alberta oil sands, but further capacity increases remain questionable due to growing domestic light crude oil out of the Bakken shale, as well as increases out of Oklahoma and Kansas.

"A sign of the need to expand pipeline capacity out of the Midwest, and of the oversupply of light crude in the region, is a lower price for West Texas Intermediate (WTI) crude oil relative to other major crude oils, including those traded on the U.S. Gulf Coast and elsewhere in the world," the report said.

Since the Midwest was oversaturated with crude supplies, it has caused the WTI discount to balloon to as high as $18 per barrel. IHS CERA said that the WTI price will remain vulnerable to other crude prices, including Light Louisiana Sweet and Brent crude until there is greater export capacity out of the Midwest and into the Gulf Coast.

Such a discount on WTI crude does not correspond to consumer gasoline prices because WTI has been getting more and more disconnected from global prices. Further supplies into the Gulf Coast would ease this disconnect and help to lower prices. "The Keystone XL pipeline would increase oil supply available to the global oil market – and specifically to the U.S. refining industry," the report said.

Additionally, the Keystone XL pipeline would help to relieve some of this oversupply by sending Canadian light synthetic crude directly to the Gulf as well as transporting domestic production from Cushing and the Bakken to the Gulf.

"What if increased oil sands access to the U.S. market is derailed? Apart from the loss to consumers of a more dynamic pipeline network, Canadian oil sands producers would likely turn to Asia as a new export market, and U.S. Gulf Coast refiners would continue to draw on current suppliers. However, some current suppliers such as Mexico and Venezuela are struggling to maintain production, and other suppliers are needed," the report said.

Oil Sands GHG Emissions Are Higher, But Not At Level Assumed

While market dynamics seem to favor opening up access to North American supplies in the largest refining market in the U.S., the report stated there is uncertainty about the project's approval because of the need for a "Presidential Permit" due to it crossing an international border, as well as environmental concerns raised by the higher amount of greenhouse gas (GHG) emitted from oil sands compared to traditional oil production.

A previous IHS CERA report found that oil sands are 5% to 15% more carbon intensive than the average crude oil consumed in the United States. However, the average life-cycle GHG emissions for average Canadian oil sands product imported into the U.S. is 6% higher than the average crude oil consumed in the U.S.

This lower figure is due to the bulk of these imports being produced from mining operations with another large segment being dilbit, which have 30% of its contents being condensate.

Without Keystone XL, Refiners Would Not Import Middle Eastern Supplies

Should the Keystone XL pipeline not receive approval, Gulf Coast refiners would still import heavy crude due to the large amount of coking infrastructure in the region. The IHS CERA report estimated that the region is home to 30%, and growing, of the world's coking capacity. However, while the total volume of heavy oil imports into the region is growing, imports from Mexico are dropping.

"The decline was offset by growing imports, mainly from Brazil, Colombia, Canada, and Venezuela ... Without new oil sands crude supply, the Gulf Coast refiners will continue to process heavy crude oils, given their large investments in coking capacity ... Processing lighter crudes would idle large, expensive equipment," the company said.

Therefore, the report concludes that if the Keystone XL pipeline were not approved and built, then Gulf Coast refiners would import lighter Middle Eastern crude supplies. This differs with the opinion of the Supplemental Draft Environmental Impact Statement, which concluded that lighter crude from the Middle East would be directed into the Gulf Coast. However, imports from outside of North America would likely increase to the detriment of U.S. refiners and consumers.

"The United States and Canada have a deep and mutually beneficial relationship rooted in strong economic, political, and cultural connections. Energy, and oil in particular, is a key element of the overall relationship. Canada's oil sands have become an integral part of the fabric of U.S. energy security – with the potential to play an increasingly important role for many years to come," the report said.

A U.S. House Energy and Commerce's Energy and Power subcommittee passed a bill (HR 1938) this week that would speed up the decision-making process by the State Department on the project. The bill would require a decision from the State Department within 30 days of the completion of the environmental impact study, no later than Nov. 1.

– Frank Nieto

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INGAA: Between $130-210B Must Be Spent On Midstream Infrastructure By 2030

The Interstate Natural Gas Association of America (INGAA) has forecast the need for between $130 billion and $210 billion to be spent on midstream natural gas infrastructure by 2030 (that's $6 billion to $10 billion per year), in order to meet market requirements. Shifts in natural gas supply sources from mature basins to areas of unconventional natural gas production are the major drivers of future infrastructure development.

INGAA projects the need for:

- 28,900 to 61,600 miles of new gas transmission pipeline,
- 6.6 to 11.6 million horsepower of new pipeline compression,
- 371 to 598 Bcf of new working gas storage capacity,
- 15,000 to 26,000 miles of new gas gathering pipeline and,
- 20 to 38 Bcf per day of new natural gas processing capacity.

Kinder Morgan/Copano JV, Williams Partner On Eagle Ford Midstream Project

Eagle Ford Gathering LLC, a 50/50 joint venture between Kinder Morgan Energy Partners LP, Houston, (NYSE: KMP) and Copano Energy LLC, Houston, (Nasdaq: CPNO), has entered into a long-term agreement with Williams Partners LP, Tulsa, Okla.,(NYSE: WPZ) to process Eagle Ford Shale production at Williams Partners' Markham processing plant located in Matagorda County, Texas.

Eagle Ford Gathering will construct a 7-mile, 20-inch lateral to connect its previously announced crossover pipeline project to the Markham plant and install about 3,400 horsepower of compression at a cost of approximately $27 million. The agreement will initially provide Eagle Ford Gathering with 100 million cubic feet per day of processing capacity at the Markham plant, with an option to increase its capacity to up to 200 million cubic feet per day.

"We are pleased to enter into this significant new agreement with Williams Partners to increase the joint venture's gas processing capabilities," says Duane Kokinda, president of Kinder Morgan's intrastate pipeline group. "The new agreement augments the previously announced agreement with Formosa Hydrocarbons Company, resulting in up to 375 million cubic feet per day of total processing capacity through the crossover project. We expect to break ground on the crossover pipeline in July and to place it in service in the fourth quarter of 2011. In addition, the joint venture has 375,000 MMbtu per day of processing capacity at Copano's Houston Central plant through Kinder Morgan's Laredo-to-Katy pipeline."

"The joint venture's 117-mile, 30- and 24-inch system through McMullen, La Salle, Dimmit and Webb Counties is nearing completion," says Jim Wade, president and chief operating officer of Copano Energy's Texas segment. "We expect the system to be placed into service in September and begin processing joint venture gas at Copano's Houston Central complex. We are pleased with the new, long-term relationship with Williams Partners, which represents continued progress in executing our overall Eagle Ford Shale strategy. The joint venture's combined capacity commitments, along with Copano's recently announced expansion of the Houston Central complex, will provide South Texas producers access to processing and fractionation capacity of up to 1.4 billion cubic feet of gas per day and over 100,000 barrels per day of NGL fractionation and product market."

Through Eagle Ford Gathering, Kinder Morgan and Copano expect to invest approximately $300 million in midstream infrastructure to provide gathering, transportation, processing and fractionation services to Eagle Ford Shale producers.

NEWS & TRENDS

DCP Midstream To Open NGL Access From Midcontinent To Texas Gulf Coast

DCP Midstream, Denver, Colo., is announcing an agreement to acquire the Seaway Products Pipeline Co. from ConocoPhillips and create new natural gas liquids transportation capacity from the Midcontinent to the premium Texas Gulf Coast markets.

The pipeline will be renamed the Southern Hills Pipeline and converted from refined products service to a natural gas liquids (NGL) pipeline running more than 700 miles between two major NGL market hubs – Conway, Kan., and Mont Belvieu, Texas. DCP Midstream will add a 130-mile extension to Conway and a 30-mile extension to Mont Belvieu, as well as pump capacity and associated gathering infrastructure, to the current 580-mile pipeline. The pipeline will have a target capacity of close to 150,000 barrels per day of Y-grade NGLs, and be connected to several DCP Midstream processing plants and anticipated third-party NGL producers. This approximately US $750 million to $850 million total investment is expected to have an in-service date as early as mid-2013.

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DCP Midstream will operate Southern Hills as a common carrier pipeline. The pipeline will open new capacity for NGLs produced from growing Midcontinent, Rockies and Conway-bound supply. DCP Midstream expects this new transportation capacity will help serve the growing need for Midcontinent transportation to the premium Mont Belvieu market and add value to DCP's upstream producers.

"The Southern Hills conversion is a game changer for Midcontinent NGL values and a strategic fee-based value chain extension for DCP," said Tom O'Connor, chairman, president and chief executive of DCP Midstream.

"This critical piece of the midstream infrastructure puzzle will increase the value our producers realize for their growing Rockies and Midcontinent NGL production through enhanced connectivity to premium Gulf Coast markets," O'Connor said. "And, with the ability to provide our customers with integrated gathering, processing and NGL transportation services through a timely solution that leverages pipe already in place, DCP's competitive position is significantly improved."

DCP Midstream expects to announce a request for a non-binding expression of interest in the pipeline from shippers later this year.

Penn Virginia Acquires Granite Wash Gas Gathering System For $11.44MM

Penn Virginia Resource Partners LP, Radnor, Penn., (NYSE: PVR) has acquired a natural gas gathering system and processing facility in the Texas panhandle area. The "Antelope Hills" assets acquired by PVR consist of a 20 MMcf/d cryogenic processing facility and an approximate 15-mile gathering system in Lipscomb and Hemphill counties. The acquired assets, which are connected to PVR's existing Panhandle Systems, are strategically located to serve active producers in the Granite Wash formation. The purchase price for the acquired assets was $11.44 million.

This acquisition is an integral part of a larger PVR Panhandle Systems expansion plan that will involve the expansion of the Antelope Hills processing facility to a new total capacity of 70 MMcf/d, as well as additional gathering system enhancement and optimization. The planned expansion will involve an additional investment of approximately $35 million during the next 12 months, and will increase PVR's Panhandle total processing capacity to 330 MMcf/d.

"PVR is pleased to announce these strategic asset acquisitions and growth opportunities," says William H. Shea, Jr., chief executive officer. "The Antelope Hills plant acquisition provides some immediate relief to current capacity constraints in our Texas Panhandle operations, and the plant expansion project will support the expected continuing growth in volumes from the active drilling programs by producers in our footprint in the Granite Wash. We currently anticipate the Antelope Hills plant expansion to be completed and in operation in the second quarter of 2012."

Exterran Partners Acquires Compression, Processing Assets From Exterran Holdings

Exterran Holdings Inc. and Exterran Partners, LP, has reported that Exterran Partners has completed its previously announced acquisition of compression and processing assets from Exterran Holdings.

The acquired assets include contracts serving 34 customers of Exterran Holdings, together with approximately 407 compressor units used to provide compression services under those contracts. These compressors comprise approximately 289,000 horsepower, which represents approximately 8% (by available horsepower) of the combined U.S. contract operations business of Exterran Holdings and Exterran Partners. In addition, the acquired assets include approximately 207 compressor units, comprising approximately 98,000 horsepower previously leased from Exterran Holdings to Exterran Partners, and a natural gas processing plant with a capacity of 8 million cubic feet per day located in the northeastern U.S. used to provide processing services pursuant to a long-term services agreement.

The transaction consideration includes Exterran Partners' assumption of approximately $159 million of Exterran Holdings debt, payment of approximately $62 million in cash and issuance of approximately 51,000 general partner units of Exterran Partners. Exterran Holdings will use the cash proceeds from the transaction to reduce the outstanding balance under its credit facility. Exterran Partners financed the transaction with borrowings under its revolving credit facility and the proceeds from its May 2011 underwritten public offering of common units.

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GL Noble Denton: Shale Gas Production To Increase Demand For Carbon Capture, Storage

GL Noble Denton, London, has forecast that the development of shale gas production in Britain will increase the energy sector's dependence on carbon capture and storage as a method for reaching U.K. emission reduction targets.

Talking at a debate on the future of unconventional gas in London, GL Noble Denton's Managing Director for the U.K., Arthur Stoddart, said that because Britain is already heavily reliant on gas, the cleanest of all fossil fuels, the increased use of unconventional energy resources such as shale gas would be unlikely to reduce emissions in line with U.K. targets. He said that a greater focus would therefore need to be placed on capturing and storing the carbon emitted by the energy industry if emission reduction targets are to be met.

"The development of shale gas production is being heralded as a transition fuel to greener energy sources. While it can bring additional energy security to the country, it is unlikely to contribute significantly to the U.K.'s targets of reducing carbon emissions by 80% by 2050 and decarbonization of the power sector by 2030," said Stoddart during An Unconventional Future, a panel debate hosted by industry journal *Petroleum Economist* and sponsored by GL Noble Denton.

"The U.K. Government has shown support for shale gas exploration in Britain. If successful on a large scale in U.K. and Europe, there will be an increased reliance on carbon capture and storage as a method for decarbonizing the U.K.'s energy generation. The U.K. oil and gas industry has a increasing need to develop innovative solutions for capturing carbon, if we are going to get anywhere near meeting the emission targets set," said Stoddart, commenting on the discussion at the event.

An Unconventional Future attracted more than 40 of the gas sector's commercial and academic leaders, and addressed a range of key issues on the role of unconventional gas as a potential solution of the world's increasing energy demands.

Some of the U.K.'s leading authorities in unconventional gas development participated in the debate alongside Stoddart, including: Ajay Shah, head of Gas Strategy and Portfolio at Shell; Anouk Honore, senior research fellow for the Natural Gas Research Programme at the Oxford Institute for Energy Studies; and Bill Farren-Price, founder and chief executive of Petroleum Policy Intelligence.

During the debate, insightful opinions were offered over the future regulation of shale gas extraction, the effects of U.S. shale gas development on global liquefied natural gas (LNG) markets and the impact of unconventional gas production on the price of gas in the market.

ETE Acquires ... *(continued from page 1)*

ETE's acquisition of SUG will result in a more diversified partnership better able to serve its existing customers and compete for new ones.

The transaction is expected to be immediately accretive to ETE's distributable cash flow, and it creates significant additional organic growth opportunities in strategic geographic locations across the U.S. as well as potential affiliate joint ventures. This transaction also provides for the possibility of multiple asset dropdown opportunities to ETP and RGNC that should further enhance value for all parties within the Energy Transfer group of companies.

"The acquisition of Southern Union will give ETE a larger, more competitive interstate and midstream platform and will add significant demand-driven pipeline assets to the Energy Transfer portfolio," said Kelcy Warren, ETE's Chairman of the Board of Directors. "Furthermore, the acquisition of Southern Union will significantly enhance and diversify ETE's cash-flow profile, making this transaction accretive to ETE's unit holders while preserving our commitment to maintaining investment grade credit metrics at ETP and SUG, and achieving investment grade status at Regency."

George L. Lindemann, chairman and CEO of SUG, said, "We are thrilled with the opportunities the transaction with Energy Transfer creates. Under our management, we have grown Southern Union from a value of approximately $125 million to approximately $8 billion. The combination with ETE is the right next step for the company's growth and delivers significant value for our shareholders. I've known Kelcy for many years and admire his management style and the ETE portfolio he has built. We have a shared vision for our companies. Our businesses and networks are highly complementary, and together will provide a broader range of services and product offerings to existing and future customers."

Eric D. Herschmann, vice chairman, president and COO of SUG, added, "Southern Union stockholders will receive an attractive premium, an enhanced income stream, and the benefits of owning a company with a larger asset base. We are excited about merging these two highly successful operations and are confident in the potential of the combined entity."

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DCP Midstream's Seaway Acquisition Will Have No Immediate Impact On Ratings

Fitch Ratings thinks DCP Midstream, LLC's announced acquisition of the Seaway pipeline from ConocoPhillips will have no immediate impact on the company's ratings. DCP announced an agreement to acquire the pipeline and convert it from a refined products pipeline to a natural gas liquids (NGLs) pipeline running from Conway, Kansas, to Mont Belvieu, Texas. The conversion will include two extensions and the addition of pump capacity and gathering infrastructure to the existing 580 mile pipeline. DCP expects total capital investment on the project of $750 million to $850 million with an in service possible as early as mid-2013. DCP expects to announce a request for a non-binding expression of interest in the pipeline from shippers later this year.

Fitch sees no immediate impact to DCP's credit ratings from the announced acquisition. Fitch does not expect that the cost associated with the project even at the highest end of estimates will have a large impact on DCP's credit metrics. Leverage will likely increase slightly due to the increased spending but will remain within an appropriate range for its ratings. Prior to the announcement, Fitch expected DCP's 2011 debt/EBITDA on a consolidated basis to be roughly 2.4 times (x). Fitch's initial analysis of the Seaway acquisition using the high end of the announced investment of $850 million spread out over three years indicates only a slight increase in leverage with new expectations for 2011 closer to 2.75x.

Fitch notes that as a midstream processor DCP's cash flow and earnings are highly dependent on underlying commodity prices, NGL prices in particular. Once completed, the announced pipeline project should provide a nice stream of fixed-fee revenues, that could help lower earnings and cash flow volatility.

PIPELINES & TECHNOLOGY

CenterPoint Holds Open Season for Firm Capacity On Proposed Pipeline

Thunder Pipeline Company, LLC (Thunder), an indirect, wholly-owned intrastate natural gas pipeline subsidiary of CenterPoint Energy Inc., Houston, has reported the start of a non-binding open season to gauge market interest in an expansion to support western Oklahoma production growth for delivery to markets in Oklahoma, and downstream interconnects with other intrastate and interstate pipelines including those in the Bennington, OK area and CenterPoint Energy Gas Transmission's (CEGT) Line AD.

"We are in a position to deliver incremental supplies to markets and end-users in Oklahoma, and eventually, to the Midwest, Northeast and Southeast from the rapidly developing production areas in western Oklahoma," said Poe Reed, division senior vice president and chief commercial officer of CenterPoint Energy's Pipelines. "Access to these downstream markets would be provided by our proposed Thunder intrastate pipeline system as well as CEGT's existing pipeline system."

The specific facilities required will be a function of the location and volume level commitment of potential supply sources and the requested delivery areas. Final pricing determinations will be based on the facility costs, the level of firm commitments and the amount of interest indicated in accessing downstream markets. CenterPoint Energy will consider proposals of any contract term length, but anticipates that long-term commitments will be necessary to complete a project.

Shell In Nigeria Declares Force Majeure After Pipeline Fires

Shell in Nigeria warned it may not be able to meet its contractual obligations for June and July on its Bonny Light crude after multiple pipeline fires and leaks blamed on sabotage.

The Anglo-Dutch oil giant said it declared a "force majeure on Bonny Light loadings for June and July... as a result of production cutbacks caused by leaks and fires which occurred last week on the Trans Niger Pipeline (TNP)."

Investigations showed that the "incidents were caused by hacksaw cuts which indicate third party interference and activities of unknown persons," according to the company.

The force majeure came into effect on June 13.

Leaks and five separate fire incidents on the pipeline occurred in four villages in Ogoniland on June 9 and the fires were put out two days later, Shell said in the statement.

Shell suspended operation in Ogoniland in 1994 following attacks on its facilities allegedly carried out by local communities.

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"The leaks and fires show a worrying trend not only on the TNP but also on our facilities elsewhere. Sadly, the trend is continuing unabated," said Babs Omotowa, a vice president in charge of Shell's infrastructure in sub-Saharan Africa.

He said 35 sabotage spills were recorded at the end of April.

"Until the activities of oil thieves and illegal refiners are brought to an end, the vast majority of oil spills in the Niger Delta will continue," he said.

Oil theft, known locally as "bunkering" has been responsible for the majority of oil spills in Nigeria, according to reports.

Nigeria's military in March said it destroyed 500 illicit oil refineries dotted along the creeks of the southern delta region in a single raid.

Environmental activists have accused Shell of causing pollution through its operations in the Niger Delta.

But the group, the oldest operator in Nigeria, says more than 70% of oil spilled from its facilities in the vast wetlands during the past five years was due to vandalism of pipelines or theft.

Shell is Nigeria's leading oil operator.

Nigeria, Africa's largest oil producer, derives more than 90% of its foreign exchange earnings from oil.

NGL PRICES

NGL Prices Improve Despite Lower Crude Prices

Prices for natural gas liquids (NGL) rose at both Conway and Mont Belvieu this week despite crude prices falling approximately $6 per barrel during the week of June 8.

The decline in oil futures was partially due to ethylene plant outages and low propane inventory levels. The strength shown by heavy NGL prices, despite the drop in crude prices, bodes well for the sector.

Mont Belvieu butane had the largest improvement in price during the week as it rose 4% from the prior week to $1.88 per gallon (/gal). This was the highest price at the hub since it was $1.91/gal the week of May 4. The improvement was attributed to the product's status as the most-preferred feedstock, according to En*Vantage. Conway butane did not perform quite as strongly as it rose 2% to $1.68, its highest price in a month.

Conway ethane had the second-largest price increase, as it rose 3% to 50¢/gal. This was the highest price at the hub since it was 51¢/gal the week of May 18. The Mont Belvieu price rose by 2% to 75¢/gal, its highest price since the week of May 4 when it was 82¢/gal. These increases are due to continued ethylene plant outages. However, as these plants begin to come back online in the coming weeks, ethane prices may face headwinds to retain their strength.

Although propane prices have improved in the first two weeks of June, their levels do not completely correspond to the low inventory levels in the United States caused by increased usage and exporting levels. For the week of June 8, Mont Belvieu propane was up 1% to $1.54/gal, its highest price since it was $1.58/gal the week of April 27, and the Conway price was up 2% to $1.43/gal, its highest price since the week of May 4.

Both isobutane and C_{5+} prices showed greater improvement at Mont Belvieu than at Conway, but there was greater volatility for both NGLs in the Midcontinent than in the Gulf Coast for the week of June 8.

Isobutane prices rose 2% at Mont Belvieu to $2.02/gal, roughly 3¢ below the average price at the hub for the month

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
June 8 - 14 '11	75.36	154.22	187.98	201.52	246.05	$61.90
June 1 - 7 '11	73.25	151.80	180.50	197.64	241.20	$60.47
May 25 - 31, '11	70.65	149.53	182.50	199.90	248.18	$60.44
May 18 - 24, '11	73.18	150.16	187.47	201.32	241.48	$60.74
May '11	75.69	152.10	189.34	204.72	252.68	$62.31
April '11	75.74	144.44	189.72	203.15	256.33	$61.63
1st Qtr '11	63.74	137.32	175.07	186.15	228.46	$55.82
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
June 9 - 15, '10	53.57	106.34	143.72	158.02	170.65	$44.25
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
June 8 - 14 '11	49.48	143.32	168.42	184.00	228.75	$54.45
June 1 - 7 '11	46.52	139.52	164.80	182.13	229.12	$53.30
May 25 - 31, '11	49.08	140.00	166.13	182.00	236.65	$54.35
May 18 - 24, '11	50.98	140.62	171.98	188.57	230.44	$54.80
May '11	52.63	142.00	173.01	192.24	240.62	$56.08
April '11	54.31	134.59	175.54	199.58	246.21	$56.18
1st Qtr '11	46.30	128.26	164.69	186.06	225.91	$51.80
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
June 9 - 15, '10	29.83	99.04	126.84	147.65	166.06	$38.55

Data Provided by Intercontinental Exchange. Individual product prices in cents per gallon. NGL barrel in $/42 gallons | Source: Frank Nieto

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of May. The Conway price improved by 1% to $1.84/gal, which was 8¢ below the average price at the hub in May.

While prices for C_{5+} were once again by far the highest for any NGL at both hubs, the price fell slightly at Conway but experienced a 2% improvement at Mont Belvieu. Much of this can be explained by the fact that Conway is a limited market for C_{5+} compared to the Gulf Coast.

The Mont Belvieu price improved by 2% to $2.46/gal, which is still 2¢ below the price from two weeks ago prior to last week's large drop in price. The Conway price fell slightly to $2.29/gal. Although these prices weren't the strongest at either hub, they performed better than crude oil, which C_{5+} is typically closely aligned with.

– Frank Nieto

FRAC SPREAD

Frac Spread Margins Improve Across The Board

As the prices for natural gas liquids (NGL) generally showed improvements the week of June 8, so did the frac spread margins at both Conway and Mont Belvieu. These margins also benefitted from natural gas feedstock prices decreasing 5% at both hubs.

The Conway natural gas price was down to $4.45 per million Btu (/MMBtu) while the Mont Belvieu price dropped to $4.57/MMBtu. This resulted in ethane experiencing the largest gains in margin at both hubs with Conway up 30% and Mont Belvieu up 9%.

This was followed by propane and butane, which were among the most improved prices at both hubs. The Conway propane margin improved by 6%, while its Mont Belvieu counterpart saw its frac spread rise 5% from the prior week. The Mont Belvieu butane margin improved by 8% while the Conway margin rose 5%.

The theoretical NGL barrel price rose at a slower rate than did its frac spread margin at both hubs with both hubs' price rising 2% and its margin improving by 6%. The Conway theoretical barrel price was $54.45 per barrel (/bbl) with a margin of $38.19/bbl while the Mont Belvieu barrel price was $61.90/bbl with a margin of $45.21/bbl.

The most profitable NGL to make at both hubs remained C_{5+} at $1.79 per gallon (/gal) at Conway and $1.95/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.40/gal at Conway and $1.56/gal at Mont Belvieu; butane at $1.22/gal at Conway and $1.41/gal at Mont Belvieu; propane at $1.03/gal at Conway and $1.12/gal at Mont Belvieu; and ethane at 20¢/gal at Conway and 45¢/gal at Mont Belvieu.

Natural gas in storage for the week of June 10, the most recent data available from the Energy Information Administration, continued to increase at a smaller rate as it rose 69 billion cubic feet in the middle of injection season to 2.256 trillion cubic feet (Tcf) from 2.187 Tcf the prior week. This was 11% below the 2.531 Tcf figure posted last year at the same time and 3% below the five-year average of 2.332 Tcf.

Next week's injection may continue this trend of smaller than normal storage levels due to the National Weather Services' forecast for the week, which includes hotter than normal temperatures along the East Coast into the Gulf Coast. This hot spell will be tempered by cooler than normal weather in the Midwest and parts of the West Coast.

– Frank Nieto

Current Frac Spread (Cents/Gal)

June 16, 2011	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	49.48		75.36	
Shrink	29.50		30.30	
Margin	19.98	30.06%	45.06	9.30%
Propane	143.32		154.22	
Shrink	40.76		41.86	
Margin	102.56	6.31%	112.36	4.46%
Normal Butane	168.42		187.98	
Shrink	46.15		47.39	
Margin	122.27	5.35%	140.59	7.80%
Iso-Butane	184.00		201.52	
Shrink	44.32		45.52	
Margin	139.68	3.22%	156.00	4.33%
Pentane+	228.75		246.05	
Shrink	49.35		50.68	
Margin	179.40	1.36%	195.37	4.12%
NGL $/Bbl	54.45	2.16%	61.90	2.38%
Shrink	16.26		16.69	
Margin	38.19	5.72%	45.21	5.57%
Gas ($/mmBtu)	4.45	-5.32%	4.57	-5.38%
Gross Bbl Margin (in cents/gal)	87.91	5.94%	105.53	5.58%
NGL Value in $/mmBtu				
Ethane	2.72	6.36%	4.15	2.88%
Propane	4.98	2.72%	5.35	1.59%
Normal Butane	1.82	2.20%	2.03	4.14%
Iso-Butane	1.15	1.03%	1.25	1.96%
Pentane+	2.95	-0.16%	3.17	2.01%
Total Barrel Value in $/mmbtu	13.61	2.57%	15.96	2.36%
Margin	9.16	6.89%	11.39	5.83%

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

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

Source: Frank Nieto

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SNAPSHOT

Northern Border Pipeline Transports Canadian, Powder River and Williston Basin Supplies

Northern Border Pipeline is owned by Oneok Partners TC Pipelines and operated by TransCanada Pipelines. It has 1,249 miles of pipeline that brings gas from the Midwestern U.S. with reserves in the Western Canadian Sedimentary Basin.

According to Hart Energy Mapping and Data Services, the system has a capacity of 2.3 billion cubic feet per day and 17 compressor stations. Tenaska Marketing Ventures is its highest transport customer with 563,000 dekatherms per day (Dth/d) of capacity; followed by BP Canada Energy Marketing Corp. with 414,000 Dth/d. The rest of the Top 10 are Macquaried Energy LLC with 325,000 Dth/d; Sequent Energy Management, LP, with 317,000 Dth/d; ConocoPhillips Co. with 271,000 Dth/d; The Peoples Gas Light and Coke Co. with 210,000 Dth/d; Enterprise Products Operating LLC with 192,000 Dth/d; Northern Indiana Public Service Co. with 166,000 Dth/d; EDF Trading North America, LLC, with 166,000 Dth/d; and Interstate Power And Light Co. with 150,000 Dth/d.

According to Northern Border Pipeline Co.'s website, in addition to transporting Canadian-sourced supply, the company receives and transports natural gas produced in the Williston and Powder River Basins in the U.S. and synthetic natural gas produced at the Dakota Gasification plant in North Dakota.

Throughout 2010, the Port of Morgan interconnection was the most active receipt point. The most active delivery point was Ventura. (see map)
– Rebecca Torrellas

Northern Border Pipeline Company - Pipeline Statistics

General Information — FERC Code: 089

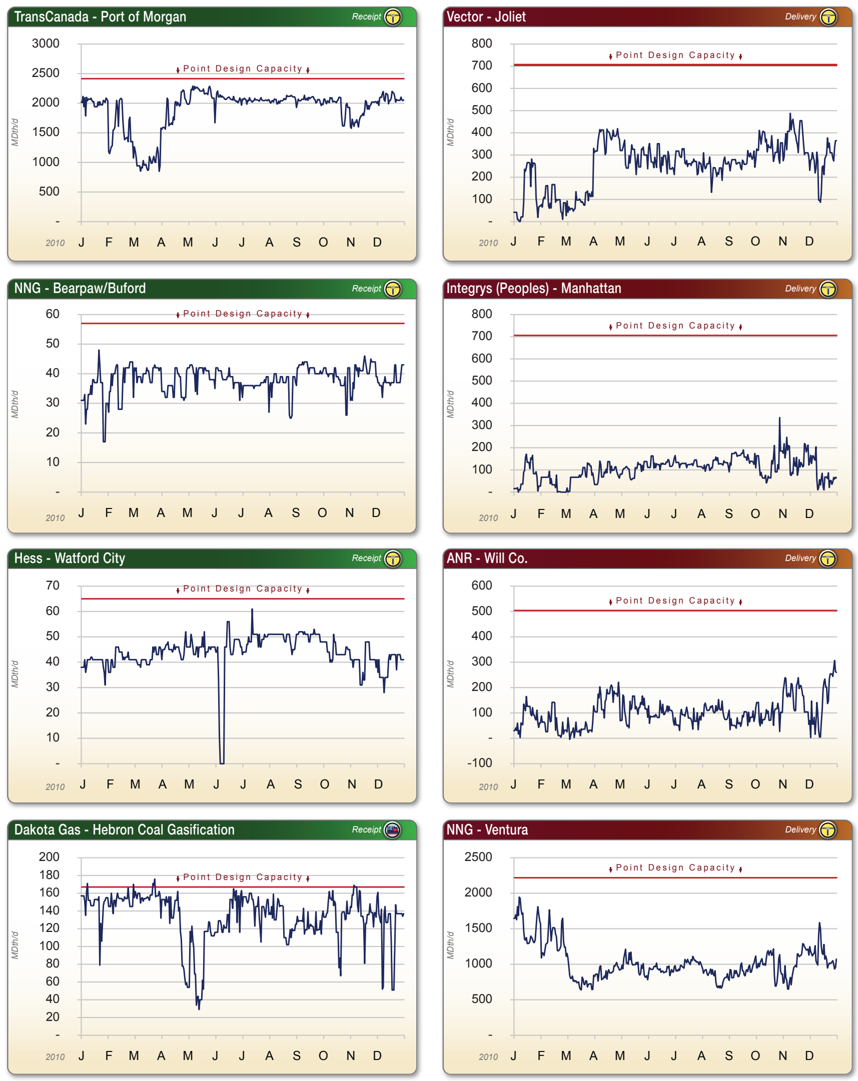
Owner:	Oneok Partners (50%)/TC Pipelines (50%)	System Capacity:	2.3 Bcf/d
Operator:	TransCanada Pipelines	Seasonal Storage:	None
Miles of Pipeline:	1,249	Compressor Stations:	17

Top 10 Transport Customers — Capacity (MDth/d)

Rate	Customer Name	Capacity
T1	Tenaska Marketing Ventures	563
T1	BP Canada Energy Marketing Corp.	414
T1	Macquarie Energy LLC	325
T1	Sequent Energy Management, L.P.	317
T1	Conocophillips Company	271

Rate	Customer Name	Capacity
T1	The Peoples Gas Light And Coke Co.	210
T1	Enterprise Products Operating LLC	192
T1	Northern Indiana Public Service Co.	166
T1	EDF Trading North America, LLC	166
T1B	Interstate Power And Light Co.	150

Northern Border Pipeline Company - Major Receipt & Delivery Points



Source: Hart Energy Mapping and Data Services

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VOLUME 29 / ISSUE 41 / June 17, 2011

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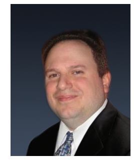

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