HARTENERGY

MIDSTREAM Monitor

VOLUME 29 / ISSUE 45 / July 15, 2011 *Formerly* GAS PROCESSORS REPORT

In This Week's Edition

FEATURE

HEP: Funding Isn't The Issue To Getting Into Midstream, It's Finding The Deal

The midstream sector has experienced quite a turnaround in the past several years, moving from a lack of access to capital in 2008-2009 to the current period in which there has been a tremendous injection of capital into the market.

"When we were out looking for financial backing, we discovered there is no lack of capital," Mike Howard, chairman and chief executive of Howard Energy Partners (HEP), told Midstream Monitor. "That's been the easiest part of the equation. Finding a deal is much harder than finding the money for the deal."

This echoes similar statements from some of the newer entrants into the midstream that we've spoken to throughout the past few years. The market remains enticing because of the amount of production coming out of new sections of the country from new shale plays that require large infrastructure build-out.

Last month, HEP completed its first midstream agreement as the company acquired Texas Pipeline LLC and Bottom Line Services LLC for a combined total of $76 million, with

Crosstex Energy LP and Quanta Services Inc. each providing $35 million in initial funding for a minority interest in HEP.

Texas Pipeline operates 250 miles of pipeline in the Eagle Ford and Pearsall shales and is located near more than 1 million acres of owned and operated oil and natural gas leases. Bottom Line Services, which constructs pipelines and plants, currently operates primarily in the Eagle Ford.

Howard said that completing the first deal is worth the struggle because of the strength of the opportunities being presented by producers. "We're willing to bootstrap in and use a lot of sweat equity that we feel will lead to midstream deals. We think we're getting into business at a good time

(continued on page 6)

INSIDE LOOK AT PROCESSING

Chesapeake Energy Plans Granite Wash IPO

Chesapeake Energy Corp. will seek to monetize assets in the Anadarko basin through an IPO for its Chesapeake Granite Wash Trust, according to an S-3 filing with the U.S. Securities and Exchange Commission. The IPO for the royalty trust will seek to raise as much as $583.6 million.

The offering will launch under the CHKR symbol on the New York Stock Exchange with the company conveying a 90% royalty interest in its producing wells in the Colony Granite Wash and a 50% royalty interest in its development wells in the play.

Chesapeake intends to use the IPO's proceeds to repay debt and fund capex projects. In the past, the company has utilized joint venture agreements for a percentage of its holdings in various shale plays that have provided the company with $13 billion in drilling carries since 2008.

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Sundrop Fuels Lands Big GTL Investment by Chesapeake Energy

Making good on a strategic push first disclosed at Hart Energy's 2011 Developing Unconventional Oil (DUO) Conference in May, a unit of Chesapeake Energy Corp. (NYSE: CHK) bought a 50% stake in Sundrop Fuels Inc., a gas-to-liquids (GTL) development company, according to joint announcements by the companies on July 11.

The deal, orchestrated between Sundrop Fuels and Chesapeake NG Ventures Corp. (CNGV), a wholly owned subsidiary of Chesapeake Energy, closed a transaction on July 11 in which CNGV will invest $155 million for the stake.

The funding will enable Sundrop Fuels to expand operations and begin construction of a commercial demonstration facility to produce bio-based "green gasoline" made from cellulosic material.

Additionally, Sundrop Fuels announced that Oak Investment Partners, a current investor, has committed to invest $20 million pro rata with CNGV. The deal closed on July 11, 2011.

Sundrop Fuels uses an ultrahigh-temperature heat-transfer process to gasify diverse cellulosic feed stocks into synthesis gas, which is then converted into clean, affordable green gasoline and other drop-in transportation fuels. These are readily useful in today's automobiles, diesel engines and aircraft and can be delivered via the nation's existing fuels distribution infrastructure.

At the core of Sundrop Fuels' intellectual property is its RP Reactor™, a high-efficiency radiant particle technology that is more than 20 times faster than conventional convection gasification methods.

In addition, Sundrop Fuels is able to maximize its synthesis gas production by integrating clean, abundant natural gas with biomass feedstock, facilitating the most efficient utilization of hydrogen from both the biomass and natural gas to produce higher yields than any other biomass process.

The combination of Sundrop Fuels technology with the efficient reactor-heating and hydrogen-enrichment properties of natural gas will provide the foundation for massive-scale biorefineries that will dramatically reduce both the nation's dependence on foreign oil and the amount of greenhouse gases released into the atmosphere.

Sundrop Fuels plans to break ground in 2012 on its first commercial-scale integrated biorefinery, which will produce more than 40 million gallons of transportation fuel annually, demonstrating its RP Reactor™ technology with ExxonMobil's Methanol-to-Gasoline (MTG) process.

The company expects to launch production at its first large-scale, 200-million gallon-per-year biorefinery in 2016.

The commercial readiness of Sundrop Fuels technology is indicative of Chesapeake's approach to enabling core technologies that address fundamental process and economic issues without taking on massive R&D expenditures.

This investment is a key element of Chesapeake's strategy to reduce U.S. dependence on OPEC oil imports by facilitating the production of tank-ready fuels from American natural gas.

Earlier this year at the Hart Energy 2011 DUO conference, McClendon broke news by saying, "You will see Chesapeake in the next few months announce a number of investment initiatives where we are going to buy companies that believe that they have technological breakthroughs that need to be tested on gas-to-liquids. "I think there are a lot of reasons to be excited."

This week Aubrey McClendon, Chesapeake's chief executive, commented, "We are excited to be a part of bringing this ground-breaking technology to market. The combination of Sundrop Fuels' advanced technology and Chesapeake's proven execution capabilities is a tremendous partnership and represents an important step in further utilizing America's clean, abundant, affordable natural gas resources to provide realistic and timely solutions to our country's energy needs."

Wayne W. Simmons, Sundrop Fuels Chief Executive Officer, stated, "Sundrop Fuels' technology exemplifies the role of clean-burning, hydrogen-rich natural gas coupled with non-food biomass to realize the nation's goals for affordable renewable transportation fuels that are fully compatible with today's engines and distribution infrastructure. Teaming with industry leader Chesapeake will position Sundrop Fuels to make a significant contribution to America's renewable fuels standards by bringing mass quantities of domestically produced, badly needed advanced biofuels to the competitive market."

Bandel Carano, managing partner of Oak Investment Partners, added, "Sundrop Fuels disruptive 'green gasoline' technology based on non-food cellulosic biomass and natural gas feedstocks promises to ensure America's liquid fuels energy security while dramatically reducing the industry's carbon footprint at lowest possible cost per gallon. The Sundrop Fuels and Chesapeake partnership is a compelling model for how an innovative venture-backed clean-energy company can scale to meet America's domestic liquid fuels demand with the visionary leadership and strategic commitment of a leading U.S. energy company."

– Greg Haas

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Crosstex, Apache To Build $85 Million Permian Basin Processing Plant

Crosstex Energy LP (NASDAQ: XTEX) and Apache Corp. (NYSE: APA) announced they will jointly develop an $85 million natural gas processing plant in the Permian basin with each company holding a 50% working interest in the project.

The project will provide interim and long-term processing solutions, compression and residue gas takeaway for Apache's Deadwood development in Glasscock County, Texas. The two companies will initially install a 20 million cubic feet per day (MMcf/d) refrigeration unit by Q4 2011. By Q2 2012, a 50 MMcf/d cryogenic natural gas processing plant will begin operations. Terms call for Crosstex to construct and operate these facilities.

In addition, Crosstex will purchase and upgrade the abandoned Patriot Fractionator in Midland County at a total cost of $12 million. The facility will serve as a rail terminal for Apache raw-make NGLs, which Crosstex will transport via rail to its Eunice fractionation facility in south central Louisiana. These volumes will be delivered to the Mesquite terminal via existing NGL pipelines or by trucks. The project is scheduled to be completed and operational in Q4 2011. This facility will provide NGL takeaway for the constrained Permian infrastructure until a long-term pipeline solution becomes available.

"Crosstex is excited to embark on this joint interest project with Apache, a premier independent energy company that has operated in the Permian Basin in West Texas for nearly 20 years and is one of the largest producers in the region with an active drilling program. We are extremely pleased Crosstex can provide Apache with creative midstream solutions for their gas and NGL products," said Barry E. Davis, Crosstex president and chief executive "We look forward to continuing our long-term working relationship with Apache.

"This transaction provides Crosstex with a significant footprint for future growth in the Permian Basin area, where we will pursue additional business opportunities," Davis added.

Meritage Midstream Services To Build Eagle Ford Gas Gathering System

Meritage Midstream Services LLC, Golden, Colo., has reported that the company will build a new rich-gas gathering system in Webb County, Texas. Escondido Resources II LLC, will serve as the system's anchor tenant and will also have firm capacity on Meritage's existing Eagle Ford Escondido Gathering System (EEG) to move its Eagle Ford volumes. Escondido Resources will dedicate approximately 33,000 acres to Meritage, including deep and shallow rights in the Eagle Ford, Escondido and Olmos formations.

KEY NORTH AMERICAN HUB PRICES	
2:35 PM CST / July 14, 2011	
Gas Hub Name	Current Price
Carthage,TX	4.12
Katy Hub, TX	4.41
Waha Hub, TX	4.35
Henry Hub, LA	4.42
Perryville, LA	4.35
Houston Ship Channel	4.44
Agua Dulce TX	4.67
Opal Hub, Wyo.	4.08
Blance Hub, NM	4.14
Cheyenne Hub, Wyo.	4.18
Chicago Hub	4.46
Ellisburg NE Hub	4.42
New York Hub	4.63
AECO , Alberta	3.90

Source: Bloomberg

Known as the Cuervo Creek Pipeline, Meritage's rich-gas gathering system will cover more than 1,300 square miles from Encinal south to Laredo. The 60-mile system will include multiple downstream interconnects, providing Meritage customers with numerous options for moving rich gas to high-value markets out of the multizone, rich-gas developments taking place in the region, including the Eagle Ford shale. The 16-inch Cuervo Creek Pipeline will have an initial capacity of 150 MMcf/d and is expected to be in service in the fourth quarter of 2011. Meritage expects to increase its rich gas gathering capacity in 2012 to accommodate the quickly developing shallow gas play.

"We are very pleased to be working with Escondido Resources II and our other producers to provide the gathering capacity and optionality they need for their rich gas developed in the Eagle Ford's rich gas window," said Meritage President and Chief Executive Steven B. Huckaby. "The developing Escondido and Olmos story in northern and central Webb County is a real game changer for the area, and this dedication by Escondido Resources has allowed us to significantly accelerate our rich-gas gathering and processing projects for our entire customer base."

"Pipeline capacity has been a critical challenge to producers operating in both the shallow and deep horizons in the region. Our drilling program in the Eagle Ford, Escondido and Olmos formations has been extremely successful. We are currently producing more than 50 MMcf/d with plans to bring on additional rigs and expand our drilling activity," said Bill Deupree, president and chief executive of Escondido Resources II. "Meritage Midstream's willingness to work with us to provide optionality and rapid access to multiple markets will give us the ability to complete our wells and flow gas without interruption."

Meritage's existing lean-gas system, the EEG, serves multiple producers working in dry gas windows with more than 100 miles of high-pressure gathering lines and 145 MMcf/d in treating capacity at the EEG facility near Laredo.

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Williams Partners To Provide Additional Natural Gas Service To Mid-Atlantic By 2012

Williams Partners LP, Tulsa, Okla., has reported that the Federal Energy Regulatory Commission (FERC) has approved a proposal to expand its Transco natural gas pipeline to provide an additional 142,000 dekatherms of incremental firm natural-gas transportation capacity to serve growing markets in the Mid-Atlantic region by November 2012.

The Mid-Atlantic Connector expansion project is designed to provide power generation and local distribution customers in Virginia and Maryland with incremental firm transportation capacity from a Transco interconnection with East Tennessee Natural Gas in Rockingham County, N.C.

"The Mid-Atlantic Connector expansion project will increase the availability of clean energy in this growing region of the United States," said Randy Barnard, president of Williams' natural gas pipeline business. "We appreciate our customers' participation in this project and we look forward to working with them to provide reliable natural gas service for years to come."

The expansion will consist of approximately three miles of new pipeline and upgrades to existing compressor facilities in Virginia. The capital cost of the project is estimated to be $55 million.

The Transco pipeline is a 10,000-mile system that transports natural gas to markets throughout the northeastern and southeastern United States. The current system capacity is approximately 9.6 million dekatherms per day.

NEWS & TRENDS

Norse Energy To Sell Selected Midstream Assets

Norse Energy Corp. ASA, Buffalo, N.Y., has reported that, through its subsidiary Norse Energy Holdings Inc., it has executed purchase and sale agreements to sell certain of its midstream assets to Appalachian Transportation and Marketing LLC, for a total consideration of $20.7 million. The midstream assets consist of the company's Norse Pipeline LLC, Nornew Energy Supply Inc. (NES) and Mid-American Natural Resources LLC.

Norse Pipeline and NES are subject to regulation by the New York Public Service Commission, which must approve the transfer to Appalachian. The company filed for the necessary regulatory approval immediately upon execution of the previously announced letter of intent with Appalachian chief executive and former Norse Energy Chief Executive Oivind Risberg. The company anticipates timely commission action with closing to follow immediately upon receipt of the requested regulatory approval for conveying Norse Pipeline and NES to Appalachian. No such regulatory approval is anticipated to be required for MANR.

"With the sale in 2008 of the majority of our production properties in western New York, these midstream assets were no longer core to our exploration and production activities that have focused on the Herkimer Sandstone and Marcellus and Utica Shale potential of central New York," comments Norse Energy Chief Executive Mark Dice. "This transaction is reflective of our approach to non-core assets when the opportunity is presented to divest on favorable terms and remain focused on exploration and production," concludes Dice.

Norse Energy has total contingent resources of ~4 TCF (~713 MMBOE) at the end of 2009. The company has a significant land position of 180,000 net acres in New York state of which 130,000 acres are strategically located in the Marcellus and Utica Shale fairways.

Martin Midstream To Build Corpus Christi Terminal For Eagle Ford Crude

Martin Midstream Partners L.P. (NASDAQ: MMLP) announced plans to build a new terminal at the Port of Corpus Christi, Texas, to receive crude oil from the Eagle Ford shale via the recently announced Harvest Gardendale Pipeline. The terminal will be built adjacent to Martin Midstream's existing terminal at the Port, according to a new long-term lease the company signed. In conjunction with the new terminal construction, Martin Midstream also announced the execution of a long-term contract with an undisclosed major integrated oil company for the initial capacity at the terminal.

The partnership will construct more than 300,000 barrels of crude oil storage at the new facility with the ability to expand the capacity by an additional 600,000 barrels. The terminal will be connected via a 24-inch-diameter pipeline to both a barge dock and a deep-water marine tanker dock at the port. A marine delivery system will be constructed with initial loading rates up to 15,000 barrels per hour. As crude production and storage volumes increase, Martin Midstream will expand the

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capacity of the delivery system to 30,000 barrels per hour. The total project cost is estimated at $25 million and is anticipated to be in service by late 2011. Initial receipts of crude oil will arrive via truck until the Harvest Gardendale Pipeline becomes operational in the first half of 2012.

"We are pleased to announce additional Port of Corpus Christi infrastructure and a long-term agreement with a major integrated oil company. Martin Midstream Partners, with these new assets, will seek to meet demand from the growing Eagle Ford shale production. This new facility is well-positioned for significant fee-based cash-flow growth as Eagle Ford activity continues to gain momentum," said Ruben Martin, president and chief executive of Martin Midstream GP LLC, the company's general partner.

Formosa Petrochemical Set To Restart Naphtha Cracker

Formosa Petrochemical Corp. of Taiwan, Asia's largest buyer of naphtha, will restart its 700,000 tons per year naphtha cracker by mid-August, according to a report from Reuters. The restart of its number-one unit will coincide with 40-45 days of maintenance work on the 1.2 million tons per year number-three cracker.

The number-one cracker has been offline since a pipeline fire on May 12 at a liquefied petroleum gas (LPG) pipeline in Mailiao, Taiwan, at an oil refining and petrochemical complex. At the time, it represented 24% of the company's ethylene output.

"We cannot afford to have two units shut at the same time as we will not have sufficient ethylene feedstock to feed the derivatives units," a company spokesperson told Reuters.

CB&I Awarded $300 Million Contract For Shale Gas Processing Plant

CB&I, The Hague, Netherlands, (NYSE: CBI) has been awarded a contract, valued in excess of $300 million, for a new natural gas processing plant in the Northeastern U.S.

CB&I's work scope includes the engineering, procurement and construction of a 200 million cubic foot per day natural gas processing plant, including full fractionation and treatment capabilities, storage tanks and loading systems. In addition, CB&I's Lummus Technology business sector is providing its proprietary NGL-MaxSM recovery technology. The contract is scheduled for completion in 2012.

"This contract is a great example of CB&I's ability to leverage the synergy of our technology, storage and EPC capabilities to provide a single-source solution to natural gas producers," says Philip K. Asherman, president and CEO. "As gas production ramps up in U.S. shale basins, we are well positioned to support the infrastructure development needs of these strategically important projects."

Linde Signs Partnership Agreement For FLNG Facility

The Linde Group's Engineering Division and project partner SBM Offshore have signed a partnership agreement with PTT FLNG Ltd. and PTTEP Australasia for the development of a Floating Liquefied Natural Gas (FLNG) facility in the Timor Sea off Northern Australia.

The project is planned to produce LNG from three gas-field groups, including Cash/Maple, Oliver and Southern fields. Preliminary studies started in March 2011. Assuming that the gas resources being found meet expectations, the project will enter into front-end engineering and design studies by the end of 2011. A final investment decision is targeted for the end of 2012, and first commercial operations for the end of 2016.

The facility will be located approximately 680 kilometers west of Darwin, Australia, and 200 kilometers southeast of the Indonesian coastline. The plant will have the capacity to produce approximately 2 million tons of LNG per year.

Linde's Engineering Division will build the topsides of the Floating Production, Storage and Offloading units (FPSO), including gas processing and natural gas liquefaction, based on Linde's proprietary natural gas liquefaction technology. SBM Offshore, based in the Netherlands, is a market leader in the field of FPSOs for the oil industry. Floating LNG technology is highly innovative and allows stranded offshore gas fields to be developed that otherwise would not be economic.

Upon a final investment decision, The Linde Group, SBM Offshore, together with PTT FLNG, plan to jointly develop and operate the FLNG facility for PTTEP Australasia, the operator of the gas fields. Through this joint operation, Linde will gain wider access to the growing LNG world market.

HEP... *(continued from page 1)*

because producers aren't going to want to own their midstream assets one day, and we'll be in a good position to take those assets over."

Although Crosstex provided HEP with equity to complete these acquisitions, Howard said that the companies are competitors outside of the Eagle Ford. He noted that it made sense for the two companies to work together with investments in this play since Crosstex did not have any assets. "Crosstex is simply an equity provider with a minority interest in Howard Energy Partners and will be providing funding for further operations, along with Quanta and other private investors," he said.

Despite their status as competitors outside of the Eagle Ford, Howard said that he would like the two companies to work together on outside deals as partners if it makes sense for both sides.

While the company will continue to study further acquisitions, Howard told Midstream Monitor that HEP would mainly focus on greenfield projects, especially around its assets in the Eagle Ford. The bulk of this work will be focused on adding gathering lines and capacity that will connect wellheads with the major interstate and intrastate pipelines.

"We prefer greenfield, but we're open to acquiring strategic assets, such as Texas Pipeline. The best way to pick up a deal right now in many ways is to build it yourself, but this asset was relatively underutilized with a bright future and acreage around it with strong partners and producers," Howard said.

These projects could be quite large in both scope and costs, as Howard noted that the company had placed bids on several large build-outs in South Texas. "Just because of the size of the play, there are so many wells to be drilled and so much infrastructure to put in. We're not really limited by what we can go after. We think with the experience of our management team and our bottom line construction arm that we have a leg up to provide companies with the speed and cost-effectiveness they're looking for."

Though the primary focus for growth is in the Eagle Ford, HEP is also interested in adding assets in the Granite Wash, as well as the Avalon, Bossier, Haynesville and possibly the Bakken shale. HEP will not likely look at opportunities in the Marcellus and other Northeastern plays right now.

The minority interest from Crosstex and Quanta has enabled the company to garner the support of other investors. This strong backing provides Howard Energy Partners with financial wherewithal to compete on just about any level of project. "We can approach $1 billion and not be scared of it. Do we want to do that? Not really, but we have the capacity," Howard said.

While the backing is in place to do large deals, HEP intends on differentiating itself in a crowded market by focusing on Southern shale plays and greenfield projects while providing customers with a well-rounded offering of services.

These offerings include engineering, construction and midstream expertise, all provided in-house. "We can take the gas from the wellhead and fully design and construct the project and provide all of the midstream services you would expect, including processing," Howard said.

"We have a lot of experience in processing, but we're a little behind the eight-ball for processing in the Eagle Ford. A lot of companies have announced projects and a lot of plants have been purchased. Unless we're JVing with a company that already has a plant and can gain some ownership in the facility, I don't see it in our cards," he continued.

Additionally, the company is currently exploring the possibility of adding manufacturing of the parts and pieces to cover the midstream infrastructure build-up in many of the shale plays. The manufacturing segment would be used to help producers build their own midstream assets.

"We're not against helping producers succeed if we can't own the midstream assets," Howard said. – Frank Nieto

NGT&S Announces NiSource Energy Ventures President, COO Joe Blount

NiSource Gas Transmission & Storage (NGT&S), Houston, has reported the creation of a new executive position for NiSource Energy Ventures, a unit of NiSource Inc. Industry veteran Joe Blount joins NGT&S as president and chief operations officer of NiSource Energy Ventures (NEVCO), effective July 7, 2011. Blount will be based in Houston, reporting directly to Chris Helms, NGT&S executive vice president and group chief executive.

"NGT&S continues to grow in new and innovative ways," said Helms. "NiSource Energy Ventures plays a key role in meeting our aggressive targets for project origination, management and execution, as well as enhanced revenue streams. Joe's unique talents for taking organizations to high levels of performance in competitive markets will serve NEVCO well. He's

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an energetic leader with a reputation for integrity and for getting strong results across a broad range of businesses. We are pleased to have him as part of the NGT&S team."

Blount has more than 28 years of energy industry experience, most recently serving as president and chief operating officer of Genesis Energy Inc., the past general partner of Genesis Energy LP. During his tenure at Genesis, the master limited partnership saw rapid growth and a substantial increase in shareholder value. Prior to joining Genesis in 2006 Blount was president and chief operating officer of Unocal Midstream and Trade, where he oversaw the worldwide marketing of UNOCAL's natural gas, crude oil and condensate resources, the development and management of its large portfolio of midstream assets including pipelines, terminals and storage assets, and its commodity-risk-management activities. He has also previously served in executive and senior management roles at Koch Industries and with Transco Energy Co.

In addition, he has served in several industry leadership roles, including chairman of Colonial Pipeline Co., chairman of NGSA, chairman of the Natural Gas Council and as a member of the board of directors for Northrock Resources LTD (Canadian E&P).

Blount serves as chairman of the board of Camp For All, an organization that provides a unique camping experience for children and young adults with various medical challenges and special needs.

Blount is a graduate of Virginia Tech and the Harvard Business School.

PIPELINES & TECHNOLOGY

Gateway Acquires Natural Gas Pipeline In Delmar, N.Y.

Gateway Energy Corp., Houston, has reported that it has entered into an agreement to acquire a natural gas pipeline from American Midstream Partners LP, for an undisclosed purchase price. On July 12, 2011, Gateway and American Midstream submitted a joint petition to the New York Public Service Commission (PSC) to affect the asset transfer. The acquisition is expected to close by Sept. 30, 2011, subject to PSC approval and if certain other conditions are met.

The pipeline delivers natural gas into a plant owned by Owens Corning in Delmar, N.Y. In connection with the acquisition, Gateway will enter into a new long-term contract with Owens Corning to transport natural gas at a fixed monthly rate.

Fourth Attack On Arish-Ashkelon Pipeline Halts Gas Shipments To Israel

Anti-government rebels in Egypt blew up the al-Arish terminal that is part of the Arish–Ashkelon Pipeline, causing natural gas exports from the country to Israel and Jordan to continue to be halted after repair work on the pipeline had just been completed, according to several reports from both Egypt and Israel.

This is the fourth time in six months that the East Mediterranean Gas Co.-owned pipeline has been attacked. The disruptions are likely to cause Israel, which signed a 20-year supply agreement with the company in 2008, to seek other alternatives for its electrification demands.

Currently, Israel receives about 40% of its natural gas supplies from Egypt. "The most important economic aspect of the peace treaty between Israel and Egpyt is slowly collapsing, " Uzi Landau, Israeli minister of national infrastructures, said in an interview on the Israel Defense Forces' Galei Tzahal radio.

The continued attacks on the 62-mile submarine pipeline, which is connected to the 750-mile Arab Gas Pipeline, have caused East Mediterranean Gas to seek $8 billion in damages from Egypt for failure to properly ensure the safety and viability of the pipeline.

The pipeline has been targeted by the rebels due to claims of corruption that allow Israel to secure natural gas volumes at below-market values, as well as controversies over Israel's blockade of the Gaza Strip, according to a report in the United Kingdom's The Guardian newspaper.

– Frank Nieto

Resin Prices – Market Update – July 8, 2011

TOTAL OFFERS: 16,952,192 lbs		SPOT		CONTRACT	
Resin	**Total lbs**	**Low**	**High**	**Bid**	**Offer**
HDPE - Blow Mold	3,613,428	0.64	0.71	0.62	0.66
PP Copolymer - Inj	3,474,368	0.82	0.93	0.81	0.85
PP Homopolymer - Inj	2,914,552	0.75	0.87	0.80	0.84
LLDPE - Film	1,466,576	0.66	0.79	0.69	0.73
LDPE - Inj	1,455,036	0.68	0.77	0.74	0.78
LDPE - Film	1,243,472	0.67	0.85	0.73	0.77
HDPE - Inj	1,234,300	0.66	0.78	0.65	0.69
HMWPE - Film	600,460	0.62	0.72	0.66	0.70
HIPS	570,000	0.96	0.98	0.92	0.97
GPPS	190,000	0.88	0.88	0.71	0.75
LLDPE - Inj	190,000	0.72	0.72	0.84	0.89

Source: Plastics Exchange – www.theplasticsexchange.com

Primoris Subsidiary Scores Marcellus Pipeline Project

Primoris Services Corp., Dallas, has reported that the business units associated with its wholly owned subsidiary, Rockford Corp., have been awarded new unit price contracts with an expected total value of approximately $50 million for the construction of pipelines in Pennsylvania, Wyoming and Oregon. Each of these projects should be completed by the end of 2011.

Rockford will construct approximately 15 miles of 16”-diameter natural-gas pipeline in the Marcellus Shale region of Susquehanna County, Pennsylvania. This project, which is scheduled to begin immediately, includes cross-country pipeline installation, as well as 28 directional drills and five road bores. This is Rockford’s first contract in the Marcellus Shale region, the largest source of natural gas yet discovered in the United States.

Rockford was also awarded a contract to install 53 miles of 20” carbon dioxide pipeline near Casper, Wyo., part of a planned 230-mile pipeline project from the Lost Cabin gas treatment plant in Fremont County, Wyo., to Bell Creek Field in Montana. Work on this project is slated to begin in the third quarter of 2011.

Alaska Continental Pipeline, a former subsidiary of Rockford and now a wholly owned subsidiary of Primoris, was awarded a contract to install a 7.3 mile section of 20” natural-gas pipeline near Molalla, Ore. This new pipeline will replace the capacity associated with the retirement in place of 15 miles of 16”-diameter pipeline between Oregon City and Molalla. This project is expected to commence in July.

NGL PRICES

Butane Prices Increase As Demand Soars

Butane prices experienced the largest gains at both Conway and Mont Belvieu the week of July 6 due to increased demand from the petrochemical industry. Crackers are using butane extensively as an ethylene feedstock at approximately 100,000 barrels per day (b/d).

The Mont Belvieu price improved 4% to $1.85 per gallon (/gal), its highest price since it was $1.88/gal the week of June 8. The Conway price rose 5% to $1.70/gal, its highest mark since it was $1.72/gal the week of May 18.

Ethane prices continued to remain strong the week of July 6 as supplies remain tight in the market due to the return of many ethylene plants in recent weeks. Demand remains very high with plants operating at 96% capacity and maximizing their usage of butane as a feedstock.

The Mont Belvieu price of 79¢/gal represented a 3% increase from the prior week and was the highest at the hub since it was 82¢/gal the week of May 4. The Conway price moved at a slower pace for the week of July 6, as it improved only 1% to 56¢/gal, largely unchanged from the previous week.

While demand remains high for ethane, En*Vantage stated that there are reports that several petrochemical companies sold ethane out of their stocks in order to stop ethane prices from going higher.

Propane inventory levels built this week on the back of greater production from increased refinery runs and lessened demand. “Implied demand for propane is very low at 607,000 barrels per day (b/d) with a four-week average demand of

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
July 6 - 12 '11	78.84	153.16	185.02	200.34	244.14	$62.00
June 29 - July 5 '11	75.79	148.80	176.28	194.25	237.33	$59.93
June 22 - 28 '11	73.34	150.00	176.45	196.42	227.22	$59.07
June 15 - 21 '11	74.24	153.18	184.12	200.06	237.03	$60.75
June '11	74.07	151.89	181.94	198.54	235.24	$60.30
May '11	75.69	152.10	189.34	204.72	252.68	$62.31
2nd Qtr '11	75.14	149.59	186.75	202.07	248.23	$61.42
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
July 7 - 13, '10	42.41	97.54	132.35	144.62	163.33	$40.03
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
July 6 - 12 '11	56.20	143.04	170.36	186.50	229.94	$55.77
June 29 - July 5 '11	55.58	141.08	161.13	180.83	222.30	$54.28
June 22 - 28 '11	55.06	141.28	160.58	187.00	215.44	$53.89
June 15 - 21 '11	53.20	142.06	166.50	187.90	220.00	$54.32
June '11	51.43	141.46	164.86	183.38	223.52	$53.99
May '11	52.63	142.00	173.01	192.24	240.62	$56.08
2nd Qtr '11	52.63	139.38	170.76	192.47	236.00	$55.34
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
July 7 - 13, '10	28.73	90.23	122.86	134.25	156.37	$36.09

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

679,000 b/d, about 147,000 b/d less than the implied demand one year ago. We believe that propane cracking is significantly off these past few weeks as ethylene producers maximize their usage on butane and ethane," according to En*Vantage's Weekly Energy Report for the week of July 14. However, the market should tighten with the return of PetroLogistics' 25,000 barrels per day PDH plant.

Despite the lessened demand, propane prices improved due to the low inventory levels. The Mont Belvieu price for propane improved 3% to $1.53/gal. This was the same price level from three weeks ago. The Conway price for propane performed on a similar level to ethane at the hub, as it rose only 1% to $1.43/gal. This was also about the same price threshold as three weeks ago.

On the whole, heavy NGLs outperformed their lighter counterparts, as in addition to the strong performance of butane, isobutane and C_{5+} also had strong price gains the week of July 6.

The Mont Belvieu price for isobutane rose 3% and hit the $2/gal threshold for the first time in three week. The Conway price also improved 3%, as it rose to $1.87/gal. This was approximately the same price as two weeks ago.

Gains in crude oil prices helped to push C_{5+} prices back to their highest levels in nearly a month at Mont Belvieu and more than a month at Conway. The Texas price rose 3% to $2.44/gal, the hub's highest price since it $2.46/gal the week of June 8. The Kansas price also improved 3% to $2.30/gal, which was its highest level since the week of May 25, when it was $2.37/gal.

– Frank Nieto

FRAC SPREAD

Natural Gas In Storage Up Only 86 Bcf Due To Increased Cooling Demand

The continued weakness in natural gas feedstock prices, along with stronger NGL prices, saw frac spread margins improve across the board at both Conway and Mont Belvieu the week of July 14. Natural gas prices were flat at Conway at $4.28 per million Btu (/MMBtu) and fell 1% to $4.41/MMBtu.

The strongest gains in margin were posted for butane and Mont Belvieu ethane, which all improved over 7% for the week. The largest gain was for Conway butane, which rose 8% from the previous week. Mont Belvieu butane and ethane both improved by 7%.

The theoretical NGL barrel price rose 3% to $56.77 per barrel (/bbl) with a margin improvement of 4% to $40.13/bbl at Conway, while the Mont Belvieu barrel price rose 4% to $62.00/bbl with a 5% improvement in margin to $45.89/bbl.

The most profitable NGL to make at both hubs remained C_{5+} at $1.83/gal at Conway and $1.95/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.44/gal at Conway and $1.56/gal at Mont Belvieu; butane at $1.26/gal at Conway and $1.39/gal at Mont Belvieu; propane at $1.04/gal at Conway and $1.13/gal at Mont Belvieu; and ethane at 28¢/gal at Conway and 50¢/gal at Mont Belvieu.

Natural gas in storage for the week of July 8, the most recent data available from the Energy Information Administration, rose 86 billion cubic feet as cooling demand has been very high throughout much of the country. The storage figure was 2.611 trillion cubic feet (Tcf) from 2.527 Tcf the previous week. This

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)

July 14, 2011	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	56.20		78.84	
Shrink	28.38		29.24	
Margin	27.82	2.28%	49.60	7.32%
Propane	143.04		153.16	
Shrink	39.20		40.40	
Margin	103.84	1.92%	112.76	4.46%
Normal Butane	170.36		185.02	
Shrink	44.38		45.73	
Margin	125.98	7.91%	139.29	7.12%
Iso-Butane	186.50		200.34	
Shrink	42.63		43.92	
Margin	143.87	4.10%	156.42	4.40%
Pentane+	229.94		244.14	
Shrink	47.47		48.91	
Margin	182.47	4.37%	195.23	3.92%
NGL $/Bbl	55.77	2.74%	62.00	3.46%
Shrink	15.63		16.11	
Margin	40.13	3.85%	45.89	5.16%
Gas ($/mmBtu)	4.28	0.00%	4.41	-1.12%
Gross Bbl Margin (in cents/gal)	92.30	3.74%	107.18	5.17%
NGL Value in $/mmBtu				
Ethane	3.09	1.12%	4.34	4.02%
Propane	4.97	1.39%	5.32	2.93%
Normal Butane	1.84	5.73%	2.00	4.96%
Iso-Butane	1.16	3.14%	1.25	3.14%
Pentane+	2.96	3.44%	3.15	2.87%
Total Barrel Value in $/mmbtu	14.03	2.45%	16.05	3.48%
Margin	9.75	3.57%	11.64	5.33%

was an 8% drop from the 2.829 Tcf figure posted last year at the same time and 2% below the five-year average of 2.663 Tcf.

Cooling demand will remain high throughout much of the county based on the forecast for next week from the National Weather Service, which anticipates a heat wave that will stretch from the Rockies, through the Midwest and Gulf Coast and to the East Coast. The hottest weather is expected to be in the stretch from the Great Lakes to the Tri-State area. The Pacific Northwest and Northern California are expected to experience cooler than normal temperatures.

– Frank Nieto

Q2 2011 Frac Spread: Conway Ethane Margins Improved Nearly 80% In Quarter

Frac spread margins in the second quarter of 2011 performed very strongly, highlighted by significant gains at both hubs for ethane, propane and C_{5+}. The only NGL to experience any sort of drop in margin was Conway isobutane at less than 1%.

The Conway ethane margin improved 79% while the Mont Belvieu margin rose 48% due to ethane cracking capacity coming back online during the quarter in both regions. Both margins were also supported by natural gas feedstock prices not having much strength in the quarter. The Conway price fell 4% to $4.29 per million Btu (/MMBtu) while the Mont Belvieu price only rose 2% to $4.47/MMBtu in the quarter.

Propane margins had the second-largest increases at both hubs because of a demand created by five-year low inventory levels. The Conway margin improved 20% while the Mont Belvieu margin was up 14%.

It is likely that C_{5+} margins would've been even higher, but crude prices took a downward turn late in the quarter, which helped to drive both C_{5+} prices and margins down from their early summer peaks. As it was, the Mont Belvieu margin rose 14% while the Conway margin rose 11%.

The theoretical NGL barrel price at Mont Belvieu rose 12% to $59.55 per barrel (/bbl) with a 16% improvement in margin to $43.22/bbl, and the Conway barrel improved 9% to $54.20/bbl with a 16% improvement in margin to $38.53/bbl.

The most profitable NGL to make in the quarter was C_{5+} at $1.74 per gallon (/gal) at Conway and $1.86/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.37/gal at Conway and $1.50/gal at Mont Belvieu; butane at $1.16/gal at Conway and $1.30/gal at Mont Belvieu; propane at $1.01/gal at Conway and $1.07/gal at Mont Belvieu; and ethane at 28¢/gal at Conway and 45¢/gal at Mont Belvieu.

– Frank Nieto

Current Frac Spread (Cents/Gal)

Q2 2011	Conway	Change from Start of QTR	Mont Belvieu	Start of QTR
Ethane	56.00		74.78	
Shrink	28.44		29.64	
Margin	27.56	79.41%	45.14	48.36%
Propane	140.65		147.80	
Shrink	39.30		40.95	
Margin	101.35	20.26%	106.85	13.58%
Normal Butane	160.50		176.00	
Shrink	44.49		46.35	
Margin	116.01	0.36%	129.65	5.57%
Iso-Butane	179.25		194.85	
Shrink	42.73		44.52	
Margin	136.52	-0.22%	150.33	11.27%
Pentane+	222.00		235.85	
Shrink	47.58		49.57	
Margin	174.42	11.38%	186.28	13.62%
NGL $/Bbl	54.20	9.32%	59.55	11.89%
Shrink	15.67		16.33	
Margin	38.53	15.75%	43.22	16.34%
Gas ($/mmBtu)	4.29	-3.81%	4.47	1.59%
Gross Bbl Margin (in cents/gal)	88.69	16.34%	100.94	16.56%
NGL Value in $/mmBtu				
Ethane	3.08	24.64%	4.12	25.47%
Propane	4.88	12.40%	5.13	9.99%
Normal Butane	1.73	-0.83%	1.90	4.49%
Iso-Butane	1.12	-1.10%	1.21	8.90%
Pentane+	2.86	7.73%	3.04	10.86%
Total Barrel Value in $/mmbtu	13.68	10.74%	15.40	13.07%
Margin	9.39	18.97%	10.93	18.54%

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

SNAPSHOT

HIOS In Full Force Since Ike

The High Island Offshore System (HIOS), owned and operated by Enterprise Products Partners, LP, has a system capacity of 600 million cubic feet per day (MMcf/d), according to Hart Energy Mapping and Data Services.

The 42-inch-diameter pipeline has 291 miles of pipeline from that transport natural gas in the Galveston, Garden Banks, West Cameron, High Island and East Breaks areas of the Gulf of Mexico to various third-party pipeline systems, according to Business Wire.

The pipeline was severed during Hurricane Ike in September 2008. The damage, located in approximately 130 feet of water, was fixed and resumed full service by December of the same year.

Exxon Mobil Corp. is its highest transport customer with 44,000 dekatherms per day (Dth/d) of capacity; followed by BP Exploration and Production with 3,000 Dth/d.

AC25 HIOS was the top receipt point for 2010, while the HIOS DEL TO GCANR was the top delivery point. – Rebecca Torrellas

• Click here to download map and charts.

–Rebecca Torrellas

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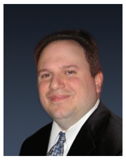

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