HARTENERGY

MIDSTREAM Monitor

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Formerly GAS PROCESSORS REPORT

In This Week's Edition

FEATURE

Proper Preparation Can Help To Avoid Litigation In The Marcellus

As activity in the Marcellus shale has ramped up so has litigation related to hydraulic fracturing, infrastructure construction, leasing issues and disputes related to mineral rights, according to Karen Kahle, who heads Steptoe & Johnson's class-action and mass-tort team.

Karen Kahle
Leader of Steptoe & Johnson's Class Action & Mass Tort Team

"One of the reasons we're seeing unique litigation related to the Marcellus shale development is because of hydraulic fracturing, which is one of the more aggressive extraction methods. It has been used since the 1930s and 1940s, but it is being used at a very high volume now," she said during a recent webinar to discuss ways to avoid liabilities in the Marcellus.

These disputes involving hydraulic fracturing include toxic torts, which are defined as a personal injury through exposure to a toxic substance. In the Marcellus, these lawsuits involve fracking fluids that are allegedly getting into water supplies and methane getting into groundwater.

"Whether or not there are significant damages in the long run may drive how many of these lawsuits we may see, but they may end up trailing off," she said, responding to questions about the harmfulness of methane. Kahle said studies have found that methane evaporates quickly and that

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INSIDE LOOK AT PROCESSING

Williams Proposes To Acquire Outstanding Southern Union Shares For $8.7B

Williams (NYSE: WMB) today announced that it has proposed to acquire all of the outstanding shares of Southern Union Company (NYSE: SUG) for $39.00 per share in cash, for a total enterprise value of $8.7 billion. Williams conveyed the all-cash, premium proposal via a letter to the Special Committee of Southern Union's Board of Directors.

Williams' all-cash proposal represents a premium of 18% over the nominal purchase price in Southern Union's proposed transaction with Energy Transfer Equity, L.P. (NYSE: ETE) ("Energy Transfer"), announced on June 16, 2011, in which Southern Union shareholders would receive optionally redeemable Series B MLP partnership units of Energy Transfer with a stated value of $33.00 per share. The Williams proposal also represents a premium of 38% over Southern Union's closing share price the day prior to the Energy Transfer announcement.

The Williams proposal is not subject to any financing contingency. Barclays Capital and Citi are acting as financial advisors to Williams and have informed the Company that they are highly confident in Williams' ability to finance the all-cash purchase price.

"Williams' proposal is compelling for both Southern Union and Williams investors," says Alan Armstrong, Williams' president and chief executive officer. "Our proposal provides significantly greater value to all Southern Union shareholders than they would receive from Energy Transfer and a path to realize such premium value that is more transparent, more expedient and more certain.

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Eagle Rock To Focus Midstream Growth On Granite Wash

Eagle Rock Energy Partners LP may have more of its operations weighted toward its upstream business, but that doesn't mean it's not focused on its midstream business, according to Joseph Mills, the company's chairman and chief executive.

While speaking at last month's National Association of Publicly Traded Partnerships (NAPTP) MLP Investor Conference in Greenwich, Conn., Mills said that one area in which the company is very focused on is liquids, be it crude or natural gas liquids (NGL).

"We really are very heavily weighted to the liquids [side of the commodity mix]. We are an NGL as well as a crude oil company, and then obviously with our upstream business and our recent acquisition of Crow Creek Energy we have acquired more gas. Almost 60% of our commodity mix is in the liquids side, either crude or NGLs," he said.

In addition to adding more gas to the company's commodity mix, the acquisition of Crow Creek Energy also adds the Midcontinent to the regions in which Eagle Rock produces. Prior to this acquisition, the company was primarily based in East Texas and the Texas Panhandle.

"While this acquisition added tremendous scale to our upstream business, it is also a very deleveraging acquisition for our partnership. Out of the $530 million purchase price, 57% of that consideration, or $300 million, was paid in the form of equity from Eagle Rock. All of that went to Natural Gas Partners, which is a highly successful private equity firm in Dallas," Mills said.

Natural Gas Partners was the largest owner of Eagle Rock shares prior to the acquisition, and it increased its percentage of common units from 24% to 40%.

He noted that the acquisition significantly increased the company's probable and proved reserves, especially in the Cana shale. This is expected to increase the company's organic growth opportunities during the next two to four years.

Much of this growth is in the midstream sector, with much of the focus on the Granite Wash in addition to the drilling opportunities represented by the Crow Creek acquisition.

"This is an area that we think we can spend $50 million to $100 million per year for the next two to four years building additional processing. We have arguably one of the best gathering footprints in this play," Mills said.

Eagle Rock has 5,500 miles of pipeline and 19 natural gas processing plants as part of its midstream assets. Mills stated the company currently transports about 500 million cubic feet per day (MMcf/d) of natural gas and that these volumes are expected to increase quickly as the company increases its operations in the Granite Wash.

"We are one of the largest gatherers and processors in the Texas Panhandle, where our assets cover over 10 counties. … The focus is on the East Panhandle, where we acquired all of the gathering systems in the region from CenterPoint Energy Field Services last fall," he said.

These assets have been integrated with Eagle Rock's existing assets in the region, allowing the company to increase their value by permitting shippers on these dry-gas systems to move liquids to Eagle Rock processing plants.

Eagle Rock has three meaningful plants with a capacity of 100 million cubic feet per day in the play, according to Mills. These plants are interconnected and operating at a 95% utilization rate.

– Frank Nieto

Barclays Capital: Gas Exports To Mexico Will Continue To Increase

While natural gas demand has fallen in recent years in the United States, many industry experts expect this demand to increase through more use to generate electricity. However, this increase in demand from power generation will not come only from the United States, as Baclays Capital stated that natural gas exports to Mexico will continue to increase in the coming years.

According to Barclays Capital the power-generation sector is driving the increase in demand for natural gas in Mexico, with increased generation capacity further increasing this demand growth in the coming years.

"Between 1999 and 2009, power generation has increased an astounding 257%. A build-out of gas-fired generation during that timeframe took place across the country, but the growth was most rapid in the Northeast, which accounted for 45% of the newly built capacity," the investment company said in its Natural Gas Weekly Kaleidoscope for June 21.

These capacity increases have largely concentrated on the industrial sector, with residential natural gas usage limited to 6.4% of fuel needs. This will increase based on plans from the Comision Federal

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KEY NORTH AMERICAN HUB PRICES	
4.30 PM CST / June 22, 2011	
Gas Hub Name	Current Price
Carthage,TX	4.27
Katy Hub, TX	4.41
Waha Hub, TX	4.37
Henry Hub, LA	4.41
Perryville, LA	4.42
Houston Ship Channel	4.42
Agua Dulce TX	4.67
Opal Hub, Wyo.	4.21
Blance Hub, NM	4.32
Cheyenne Hub, Wyo.	4.25
Chicago Hub	4.51
Ellisburg NE Hub	4.69
New York Hub	4.73
AECO, Alberta	3.99

Source: Bloomberg

de Electricidad (CFE), which call for increased expansion of gas-fired generation.

"The National Energy Strategy aims to limit the share of natural-gas fired generation to 45% of total. But this still leaves room for natural gas-fired capacity to grow by more than 19,000 megawatts in 2010-2024, according to plans by the CFE," according to the report.

This would translate to an increase in demand for natural gas of 3.8 Bcf/d by 2024, with much of the demand centers being accessible to U.S. suppliers by pipeline.

While demand is increasing in the country, its domestic supplies are falling off and causing a spike in import demand. Barclays Capital noted that while liquefied natural gas (LNG) could meet such demand, it is likely that U.S.-sourced gas is cheaper and is more likely to fill the void.

"More than 60% of Mexico's gas output comes in association with oil production. While associated gas is growing slightly, non-associated production is on a steeply declining trend. … Similar to the trend in the U.S., the drastic disparity between oil and gas prices is prompting the majority of capital spending to be directed toward oil targets, at the expense of natural gas," the report said.

Though both conventional and associated gas production are declining in Mexico, the U.S. Energy Information Administration noted that the country's technically recoverable shale resources are 681 trillion cubic feet, behind only the U.S., China and Argentina.

However, shale gas development in the country is in its infancy and leaves questions about its scale and timeframe for production growth.

"In aggregate, Mexican gas production is likely to remain on a declining trend. … In contrast, consumption should continue to grow, driven by the power-generation sector. These diverging trends suggest increasing need for gas imports in the coming years," the report said.

Barclays Capital stated that it anticipates U.S. gas exports to Mexico to average 1.3 billion cubic feet per day (Bcf/d) in 2011. This would be a 450 million cubic feet per day (MMcf/d) increase over 2010 export levels.

"Continued tightening of Mexican supply/demand balances should lead to further U.S. export growth in 2012. We expect U.S. flows to Mexico to increase by another 200 MMcf/d in 2012, to an average of 1.5 Bcf/d," the report said.

Natural gas exports to Mexico stabilized at approximately 850 MMcf/d from 2005 to 2010 after rising sharply in the early part of this century. This stabilization was undone in Q1 2011 when export levels to Mexico rose to their highest level in 10 years. Based off of pipeline flow data, this trend has continued into this month.

– Frank Nieto

Proper Preparation… *(continued from page 1)*

no long-term health problems, including cancer, are associated with exposure to it. Her advice to producers on how to avoid such litigation is to adhere to best practices involving well-bore casing and impoundment ponds.

She noted that much of the litigation in the Marcellus shale is related to mineral rights, which represent the first step in extracting energy from the shale. These types of lawsuits are largely made up of three types of issues: bid rigging, the scope of surface use and lease expiration.

Bid-rigging suits, which have been filed in West Virginia and Pennsylvania, allege that operators seek to tie up blocks of land to evaluate the market to see if they want to develop this land.

"The alleged scheme involves operators offering owners lucrative terms that were contingent upon management approval, but gave the owners the impression this was a mere formality," Kahle said. "These types of cases are in the early part of litigation, so the takeaway tip is to be careful of the oral representation that your agents may be making in preliminary negotiations with landowners."

The scope of surface use involves an operator using the surface of one tract of land to produce pool gas from an adjoining tract. The primary question in such cases revolves around whether operators are permitted to only use the surface to produce from the associated tract. "Most of these cases are in the pleading stages, so it is something to keep in mind because not much law has come out of these yet," she said.

The issue of expiring leases would seem to be a fairly straightforward issue, but disputes have arisen over whether leases at unfavorable rates to landowners have expired or not.

"There apparently are a lot of folks out there who enter into leases in 2005 and 2006, just before the Marcellus boom hit this area. They signed leases for maybe

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$5-$6 per acre and 12.5% royalty fees, then the boom hit and they saw their neighbors getting $2,000-$3,000 per acre and 18% royalty fees -- and they couldn't wait for their leases to expire. Most of these leases have provisions for mutual extensions or clauses related to extending the lease if the gas is developed," Kahle said.

Her advice was for producers to review their leases with terms favorable to them and review the steps they need to take to extend these leases, as well as taking steps to give landowners notice of intent to extend the lease.

Similar advice to review contracts was given by Kahle concerning infrastructure projects. She noted that there has been an increase in professional, engineering and product liability cases, which involve improper project designs and manufacturing defects.

"When you're involved in a construction project, you don't want to rush into signing things. It's a good idea to have the contract reviewed by your counsel and have them look for defense and indemnity clauses. If they are not in the contract, you may want to consider adding them. When a particular product is involved in a project, you may want to carefully identify the specs you need within the contract," she said, adding that it is also a good idea to do product testing if you don't really know the manufacturer.

However, midstream liability isn't just related to the development of new infrastructure as more suits are also being filed regarding old easements and pipelines. In such cases, landowners have claimed that the easements were abandoned because pipelines were not properly maintained.

"The question is what is needed to maintain a pipeline easement? The State of Illinois found that preserving the basic future use of the easement and pipeline is all that's required to maintain an easement," Kahle said. If a company intends to use any pipeline easements, she again suggested reviewing the easement and review if there is any language in regard to maintaining the easement.

Deliberate Intent Is Primarily An Issue In West Virginia

While all of the aforementioned types of cases can be found in Pennsylvania, Ohio and West Virginia, only deliberate intent cases are really found in West Virginia, she noted, because of the difficulty in proving your case in both Pennsylvania and Ohio.

Such cases are exceptions to the immunity provided to employers who comply with workers' compensation programs. In exchange for no-fault coverage, the employers are exempt for being sued by the injured employee.

"In West Virginia, the legislature tried to make this a narrow exception with five elements that must be proven in court: a specific unsafe working condition that presented a high degree of risk and a strong probability of serious injury or death; the employer had actual knowledge of the unsafe working condition; the unsafe working condition was a violation of a safety statute, rule or regulation or industry safety standard; the employer intentionally exposed the employee to an unsafe working condition; and the employee suffered serious comprehensible injury or death.

"These elements are pretty onerous, and the difference between West Virginia and Pennsylvania and Ohio is that courts tend to liberally apply these elements. And that's why we tend to see so many of them filed in the state," she said.

In order to protect themselves from such cases, Kahle advised that companies follow proper standards, such as those released by API and OSHA. If there aren't any specific industry standards for a company to follow, she advised that companies get involved in trade and industry groups to help develop best practices and standards in the field.

Industry Standards Are Key To Litigation Protection

The same advice holds true when it comes to protecting against casualty claims, which have been mostly linked with explosions. In such cases, the best preparation is to not only follow best practices and industry standards, but also to have first-responder plans in place.

"Ideally these first-responder plans are both internal and external. Internally you want preparedness manual for employees with technical information such as where the pipeline valves are located and what you need to shut them down, as well as what you need to do to shut down compressor stations. It should also address who from the company is going to communicate with the media and government agencies investigating the incident.

"External first-responder plans deal primarily with paramedics, fire departments and police in the locality where you're doing business. It's a good idea to meet with these folks on a regular basis and talk with them and give them a map of your facilities as well as a list of contacts," she said.

While these preparations will not put an end to litigation for companies active in the Marcellus shale, they will help to limit such actions.

– Frank Nieto

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Southcross Energy Expands Gas Processing Capability In Eagle Ford Shale To 335 MMcf/d

Southcross Energy, Dallas, has reported that the company is expanding its capability to process liquids-rich natural gas production from the Eagle Ford Shale area in South Texas to 335 million cubic feet of gas per day (MMcf/d). Southcross will construct a new natural gas processing plant with a capacity of 200 MMcf/d in Refugio County, which will be the company's largest processing facility. Southcross also is enhancing efficiency and increasing the capacity of its Gregory processing plant in San Patricio County to 135 MMcf/d.

Construction of the new processing plant, which will include state-of-the-art equipment, should be completed in the second quarter of 2012. The new plant is located about 25 miles northeast of Corpus Christi near Woodsboro. Southcross also will retrofit and make enhancements to its gas processing plant located 13 miles east of Corpus Christi near Gregory to increase capacity and improve liquids extraction efficiency.

Southcross' strategically located processing plants will provide producers with multiple options for residue gas disposition via various pipeline interconnects and connections to the local industrial market in the Corpus Christi Ship Channel. Multiple options for natural gas liquids disposition at the plants' tailgates are planned.

Resin Prices – Market Update – June 23, 2011					
TOTAL OFFERS: 13,972,740 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Blow Mold	3,979,680	0.67	0.72	0.65	0.69
PP Copolymer - Inj	2,892,000	0.84	0.89	0.82	0.86
PP Homopolymer - Inj	2,032,276	0.81	0.86	0.80	0.84
LDPE - Film	1,645,036	0.79	0.86	0.76	0.80
LLDPE - Film	1,284,920	0.76	0.80	0.72	0.76
GPPS	590,000	0.80	0.90	0.84	0.89
HIPS	570,000	0.98	0.98	0.92	0.97
LDPE - Inj	402,000	0.76	0.88	0.77	0.81
HMWPE - Film	220,460	0.72	0.76	0.68	0.72
LLDPE - Inj	180,000	0.83	0.83	0.73	0.77
HDPE - Inj	176,368	0.73	0.79	0.67	0.71

Source: Plastics Exchange – www.theplasticsexchange.com

"We are pleased to make extensive improvements to our gas processing and liquids-handling capability to serve producers operating in the Eagle Ford Shale area, as well as improve processing services to our existing customers," said David W. Biegler, Southcross chairman and chief executive. "These processing plant projects mesh well with the major pipeline extension we are constructing into McMullen County.

"The Eagle Ford Shale is the most actively drilled U.S. shale play today, and we are expanding Southcross' strategically located pipeline and processing assets to participate in this growth," Biegler added.

NEWS & TRENDS

AltaGas Receives Final Approval For Montney Processing Plant

AltaGas Ltd. (TSX:ALA) received the final regulatory approval required to begin construction on its 120 million cubic feet per day (MMcf/d) Gordondale gas processing facility, located approximately 100 km northwest of Grande Prairie, Alberta. The plant will be equipped with liquids extraction facilities to capture the natural gas liquids value for AltaGas' customers.

"The Gordondale gas processing facility is an exceptional gas infrastructure project that showcases our ability to deliver on our growth objectives", said David Cornhill, Chairman and CEO of AltaGas Ltd. "This two phased project will allow for early production to our Pouce Coupe facility in the coming months prior to Gordondale coming online late next year. This project affirms our commitment to being a leading energy infrastructure company."

The Gordondale gas processing facility and gathering system will cost approximately C$235 million (US$241 million). The gas processing facility is expected to be in service in late 2012. By using existing infrastructure in the area, AltaGas anticipates providing processing for early production by mid-2011. The project has now received all the necessary regulatory approvals.

The plant is located in the Montney resource area, one of the largest, low-cost, liquids rich resource plays in the Western Canadian Sedimentary Basin. This plant will allow AltaGas to provide a midstream solution to a number of producers in the area. The addition of deep cut facilities to the project allows producers to extract additional value for liquids from the gas they bring to the plant for processing. The natural gas liquids extraction facilities also allow AltaGas to expand its service offering to market liquids for customers and to purchase gas at the plant gate and extract the value of the liquids.

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Howard Energy Partners Acquires Eagle Ford Assets

Howard Energy Partners (HEP) has commenced operations with the acquisitions of Texas Pipeline LLC and Bottom Line Services, LLC for a total consideration of $76 million. Crosstex Energy, L.P. (NASDAQ: XTEX) and Quanta Services, Inc. (NYSE: PWR) each provided an initial capital contribution of $35 million in exchange for an individual ownership interest of approximately 35% in HEP. Additional funds were provided from management of HEP, management of Bottom Line Services and private investors.

San Antonio-based HEP, a total-solutions energy company, provides midstream services through its newly acquired subsidiaries, Texas Pipeline, a San Antonio-based midstream owner and operator, and Bottom Line Services, a company specializing in pipeline and plant construction based in George West, Texas. Both subsidiaries currently operate primarily in the Eagle Ford Shale in South Texas.

Texas Pipeline operates 250 miles of large-diameter gathering pipelines in Dimmit, Frio, Maverick and Zavala counties in the Eagle Ford and Pearsall shales. The pipeline system is in the vicinity of more than one million acres of owned and operated oil and natural gas leases. Texas Pipeline recently negotiated new long term commitments from oil and gas producers for transportation and gathering services in Dimmit County that will extend the existing system another 30 miles by the third quarter of this year.

Bottom Line Services has successfully constructed more than 500 miles of pipeline and installed more than 70 midstream facilities including amine plants, cryogenic processing plants and compressor stations. The company has been in business since 2003 and is presently involved in more than 30 construction projects for numerous producers in the Eagle Ford Shale. Bottom Line Services has experienced significant growth as a result of the growing infrastructure demands of the Eagle Ford play.

"We are pleased that this unique partnership has come together," said Mike Howard, Chairman and Chief Executive Officer of Howard Energy Partners. "The well-positioned assets and skilled services of Texas Pipeline and Bottom Line Services, coupled with strong financial backing and management experience, puts Howard Energy Partners in an excellent position for growth. The financial and strategic support that our capital partners can provide us as we pursue new growth platforms in the Eagle Ford, as well as other shale developments in the United States, is unrivaled. We have a strong balance sheet with over $10 million of cash in the bank and an undrawn credit facility of $20 million. In addition, Crosstex, Quanta and many others have expressed interest in investing significant new equity to back our large inventory of project developments. We feel privileged to have the opportunity to have created such a meaningful endeavor in San Antonio and look forward to a bright future."

"Crosstex is excited to partner with Howard Energy Partners, which provides us a new growth platform in the rapidly developing Eagle Ford Shale play. This is a new geographic area for us, and our investment is consistent with our strategy to expand outside our existing core areas. We expect our association with HEP will yield additional investment opportunities for us directly through HEP and through other ventures in the Eagle Ford and other shale developments," said Barry E. Davis, Crosstex President and Chief Executive Officer. "We believe HEP and Quanta will be great partners as we supplement our growth strategies and we look forward to a long-term working relationship with them."

"The midstream infrastructure demands of the Eagle Ford Shale play are significant and call for a unique build-own-operate solution," said Jim O'Neil, president and CEO of Quanta Services. "The partnership of Howard Energy Partners, Crosstex and Quanta combines proven midstream development experience, project capital and deep construction and program management capabilities to deliver a total solution to the increasing infrastructure demands of the Eagle Ford Shale play. The investment in HEP also permits Quanta to participate in the opportunity for the infrastructure growth and recurring income associated with this significant market."

Mike Howard, Chairman and Chief Executive Officer of HEP, most recently served as President of Midstream for Energy Transfer Partners (NYSE: ETP) from 2005 to 2010. Mr. Howard was responsible for the largest divisions of the company which operated 17,500 miles of intrastate and interstate natural gas pipelines, plants and storage facilities. During his tenure, he actively participated in the growth of the company through more than $7.5 billion of low risk-high return projects that were supported by long-term customer contracts. Previously, Mr. Howard was Vice President of Engineering and Operations for Crosstex Energy.

Brad Bynum will serve as President and Chief Financial Officer of HEP. Since 2005, Mr. Bynum has served as Chief Financial Officer of Hall-Houston Exploration Partners, LLC, an offshore Gulf of Mexico exploration and production company. Prior to Hall-Houston, he was an investment banker at Merrill Lynch & Co. where he focused on the energy sector. Mr. Bynum will continue to serve Hall-Houston as a general partner. He also serves on the board of directors of Magnum Hunter Resources Corporation, a position he has held since 2006.

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YPF S.A., ENARSA, Excelerate Energy Inaugurate Argentina's Second LNG Import Facility

With President Cristina Fernandez de Kirchner present to honor the opening of Argentina's second LNG import facility, a joint development between YPF S.A., ENARSA and Excelerate Energy, GNL Escobar (GNLE) was officially open for business on June 8, 2011. Located on the Parana River, about 30 miles outside Buenos Aires City, GNLE utilizes Excelerate Energy's GasPort design. As well as providing increased peak capacity for the high-demand winter months, the facility delivers additional natural gas supply and transport capacity to the Buenos Aires region. The facility began receiving cargoes on May 24, 2011 and has already offloaded four cargoes of LNG using ship-to-ship transfers. Ongoing operations and supply logistics of the facility are currently coordinated jointly between the three companies.

GNLE is similar in design and function to the Bahia Blanca GasPort (BBGP), also located in Argentina. The GNLE incorporates a jetty mounted, articulated gas-offloading arm (HP gas arm) and uses Excelerate Energy's proprietary Energy Bridge floating storage and regasification vessel (FSRU) technology. The facility has a baseload throughput capacity of 500 MMcf/d, with peak throughput capacity at 600 MMcf/d, and has direct access to the Buenos Aires region and Argentina's natural gas grid.

GNLE is another example of the successful collaboration between YPF, S.A., ENARSA and Excelerate Energy's proven fast track GasPort approach. The facility only took nine months to develop from construction start to in-service – on schedule and just in time for the peak winter months. With relatively low capital investment – permit and construct at a fraction of the cost of a traditional onshore LNG terminal – the inherent flexibility of the Excelerate Energy Bridge design allows GNLE to adapt to the high seasonality of Argentina's natural gas market, allowing a fast response to the peak consumption periods.

Williams Proposes... *(continued from page 1)*

"We are confident the combination will further strengthen our ability to deliver value and growth from an extraordinary suite of energy-infrastructure assets," Mr. Armstrong adds. "The two asset portfolios are complementary and strategically positioned in growing supply areas, including key shale basins, and end-use markets. The combination would enhance Williams' position as a North American leader in services that are vital to connect new supplies of natural gas in growing resource plays to markets that are anxious to enjoy the benefits of affordable, clean natural gas. Additionally, based on publicly available information, we expect to realize cost savings of more than $50 million annually and to immediately increase cash flows in support of Williams' high-dividend strategy.

"We are confident the Special Committee of Southern Union's Board of Directors and Southern Union shareholders will find our significantly higher value, all-cash proposal superior to the proposed Energy Transfer transaction," Mr. Armstrong added. "We look forward to working closely with Southern Union to quickly reach an agreement on a transaction."

Williams announced plans earlier in 2011 to separate its exploration and production business in a two-step process. The initial public offering of WPX Energy is on track for the third quarter of 2011, with the subsequent tax-free spinoff to Williams shareholders expected to be completed no later than the first quarter of 2012. This process is designed to create two, independent, pure-play companies that are better positioned for growth and appeal to distinct groups of investors. The company noted that the proposal to acquire Southern Union has no impact on the timing of the separation transaction.

Encana, PetroChina End Cutbank Ridge Negotiations

Encana Corporation, here, (NYSE: ECA) and PetroChina International Investment Company, a subsidiary of PetroChina Company Limited, have ended negotiations for a proposed joint venture concerning Encana's Cutbank Ridge business assets after the parties were unable to achieve substantial alignment with respect to key elements of the proposed transaction, including the joint operating agreement.

"After close to a year of exclusive negotiations with PetroChina, we were unable to reach alignment on the planned transaction," says Randy Eresman, president and CEO of Encana. "The disciplined and determined process we undertook on this one initiative in our multi-faceted and ongoing joint-venture strategy has gone a long way to demonstrate the tremendous value that we have created at Cutbank Ridge and it validates our plans to accelerate recognition of that value. As such, we have determined that the best way for us to advance our plans to unlock value from our Cutbank Ridge business assets is to offer up a variety of joint venture opportunities for portions of the undeveloped resources, and, separately, to examine a transaction with respect to our midstream pipeline and processing assets in the area. Each of these opportunities has the potential for strong long-term growth and value generation. We have an accomplished history of realizing significant value from our enormous resource potential through competitive processes that secure premium joint venture partners. We have retained RBC Capital Markets and Jefferies & Company Inc. to conduct this process and we look forward to discussing these very attractive opportunities with an array of potential investors in the upcoming months."

Horn River and Greater Sierra joint venture discussions well underway

In April 2011, Encana announced plans seeking investors in two joint ventures on Encana assets outside Cutbank Ridge in northeast British Columbia, one on undeveloped Horn River shale lands and one in the company's Greater Sierra resource play. Discussions are well underway on these potential transactions as well as a potential divestiture of producing assets in the northern portion of Greater Sierra. Encana expects that these transactions, plus other divestitures and joint venture pursuits that the company has initiated, will generate 2011 proceeds and joint venture investments of between US$1 billion and $2 billion, a level that exceeds Encana's net divestiture target for 2011 of $500 million to $1 billion. That estimate for higher 2011 divestiture and joint venture proceeds does not include any potential investments in Encana's Cutbank Ridge undeveloped resources and associated midstream assets. To reflect this increase, Encana has updated its 2011 guidance for net divestitures to between $1 billion and $2 billion. All other components of Encana's guidance remain unchanged.

Encana on track for 2011

"As we look ahead to the rest of this year, our strong operating performance in the first half of this year and our prudent risk management measures mean that we remain on track to achieve our 2011 production and financial guidance," adds Eresman. "We expect future natural gas prices to reflect the forward price curve, and, over time, to return to a long-term level of about $6 per thousand cubic feet (Mcf), which we believe reflects the cost of adding new supply. Across Encana, we are relentlessly focused on driving down supply costs, which this year we expect to average about $3.70 per Mcf. Over the next three to five years, we are targeting a supply cost of $3 per Mcf, based on 2011 cost structures. These low cost structures, combined with our continued emphasis on capital discipline and the high grading of our portfolio, help us maximize margins and maintain a healthy balance sheet through the lower end of the price cycle – a market condition that has persisted in North America during the past two years."

Gibson Energy, GEP Midstream Close Debt Offers

Gibson Energy ULC and GEP Midstream Finance Corp. have reported the final results of their previously announced cash tender offers to purchase any and all of their outstanding 11.75% First Lien Senior Secured Notes due 2014 and 10.00% Senior Notes due 2018. The tender offers expired at midnight, New York City time, on June 13, 2011. As of the expiration date, based on the final information provided to the Issuers by Global Bondholder Services Corp., the tender agent for the tender offers, the issuers received tenders and consents from holders of $557,880,000, or approximately 99.6%, of their outstanding aggregate principal amount of first lien notes and from holders of $200,000,000, or 100% of the outstanding aggregate principal amount of Senior Notes. All Notes validly tendered and not validly withdrawn in the tender offers have been accepted for payment by the issuers.

Based on the consents received, the Issuers have entered into a supplemental indenture that eliminates substantially all restrictive covenants and certain default provisions in the indenture governing the First Lien Notes and releases all of the collateral from the liens created pursuant to the collateral documents.

Both tender offers were subject to the satisfaction of certain conditions, including completion of an initial public offering of the common shares of Gibson Energy Inc., an affiliate of the Issuers, in each of the provinces and territories of Canada, consummation by Gibson Energy ULC of a new senior secured credit agreement governing a senior secured term loan facility in an aggregate principal amount of up to $700 million and

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a senior secured revolving credit facility of up to $250 million and the receipt by Gibson Energy ULC of aggregate net cash proceeds of at least $904.7 million from the Initial Public Offering and borrowings under the Term Loan Facility. All of these conditions were satisfied.

The Issuers had retained J.P. Morgan Securities LLC to serve as dealer manager and solicitation agent for the tender offers. The Issuers had retained Global Bondholder Services Corp. to serve as the tender agent and as the information agent for the tender offer.

ETP, Regency To Build West Texas NGL Pipeline

Energy Transfer Partners, L.P. (NYSE: ETP) and Regency Energy Partners LP (NASDAQ: RGNC) announced that Lone Star NGL LLC ("Lone Star") will construct an approximately 530-mile natural gas liquids pipeline that extends from Winkler County in west Texas to the Jackson County processing plant in Jackson County, Texas. In addition, Lone Star has secured capacity on ETP's recently-announced NGL pipeline from Jackson County to Mont Belvieu, Texas.

"The dramatic increase in drilling in the Permian Basin has highlighted the need for additional NGL takeaway capacity from west Texas, and Lone Star is strategically positioned to provide this essential service to producers," said Greg Bowles, Senior Vice President of Lone Star. "We are excited to announce this project and believe there will be additional opportunities for expansion of Lone Star's assets."

Lone Star's new pipeline will have a minimum capacity of approximately 130,000 barrels per day with the potential to upsize the pipeline capacity depending on ongoing negotiations. The project currently has over 65% of the capacity subscribed with key producers and processors under 15-year agreements, and is expected to be completed by the first quarter of 2013. The estimated cost of the project is $700 million, of which Energy Transfer will pay 70% and Regency will pay 30%.

Alliance To Develop Liquids-Rich Pipeline In North Dakota

Alliance Pipeline LP has reported plans to develop a pipeline and associated facilities in North Dakota to transport liquids-rich natural gas. Hess Corporation has entered into a precedent agreement with Alliance for service on the proposed 80-mile lateral pipeline, which would connect production from Hess' gas processing facility in Tioga, ND to the Alliance mainline near Sherwood, ND, for onward shipment to the Chicago market hub.

The pipeline's initial design capacity is approximately 120,000 Mcf/day, and can be expanded based on shipper demand. Alliance will hold an open season this summer to identify further shipper transportation needs.

The Tioga Lateral Project has a planned in-service date of July 2013, subject to regulatory and other required approvals.

"The Alliance system ships high-energy, liquids-rich natural gas, to NGL processing facilities owned by Aux Sable Liquid Products at the terminus of the mainline system near Chicago," says Murray Birch, Alliance president and CEO. "We are pleased that the Tioga Lateral Project will enable us to offer Williston Basin producers a value-added transportation option that is unique in North America."

Alliance has one of the best safety and performance records in the natural gas transmission industry.

Alliance will consult with and inform affected stakeholders throughout the pipeline project's planning and development.

FERC Approves Dominion's Appalachian Gateway Project

On June 16, the Federal Energy Regulatory Commission approved Dominion Transmission Inc.'s application to construct and operate its Appalachian Gateway Project. In response to increasing Appalachian gas production, Dominion proposes: (1) to construct 107 miles of 20-, 24-, and 30-inch diameter pipeline, four new compressor stations, upgrade two existing compressor stations, and (2) to integrate its 2008 TL-263 Expansion Project with the new facilities.

The proposed project will be able to provide firm transportation for 484,260 dekatherms per day from supply areas in West Virginia and Pennsylvania to an interconnection with Texas Eastern Transmission in Westmoreland County, PA.

The FERC order also denied protests lodged against the proposal by coal companies who contended that the presence of a pipeline would preclude their extraction of coal reserves. In response, Dominion altered its initially proposed route to diminish impacts on present and future mining areas and described measures it will employ to monitor and maintain the integrity of its pipeline when mining takes place beneath in-service segments of pipe.

TransCanada Completes Guadalajara Pipeline

TransCanada Corp., Calgary, Alberta, Canada, that its $360 million Guadalajara Pipeline has been completed. The entire capacity of the 307-kilometer (192-mile), 30-inch-diameter pipeline is held under a 25-year contract with Comisión Federal de Electricidad (CFE), Mexico's state-owned electric company.

"The Guadalajara pipeline represents key infrastructure that will allow CFE to continue developing a natural gas-fired electricity generation fleet in the rapidly growing central region of Mexico," said Russ Girling, TransCanada president and chief executive. "We are very pleased to be part of this overall development plan."

"Completion of the Guadalajara pipeline represents another milestone in TransCanada's ongoing capital program," Girling continued. "Guadalajara is TransCanada's second pipeline investment in Mexico and highlights our ability to complete pipeline projects in the country which positions us well for future opportunities."

The Guadalajara pipeline connects to an LNG regasification facility located near Manzanillo, in the state of Colima. It has a capacity to transport 500 million cubic feet of natural gas per day to a nearby CFE owned power plant and 320 million cubic feet per day to the Pemex-owned national pipeline system near Guadalajara, in the state of Jalisco.

TransCanada has put into service seven other major projects in the last year. The Keystone Pipeline System Phases 1 and 2 are delivering oil; the Groundbirch and Bison natural gas pipelines are transporting natural gas to market; Maine's largest wind project - Kibby Wind - became fully operational in late October; and the Halton Hills Generating Station in Ontario and Coolidge Generating Station in Arizona have begun producing power.

NGL PRICES

Conway Ethane Up 4% As Morris, Ill., Ethylene Plant Comes Back Online

Ethane prices rebounded strongly at Conway the week of June 15, as they improved 4% to 53¢ per gallon (/gal) due to the restart of Equistar's ethylene plant in Morris, Ill., which has helped to narrow the Midcontinent price with the Gulf Coast price.

While ethane prices improved, Mont Belvieu prices were down 1% to 74¢/gal. However, prices in the region should start to improve as all but one ethylene plant has come back online. Only LyondellBasell's OP-2 facility in Channelview, Texas, is still down, but is expected to return to operations soon from its 60-day turnaround.

As these ethylene plants come back online, it should result in greater demand and higher prices for ethane, but En*Vantage issued a caution in regard to the petrochemical market. "China's petrochemical market is essential to the health of U.S. ethylene prices, and the fiscal tightening in China to curb inflation is depressing ethylene prices and polyolefin prices in Asia. Now that a number of U.S. ethylene plants are back on-

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

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
June 15 - 21 '11	74.24	153.18	184.12	200.06	237.03	$60.75
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 '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 16 - 22, '10	48.27	102.24	143.48	157.10	176.75	$43.32
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
June 15 - 21 '11	53.20	142.06	166.50	187.90	220.00	$54.32
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 '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 16 - 22, '10	27.76	94.18	126.45	145.40	169.73	$37.80

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line, a certain amount of operational discipline will be needed until the Asian market can rebound."

The only other natural gas liquid (NGL) to show an improvement in price the week of June 15 at either hub was Conway isobutane, which improved 2% to $1.88/gal. Meanwhile, the Mont Belvieu price fell 1% to $2/gal as the price continued to hold firm despite continued drops in crude oil prices. The relative strength for isobutane at both hubs is due to steady demand for alkylate from refiners making summer-grade gasoline.

Propane prices were down only 1% at both Mont Belvieu and Conway as they also maintained relative strength due to low inventory rates. Normally propane prices would be expected to fall at a greater pace due to limited summer demand, which has caused propane inventory levels to increase slightly during the past few weeks. Although inventory levels remain low, continued balancing will likely have an adverse effect on prices. The Mont Belvieu price fell to $1.53/gal while the Conway price was down to $1.42/gal.

Butane prices performed slightly worse than its isobutane and propane counterparts the week of June 15 as demand remains low and crude oil prices fell again. The Mont Belvieu price was down 2% to $1.84/gal, while the Conway price fell 1% to $1.67/gal.

As crude prices have lost about $10 per barrel during the past few weeks, it has also had a negative impact on C5+ prices, which had the largest decreases at both hubs. The Mont Belvieu and Conway prices both fell 3%. The Mont Belvieu price of $2.37/gal was the lowest at the hub since it was $2.22/gal the week of Feb. 16, while the Conway price of $2.20/gal was its lowest price since it was $2.19/gal the week of Feb. 9.

– Frank Nieto

FRAC SPREAD

Natural Gas In Storage 10% Below Last Year's Levels

Natural gas feedstock prices were down 4% to $4.28 per million Btu (/MMBtu) at Conway and $4.39/MMBtu at Mont Belvieu the week of June 15, which caused frac spread margins for natural gas liquids (NGL) to improve.

The biggest improvement was for Conway ethane, which experienced a 24% increase in margin due to a 4% price improvement. The Mont Belvieu margin stayed relatively the same as it rose less than 1% even with a drop in price for the week.

Conway isobutane had the second-largest improvement in margin for the week of June 15, as it was up 4% due to a 2% increase in price at the hub. At the Mont Belvieu hub, isobutane also had the second-largest increase in margin, as it rose less than 1% from the previous week.

The greatest improvement in margin at Mont Belvieu was for propane, which improved 1% despite a 1% drop in price for the week. The margin for Conway propane was up less than 1%.

The only NGLs to experience drops in margin for the week were butane, which fell less than 1% at Conway and was down 1% at Mont Belvieu, and C5+, which experienced a 4% drop in margin at both hubs.

The theoretical NGL barrel price performed better at Conway the week of June 15, as it was down less than 1% to $54.32 per barrel (/bbl) with a 1% improvement in margin at $38.68/bbl. The Mont Belvieu theoretical barrel price fell 2% to

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

Current Frac Spread (Cents/Gal)

June 23, 2011	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	53.20		74.24	
Shrink	28.38		29.11	
Margin	24.82	24.26%	45.13	0.16%
Propane	142.06		153.18	
Shrink	39.20		40.21	
Margin	102.86	0.29%	112.97	0.54%
Normal Butane	166.50		184.12	
Shrink	44.38		45.52	
Margin	122.12	-0.13%	138.60	-1.42%
Iso-Butane	187.90		200.06	
Shrink	42.63		43.72	
Margin	145.27	4.00%	156.34	0.21%
Pentane+	220.00		237.03	
Shrink	47.47		48.69	
Margin	172.53	-3.83%	188.34	-3.60%
NGL $/Bbl	54.32	-0.24%	60.75	-1.86%
Shrink	15.63		16.04	
Margin	38.68	1.29%	44.72	-1.09%
Gas ($/mmBtu)	4.28	-3.82%	4.39	-3.94%
Gross Bbl Margin (in cents/gal)	89.12	1.38%	104.55	-0.93%
NGL Value in $/mmBtu				
Ethane	2.93	7.52%	4.09	-1.49%
Propane	4.93	-0.88%	5.32	-0.67%
Normal Butane	1.80	-1.14%	1.99	-2.05%
Iso-Butane	1.17	2.12%	1.25	-0.72%
Pentane+	2.84	-3.83%	3.06	-3.67%
Total Barrel Value in $/mmbtu	13.67	0.38%	15.70	-1.66%
Margin	9.39	2.42%	11.31	-0.74%

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$60.75/bbl with a 1% drop in margin to $44.72/bbl.

Pentanes-plus (C5+) was once again the most profitable NGL to make at both hubs at $1.73 per gallon (/gal) at Conway and $1.88/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.45/gal at Conway and $1.56/gal at Mont Belvieu; butane at $1.22/gal at Conway and $1.39/gal at Mont Belvieu; propane at $1.03/gal at Conway and $1.13/gal at Mont Belvieu; and ethane at 25¢/gal at Conway and 45¢/gal at Mont Belvieu.

Natural gas in storage the week of June 17, the most recent data available from the Energy Information Administration, increased 98 billion cubic feet to 2.354 trillion cubic feet (Tcf) from 2.256 Tcf the previous week. This was 10% below the storage level of 2.612 Tcf reported last year at the same time and 3% below the five-year average of 2.418 Tcf. These lower inventory levels are due to decreased dry gas production as well as greater cooling demand caused by higher temperatures in much of the country this summer.

This trend in cooling demand will continue next week, according to the National Weather Service's forecast. Hotter temperatures are forecast along much of the East Coast, especially the Northeast. These warmer temperatures should extend throughout the Midwest and into parts of the Rockies and the Southwest. Cooler than normal temperatures are expected along the West Coast, and normal temperatures are expected in the rest of the country.

– Frank Nieto

SNAPSHOT

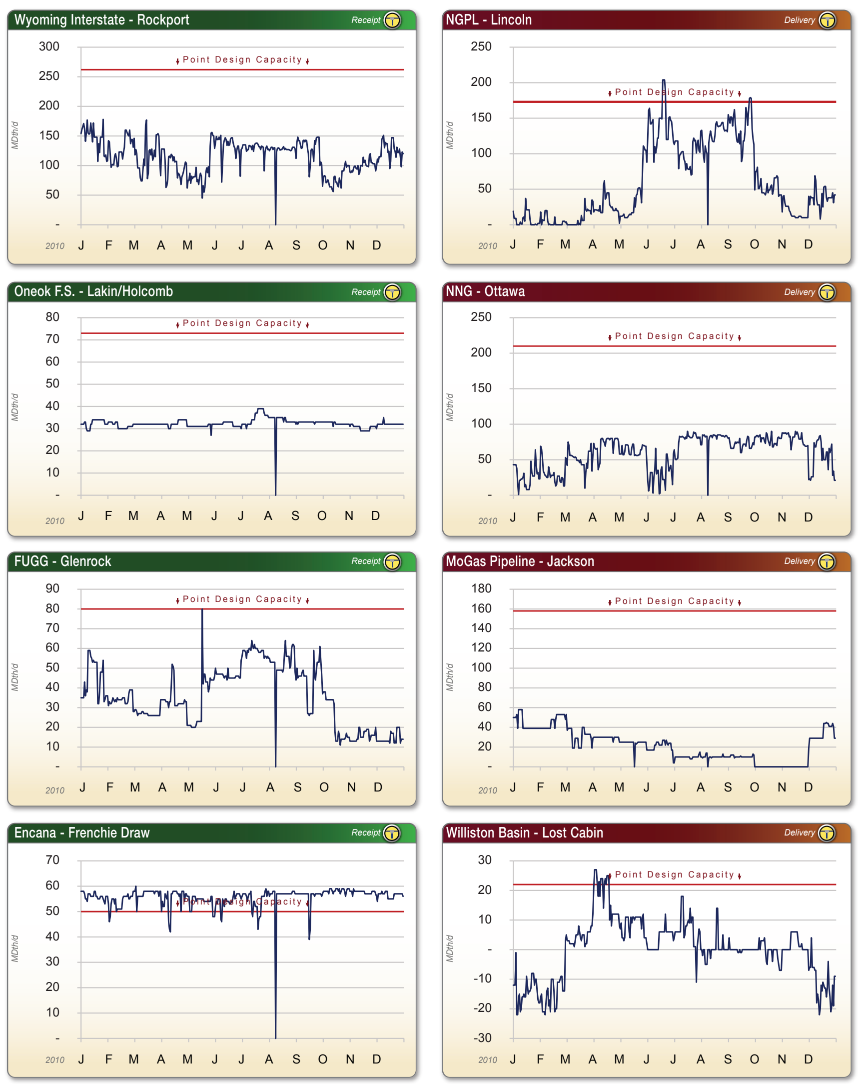
KMIGT Transports Gas To Midwest

The Kinder Morgan Interstate Gas Transmission (KMIGT) is a natural gas pipeline system that brings gas from the Rocky Mountains into Missouri and Nebraska, where it joins other pipes to go on towards the Midwest. It has a system capacity of 8 million cubic feet (MMcf) and seasonal storage of 10 billion cubic feet (Bcf), according to Hart Energy Mapping and Data Services.

Owned and operated by Kinder Morgan Energy Partners, LP, KMIGT has 5,138 miles of pipeline and 16 compressor stations and operates in Colorado, Kansas, Nebraska, Missouri and Wyoming. Prior to being purchased by Kinder Morgan Energy Partners, it was named KN Energy and Kansas Nebraska Pipeline.

Missouri Gas Energy is its highest transport customer with 150,000 dekatherms per day (Dth/d) of capacity; followed by KM Upstream, LLC, with 100,000 Dth/d. The rest of the Top 10 are Sourcegas Distribution, LLC, (FT) with 87,000 Dth/d; Atmos Energy Corp. with 49,000 Dth/d; Anadarko Energy Services Co. with 47,000 Dth/d; Northwestern Corp. with 46,000 Dth/d; Sourcegas Distribution, LLC, (NNS) with 45,000 Dth/d; Tenaska Marketing Ventures with 34,000 Dth/d; Tenaska Gas Storage, LLC, with 25,000 Dth/d; and Midwest Energy Inc. with 24,000 Dth/d.

Kinder Morgan Interstate Gas Transmission - Major Receipt & Delivery Points



The Top 5 Storage Customers are Tenaska Gas Storage, LLC, with 2.41 Bcf; Sourcegas Distribution, LLC, with 2 Bcf; Anadarko Energy Services Co. with 1.61 Bcf; Colorado Springs Utilities with 1.17 Bcf; and Atmos Energy Corp. with 1 Bcf.

– Rebecca Torrellas

Kinder Morgan Interstate Gas Transmission - Pipeline Statistics

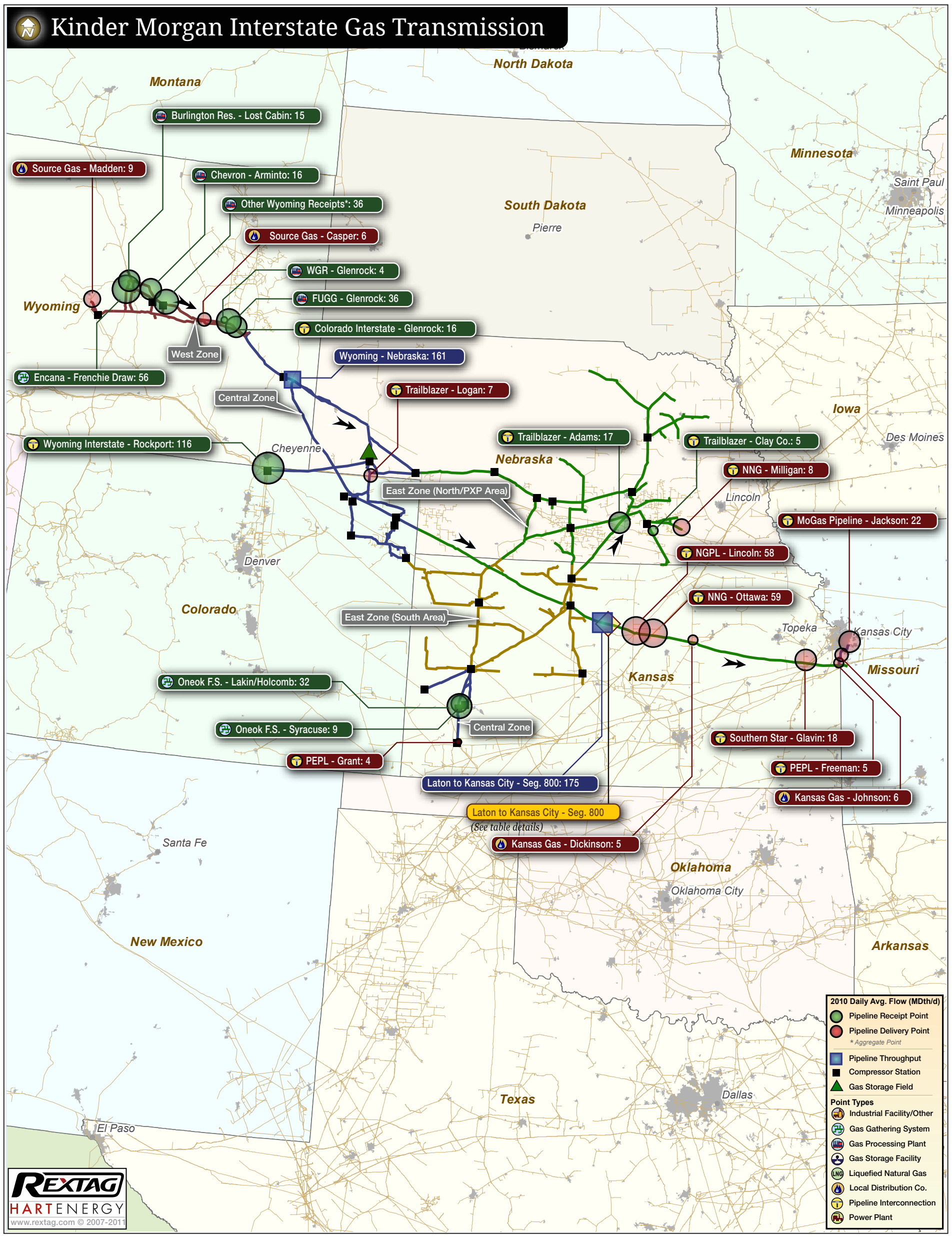
General Information — FERC Code: 053

Owner:	Kinder Morgan Energy Partners, LP	System Capacity:	0.8 Bcf/d
Operator:	Kinder Morgan Energy Partners, LP	Seasonal Storage:	10 Bcf
Miles of Pipeline:	5,138	Compressor Stations:	16

Top 10 Transport Customers — Capacity (MDth/d)

Rate	Customer Name	Capacity
FT	Missouri Gas Energy	150
FT	KM Upstream LLC	100
FT	Sourcegas Distribution LLC	87
FT	Atmos Energy Corporation	49
FT	Anadarko Energy Services Company	47

Rate	Customer Name	Capacity
FT	Northwestern Corp.	46
NNS	Sourcegas Distribution LLC	45
FT	Tenaska Marketing Ventures	34
CMC1	Tenaska Gas Storage, LLC	25
FT	Midwest Energy, Inc.	24



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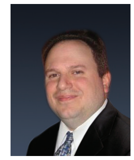

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www.hartenergy.com | www.midstreambusiness.com
Midstream Monitor is published weekly by Hart Energy and is included with a premium subscription to midstreambusiness.com. Premium subscriptions are $995 per year.

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