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MIDSTREAM Monitor

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FEATURE

Enbridge Looks To Clear Cushing Hurdle, Sustain Growth In Bakken And East Texas

While Enbridge Energy Partners LP's total natural gas volumes increased in Q3 2011, the company anticipates reaping further growth in 2012. The company's volumes increased to 2.8 billion cubic feet per day (Bcf/d) in Q3 2011 from 2.4 Bcf/d in the same quarter last year due to the acquisition of the Elk City gathering and processing system and increased volumes on its Anadarko and East Texas systems.

"Processing capacity at Anadarko continues to be tight, and as a result we have not been able to fully capture the potential value of the increased activity in the area," Steve Neyland, the company's vice president, finance and principal financial officer, said during a conference call to discuss quarterly earnings. "We expect continued natural gas operating improvements in the remainder of the year, as we have just recently completed one of our processing plant upgrades in the Elk City complex with a second plant upgrade to be completed shortly."

In addition, Enbridge anticipates that the Anadarko system's Allison plant will begin to recover NGLs this month. The company

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INSIDE LOOK AT PROCESSING

Boardwalk Expansions Include New Locations, Products

Boardwalk Pipeline Partners continued to expand in Q3 2011 as it announced a new gathering system in the Marcellus and a 300-million-cubic-feet-per-day rich-gas system in the Eagle Ford.

The $90 million Marcellus system will be anchored through a 15-year contract with Southwestern Energy Co. In order to build the Eagle Ford system, the company is reconfiguring underutilized pipeline assets on its Gulf South Pipeline in South Texas to transport liquids from the Eagle Ford shale.

"Boardwalk is now focused on offering a greater array of new services to our customers while maintaining our current risk profile," Stan Horton, the company's chief executive and president, said during a conference call to discuss quarterly earnings.

He added that the Marcellus system allows the company to increase its geographic diversity and its product diversity. "The Marcellus is one of these basins that is going to be extremely important, so I think being in that basin is very good for us. I would be disappointed if it's the only deal that we wind up doing in the Marcellus. ... The fact that we were able to do this one helps us do additional ones."

The same holds true of the Eagle Ford, and the company anticipates converting other underutilized pipelines in the region to handle rich-gas from the play. These underutilized pipelines may include more pipe from the Gulf South system.

"Pipelines and storage remain our core business and going forward we will focus on strengthening our existing pipeline assets by continuing to attach new supplies and markets to our systems via expansions," he continued.

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EIA: Gas Winner, Coal Loser Under Texas Congressman's 'Clean Energy Standard'

The U.S. Energy Information Administration (EIA) on October 25 released an analysis on how U.S. electricity generation would shift away from coal and move toward natural gas under a "Clean Energy Standard" (CES) scheme favored by U.S. House Rep. Ralph Hall, R-Texas.

Hall, who represents a part of Texas that strongly backs the expansion of natural gas markets, requested that EIA conduct the study following terms of the CES scheme.

Under the proposed scheme, U.S. natural gas-fired power could be exempted from carbon capture and storage (CCS) if power generators merely employ combined-cycle technology – unlike coal, which would face a CCS mandate.

According to EIA, the CES specified by [Rep.] Hall, hereinafter referred to as the Hall CES (HCES), has the following characteristics:

1. Eligible resources to meet the HCES target include: hydroelectric, wind, solar, geothermal, biomass power, municipal solid waste, landfill gas, nuclear, coal-fired plants with carbon capture and sequestration, and natural gas-fired plants with either carbon capture and sequestration or utilizing combined cycle technology.
2. Generators earn 0.5 megawatt-hours [MWh] of compliance credits for every 1 MWh of generation from a combined cycle plant that burns natural gas, and 0.9 MWh of compliance credits for every 1 MWh of generation from coal- or gas-fired generation with carbon capture and sequestration. All other HCES-qualified resources earn one HCES credit for every MWh of generation.
3. Generation using qualified resources from either new or existing plants in any economic sector can receive HCES credits.
4. The HCES target starts from an initial share of 44.8 percent (qualified generation as a percent of sales) in 2013 and rises linearly to 80 percent in 2035. Beyond 2035, the target remains at 80%.
5. There is no option to purchase compliance credits from the government. All credits are backed by physical generation.
6. All electricity retailers are covered by the requirement, regardless of ownership type or size.
7. HCES credits earned in one year cannot be 'banked' for use in a subsequent year. All credits must be used for compliance in the year that the underlying generation was produced.
8. HCES obligations are based on total electricity sales, regardless of source. There is no provision for excluding any electricity sales from a seller's baseline based on resources used to produce the electricity or type of customer purchasing the electricity."

The HCES would operate "independent of any U.S. state-level policies. The same underlying generation can be used to simultaneously comply with the HCES and any state generation requirements, if otherwise allowed for by both U.S. federal and state law," according to the EIA analysis.

Among the study cases analyzed in the study is a "Natural Gas Low Cost (LC-Gas)" case that "corresponds with 'High Shale Recovery' case" in the EIA's Annual Energy Outlook 2011 (AEO2011) forecast study.

Under that case, "the estimated undeveloped technically recoverable shale gas resource base is 50% higher than in the [AEO 2011] Reference case with the per-well recovery rate unchanged from the Reference case, resulting in more wells needed to fully recover the resource."

Another studied case is the "Natural Gas High Cost (HC-Gas)" case, which "corresponds with 'Low Shale Recovery' case in the AEO 2011," according to EIA:

"The estimated undeveloped technically recoverable shale gas resource base is 50% lower than in the Reference case with the per well recovery rate unchanged from the Reference case, resulting in fewer wells needed to fully recover the resource."

Also studied are "low cost" and "high cost" cases for coal, nuclear and renewables, as well as "sensitivity" analyses for exceptionally high or low prices.

In the study, EIA found that the proposed HCES scheme results in a "large

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / NOVEMBER 10, 2011	
Gas Hub Name	Current Price
Carthage,TX	3.39
Katy Hub, TX	3.36
Waha Hub, TX	3.35
Henry Hub, LA	3.48
Perryville, LA	3.42
Houston Ship Channel	3.35
Agua Dulce TX	3.40
Opal Hub, Wyo.	3.55
Blance Hub, NM	3.38
Cheyenne Hub, Wyo.	3.46
Chicago Hub	3.70
Ellisburg NE Hub	3.65
New York Hub	3.75
AECO , Alberta	3.32

Source: Bloomberg

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shift in the [power] generation mix," favoring natural gas at the expense of coal.

"Coal is primarily displaced by increased natural gas generation, which in the HCES case is 38% greater than the Reference case level in 2025 and 30% greater in 2035," according to EIA.

"Natural gas prices increase under the HCES, particularly in the earlier part of the projection.," according to EIA. "Average delivered natural gas prices exceed Reference case average delivered prices by US$0.75 per thousand cubic feet [Mcf] (9.3%) in 2025, but only $0.49/Mcf (5.4 %) in 2035."

"The HCES causes coal-based generation to decline significantly in all sensitivity cases. In 2009, coal plants provided 45% of [U.S.] total power generation.

"However, by 2025 the share of generation from coal ranges from 22% to 27% in the HCES sensitivity cases, versus 41% to 46% in the base cases.

"The fall continues after 2025, when the share ranges from 10% to 20% in 2035 in the HCES sensitivity cases, versus 37% to 44% in the base cases.

"Of the HCES sensitivity cases, the highest share for coal occurs in the high-cost natural gas HCES case, while the lowest occurs in the high-cost coal HCES case. The HCES has the greatest impact – or causes the greatest reduction in coal-fired generation – in the low-cost renewable sensitivity case," according to EIA.

"Natural gas is the leading source of generation by 2035 under the HCES in most of the HCES sensitivity cases. The notable exception to this trend is in the low-cost nuclear scenario, where relatively affordable nuclear capacity displaces natural gas as HCES-qualified baseload generation," according to EIA.

– Jack Peckham

Kinder Morgan, TransMotaigne To JV On Houston Ship Channel Oil Terminal

Kinder Morgan Energy Partners LP (NYSE: KMP) and TransMontaigne Partners LP formed the Battleground Oil Specialty Terminal Co. LLC (BOSTCO) joint venture to build, own and operate a $400 million oil terminal on the Houston Ship Channel.

The facility will have an initial capacity of 6.6 million barrels for residual fuel and other black oils through 52 storage tanks. Officials announced that the company has contracted for nearly all of the capacity at BOSTCO. Construction on the facility is expected to begin once these contracts are finalized.

"There is increasing demand for an efficient and high-performing terminal on the Texas Gulf Coast that can export fuel oil, which is used primarily in ship engines, power plants and industrial plants," Jeff Armstrong, president of Kinder Morgan Terminals, said in a news statement. "This facility will enable us to provide new services to our customers and future phases will tie this deepwater terminal to other Kinder Morgan assets in the Houston market. Our investment in BOSTCO is expected to be accretive to cash distributable to KMP unitholders when the first phase of the project comes online by the third quarter of 2013."

Encana Sells North Texas Natural Gas Assets For $975M

Encana Corp's (TSX & NYSE: ECA) Encana Oil & Gas (USA) Inc. subsidiary signed an agreement to sell its North Texas natural gas producing properties to certain partnerships managed by EnerVest Ltd. of Houston for approximately $975 million.

This sale, along with the sale of other non-core asset sales, Encana anticipates its net divestitures being $1.7 billion by the end of 2011. This will meet the company's goal of divesting between $1 billion and $2 billion for 2011. Proceeds from these sales are expected to be used to support cash flow, improve its balance sheet and provide financial flexibility heading into 2012.

The assets sold produce approximately 125 million cubic feet equivalent per day (MMcfe/d) and include the associated gathering pipelines on about 50,000 net acres of land in the Fort Worth Basin.

"The sale of this North Texas asset in the Barnett Shale is part of Encana's ongoing portfolio optimization aimed at enhancing the long-term value of the company's vast resource potential. Since we first acquired substantive Barnett Shale production in North Texas seven years ago, we have greatly expanded production and assets on other earlier-life resource plays in Texas and Louisiana. Our Texas and Haynesville key resource plays are producing more than 750 million cubic feet per day and they offer long-term growth opportunities in our well-established Mid-Continent business unit. As we look to 2012, we continue to focus on our highest return projects and we plan to direct a greater portion of our capital investment to grow our oil and natural gas liquids production from the more than 2 million net acres we hold on liquids-rich lands across North America," Randy Eresman, Encana's president and chief executive, said in a news release.

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

also anticipates volumes to continue to increase on its East Texas system because of activity in the Haynesville.

The company is also in the process of building a new 150 million cubic feet per day (MMcf/d) cryogenic processing plant in the Granite Wash. This facility will increase Enbridge's total Anadarko system processing capacity to 1.2 billion cubic feet per day. The company anticipates producing more than 100,000 b/d of NGLs from the Anadarko by the time this facility is brought into service in early 2013.

Perhaps the region that represents the largest area of growth for the company is the Bakken, where it began its 120,000 barrels per day (b/d) expansion to its current capacity of 210,000 b/d on its main pipeline. The company is also considering building another expansion to add 180,000 b/d to the system. Besides these projects, Enbridge has also announced plans to build a new gathering system in the play.

Further expansions have been announced at the Cushing hub, which has suffered from bottlenecks. The 517-mile Wrangler Pipeline is designed to alleviate this situation by having the capacity to transport up to 800,000 b/d of crude from the region to the Houston and Port Arthur, Texas, markets when it comes online in mid-2013.

The Spearhead Twinning project will actually add new pipe to the company's Spearhead Pipeline to increase capacity by 500,000 b/d into Cushing. However, these increased volumes will be coming into the hub in 2014, when the project is brought into service after the Wrangler Pipeline is operational.

"Given the tremendous demand to move crude out of Cushing, [we anticipate] volumes to ramp up immediately to whatever the capacity of the line is… We're actually balancing the design of both [Spearhead Twinning and Wrangler] to ensure that we've got capacity to clear the Cushing bottleneck and then also have capacity to accommodate the heavier volumes that will get pulled down from Canada," Steve Wuori, president of liquids pipelines for Enbridge, said.

The company is also working to address bottlenecks out of the Granite Wash by building the 580-mile Texas Express Pipeline with Enterprise Products Partners and Anadarko Petroleum Corp. This pipeline will transport 280,000 b/d of NGLs from Skellytown, Texas, to Mont Belvieu with the ability to increase capacity to 400,000 b/d.

"This pipeline will help producers in the area maximize the value of their natural gas liquids production, providing additional takeaway capacity and enhanced access to the Gulf Coast NGL market," Mark Maki, president and principal executive at Enbridge, said.

The project, which is scheduled to come online in mid-2013, is expected to improve Enbridge's competitive position and NGL margins because of its ability to provide long-term transportation for the company's NGLs while enhancing access to Mont Belvieu. Maki added that the company would like to increase its exposure to NGLs on the facility side of operations, including pipelines, fractionators and storage. "I don't think of it [Texas Express Pipeline] as a one-off at all. I think it's something we've been desirous of for a while, and it's progress on that strategy."

– Frank Nieto

Yara North America Opens DEF Terminal In Houston

Yara North America Inc., a producer of Diesel Exhaust Fluid (DEF), opened its new storage terminal in Houston with the arrival of its first shipment of Air1 DEF from the company's plant in Sluskil, Netherlands. The storage facility will provide fleets and retail outlets throughout Texas as well as its bordering states with increased access to Air1 DEF, an operating fluid that America's diesel-powered vehicles equipped with selective catalytic reduction (SCR) technology rely on to meet the EPA's 2010 heavy-duty engine and vehicle emissions standards to keep their engines running.

DEF demand in North America is expected to increase 30-fold by 2015 and DEF consumption in Texas alone is expected to reach 24.3 million gallons in the next three years, according to research and consulting firm, Integer Research, which specializes in DEF market analysis. Yara's Air1 Houston terminal is the latest addition to the company's global supply chain infrastructure. At capacity, the fully operational storage facility will hold 1 million gallons of Air1 DEF.

"The Houston terminal opening is an important milestone as we continue to expand our global supply chain capabilities domestically to meet the growing demand for DEF in North America," said Chad Dombroski, Director of Air1 for Yara. "Our ability to accommodate the rapid growth of the U.S. DEF market is unmatched and the terminal opening

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is not only a testament of our ability to grow with market demand but also reflects our ongoing commitment to ensuring that Air1 DEF is available where and when our customers need it," Dombroski continued.

The Houston terminal opening is just one of several major investments that Yara has made in 2011 to continue its expansion of the company's global production and distribution capabilities. Last month, Yara announced additional production capabilities at its facility in Sluiskil, Netherlands, the world's largest DEF production facility.

Gibson Energy To Acquire Palko Environmental

Gibson Energy Inc. (TSX: GEI) and Palko Environmental Ltd. (TSX: PLK) entered into an agreement providing for the acquisition by Gibson of all of the issued and outstanding common shares of Palko not already owned, directly or indirectly, by Gibson.

Under the terms of the transaction, shareholders of Palko may elect to receive either: 0.1717 of a common share of Gibson for each Palko share; or $3.05 cash for each Palko share; or a combination thereof. The total cost to Gibson is approximately $62.7 million, including the assumption of estimated net debt of approximately $15.95 million. When combined with Gibson's investments in Palko to date pursuant to which Gibson has acquired approximately 39% of the outstanding Palko shares, Gibson is paying an effective price of approximately $2.26 per Palko share in order to acquire 100% of Palko.

The transaction will expand Gibson's Canadian custom terminal operations to include water disposal services and oilfield waste management. "The acquisition of the remaining interest of Palko is a key step in forming this platform to meet the ever increasing water disposal services and oilfield waste management needs of the oil and gas industry in North America," said Stew Hanlon, president and chief executive of Gibson. "Palko represents a strategic acquisition for Gibson. Combined with our recent investment in the Plato Pipeline, Treating and Disposal facility and development plans for our Rimbey Custom Terminal, it creates a service offering in western Canada that will make Gibson a significant player in this space."

The combined platform, including Palko (100% interest), Plato and Rimbey, represents an investment by Gibson of $82 million for a total estimated EBITDA (earnings before interest, taxes, depreciation and amortization) contribution of $16 million per year when fully operational. "This expansion of Gibson's custom terminal service offering across western Canada will create additional benefits in our trucking and marketing businesses due to the integrated nature of our business model." said Hanlon.

Jay Simmons, chairman and chief executive of Palko commented: "This transaction recognizes the tremendous underlying value that has been created by the exceptional team we have assembled at Palko and provides shareholders with an attractive premium to recent trading values. We have grown to know Gibson well over the past few years: They are a world-class organization that has been a wonderful partner in Palko's success. We are delighted to see the Palko team be provided the opportunity to accelerate its growth with Gibson."

The transaction is to be completed through an arrangement pursuant to the Business Corporations Act (Alberta) and is expected to be completed by the middle of December 2011. Completion of the transaction is subject to approval by Palko shareholders, court approval and regulatory approvals. The board of directors of Palko has unanimously determined, with the nominees of Gibson abstaining, to recommend that Palko shareholders vote their shares in favor of the transaction. Certain shareholders of Palko, collectively holding or controlling approximately 42.9% of the Palko shares (81.8% of the Palko shares when combined with the Palko shares already owned by Gibson), have entered into agreements with Gibson whereby they have irrevocably agreed to vote their Palko shares in favor of the transaction.

The terms of the transaction prohibit Palko from soliciting or initiating any discussion regarding any other business combination or sale of material assets, includes provisions for Gibson to match competing, unsolicited proposals and, subject to certain conditions, provides for a $3 million break fee payable by Palko to Gibson.

FirstEnergy Capital Corp. is acting as financial advisor to Palko with respect to the transaction and has advised the board of directors of Palko that it is of the opinion, as of the date hereof and subject to review of the final documentation, that the consideration to be received by the Palko shareholders pursuant to the Transaction is fair, from a financial point of view, to the Palko shareholders (other than Gibson and its affiliates).

Scotia Capital Inc. is acting as financial advisor to Gibson with respect to the transaction.

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NEWS & TRENDS

CenterPoint Energy Services Acquires Asgard Energy

CenterPoint Energy Services Inc. (CES), an indirect, wholly owned subsidiary of CenterPoint Energy Inc. (NYSE: CNP), acquired Asgard Energy LLC effective Nov. 1.

Asgard, headquartered in Denver, is a natural gas marketing company that supplies natural gas to commercial, industrial, agricultural and residential customers in five states including Colorado, Kansas, Nebraska, Wyoming and West Virginia.

CES is CenterPoint Energy's non-regulated energy marketing group, providing competitively priced natural gas along with related energy management services to commercial, industrial and wholesale customers located primarily in the eastern half of the United States.

"The acquisition of Asgard is a natural extension of our geographical footprint and part of our strategy to expand into the Rockies market," said Eric Sullivan, vice president of Marketing for CES. "Additionally, this will allow us to diversify and expand our expertise into residential choice markets."

The acquisition includes more than 1,400 diverse large volume commercial and industrial customers and 13,000 individual accounts in the SourceGas Choice program in Nebraska and Wyoming. When combined with its existing portfolio, the Asgard acquisition enhances CenterPoint Energy's position as a major U.S. energy supplier by expanding its reach into new markets.

"We're excited by this opportunity and believe CenterPoint Energy's financial strength and reputation for knowledgeable, personal service will position us to succeed in this market," added Sullivan.

CES will retain all Asgard employees and provide service to its new customers from a Denver office.

Celtic Exploration Acquires Assets At Grande Cache

Celtic Exploration Ltd. entered into an agreement with what it described as a "major petroleum company" to acquire natural gas assets at Grande Cache, Alberta, adjacent to Celtic's core area at Resthaven, for cash consideration of $50 million before closing adjustments.

The acquisition has an effective date of July 1, 2011, and is subject to standard industry closing conditions. Closing is expected to occur during the second week of December 2011. The consideration to be paid by Celtic under the agreement will be financed by bank debt. The company has received an indication from its lead bank, National Bank of Canada, whereby, Celtic's available bank credit lines will be increased by $25.0 million to $275.0 million, upon closing of the acquisition.

The assets are located in Alberta between townships 58 and 62 and ranges 6 to 10 west of the sixth meridian, directly west of Celtic's Resthaven lands. Recent natural gas production from the assets to be acquired was approximately 15 million cubic feet per day or 2,500 BOE per day, of which approximately 50% is operated. The acquisition also includes approximately 61,000 net acres (95 sections) of lands, of which approximately 33,000 net acres (51 sections) are undeveloped. The majority of the lands contain Cretaceous rights, including the Cardium, Dunvegan, Cadotte, Falher, Bluesky, Gething Cadomin and Nikanassin formations.

In addition, the company will acquire a 30% working interest in the Copton gas plant; a 7% working interest in the Narraway gas plant; and interests in various compressors and gas gathering pipelines.

Enerflex Will Build Gas Processing Plant In Oman

A $228 million contract to build a gas processing plant on Abu Tubul Block 60 was awarded by Oman Oil Co. Exploration and Production LLC to Enerflex Ltd.

The plant will produce 90 million cubic feet of natural gas and 6,000 barrels of liquids a day. The facility is slated to begin operations in the third quarter 2013.

Enerflex also operates gas compression plants in Oman and Bahrain, noted Blair Goertzen, Enerflex's president and chief executive officer.

Legacy Reserves Acquires Permian Assets For $72.5M

Legacy Reserves LP (NASDAQ: LGCY) entered into two agreements to purchase oil and natural gas properties in the Permian basin and Wyoming for a combined purchase price of approximately $72.5 million.

The first of these acquisitions involves an agreement to purchase Permian basin properties from a private seller for $20 million in cash and 278,396 Legacy units. The properties are located in Lea, Eddy and Chaves counties, New Mexico, have

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net daily production of approximately 1.26 million cubic feet (MMcf) of natural gas and 110 barrels of oil, and are 100% operated. Legacy estimates that the properties contain proved reserves of approximately 1.64 million barrels of oil equivalent (MMBoe), of which 88% are estimated to be proved developed producing (PDP). The closing of this acquisition is anticipated to occur on or about Nov. 14, 2011, and is subject to customary purchase price adjustments.

In addition, Legacy has entered an agreement to purchase natural gas properties for $45 million in cash. These properties, which are located in Freemont County, Wyoming, have net daily production of approximately 12.9 MMcf of natural gas and 15 barrels of oil, and are 100% operated. Legacy estimates that the properties contain proved reserves of approximately 41.6 Bcfe, of which 100% are estimated to be PDP. There are also multiple locations included in this acquisition that will be evaluated for future drilling.

The acquisition includes a natural gas gathering system, gas processing plant, and related compression facilities gathering gas from the wells to be acquired. The closing of this acquisition is anticipated to occur on or about Dec. 1, 2011, and is subject to customary purchase price adjustments.

Upon the closing of the Permian basin acquisition described above, Legacy's borrowing base under its revolving credit facility will expand from $535 million to $550 million. Legacy currently plans to finance these acquisitions with its revolving credit facility, and may seek an interim redetermination of its borrowing base prior to its next scheduled redetermination in April 2012 to reflect the Wyoming acquisition described above as well as future acquisitions.

Statoil Buys Hess Out Of Snøhvit Project

An agreement was signed by Statoil to acquire Hess' 3.26% ownership in the Barents Sea Snøhvit Unit and adjacent production licenses for NOK1.0 billion ($178.5 million).

Statoil will acquire Hess' 11.25% participation interest in PL097 and 8.33% participation interest in PL110 together constituting a 3.26% participation interest in the Snøhvit Unit and in the Hammerfest LNG facility at Melkøya.

Additionally, a 3.26% participation interest in PL110B, PL110C, PL448 and PL488 is included in the agreement. The effective date of the transaction is Jan. 1, 2011. The agreement is subject to relevant government approvals.

"Snøhvit is a long-term field with substantial remaining resources located in an area that has been revitalized through recent discoveries and the delineation agreement between Russia and Norway," said Statoil's executive vice president for development and production Norway, Øystein Michelsen.

Snøhvit was discovered in 1981. Following the completion of the transaction, the partners in Snøhvit will be Statoil, operator (36.79%), Petoro (30%), Total E&P Norge (18.4%), GDF Suez E&P Norge (12%), and RWE Dea Norge (2.81%).

– Scott Weeden

Shell, Total To Expand India LNG Terminal Capacity

Royal Dutch Shell and Total SA announced plans to increase capacity rom 3.6 million tons to 5 million tons at their LNG terminal in Hazria, India. This additional capacity, expected to come online in the beginning of Q2 2012, is necessary to meet increased domestic demand from expanding power stations and industries.

PIPELINES & TECHNOLOGY

State Department Pushes Keystone XL Decision Past 2012 Elections

The U.S. State Department announced it will review alternate paths for TransCanada's proposed $7 billion Keystone XL Pipeline, which will push the department's decision on the project until Q1 2013 at the earliest. This decision eases a potentially volatile decision for President Obama to make prior to the 2012 Presidential election as he risked losing supporters depending on if he decided to sign off on the project following a final State Department decision or not.

The 1,700-mile pipeline has been a thorny political issue with environmental groups claiming that the project, which will transport oil from the Alberta tar sands to Port Arthur, Texas in the Gulf Coast, is potentially harmful to the land and water in its proposed route. However, the main argument off these environmental groups is actually with

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the actual production of tar sands, which they claim is harmful to air quality because of the amount of greenhouse gas released in the process.

Backers of the project point out that the Canadian tar sands have been developed for years with no clear evidence of any harmful side effects and this project would help to add jobs and cut down on foreign oil imports. In addition, it would redirect oil that is already being shipped to the U.S. on the Keystone Pipeline from an oversupplied Mid-Continent market to the Gulf Coast where margins and capacity are much stronger.

The State Department previously issued a final supplemental environmental assessment that backed TransCanada's proposed path as the preferred route; however, the department will now undertake a study for an alternate route to avoid potentially sensitive lands in Nebraska.

White House officials stated that the decision to push back the State Department's decision was not a politically motivated decision.

– Frank Nieto

Oiltanking Partners To Build Two Crude Pipelines, Storage Facilities

Oiltanking Partners LP (NYSE: OILT) announced that the board of directors of its general partner has approved expansion projects to construct two new crude oil pipelines in the Houston Ship Channel and approximately 1 million barrels of new crude oil storage capacity at the partnership's Houston terminaling facility. The $80-85 million project is the first phase of anticipated infrastructure and storage capital expenditures to address additional customer demand at Oiltanking Houston.

The project includes the following scope:

- Reversal of an existing 24" pipeline that currently originates from Oiltanking Houston to multiple Houston Ship Channel refineries;
- Extension of the reversed 24" pipeline to connect to Genoa junction, located on the south side of the Houston Ship Channel;
- Construction of a new 30" pipeline from Oiltanking Houston along the Houston Ship Channel to the area refineries previously served by the 24" pipeline; and
- Construction of 1 million barrels of crude oil storage at the partnership's Houston terminaling facility.

The new project provides connectivity to Genoa junction and has been designed to accommodate additional customer throughput volumes as growing crude oil supplies reach the Houston Ship Channel market. In addition, the partnership is poised to construct additional crude storage tankage to support the rising customer demand at Oiltanking Houston.

Carlin G. Conner, president, chief executive and chairman of the board, stated, "Over the last three decades, Oiltanking Houston has built a premier crude oil distribution center by investing in pipeline connectivity, expansive deep waterfront and substantial crude tankage.

"In anticipation of these new crude supplies being delivered to the Houston market, we are expanding and strengthening the premier crude oil distribution system in the Houston Ship Channel by connecting to these pipeline junctions and building additional tankage. Interest from both existing customers and new customers, including refiners, producers and marketers, reaffirms our expectation of strong increases in demand for new crude capacity.

"In addition to the expansion projects currently approved, we foresee additional tank expansion opportunities developing with the dramatic shift in crude oil logistics. As appropriate, we will prudently evaluate these opportunities in the future with the goal of increasing our distribution to unit-holders over time. By connecting to the planned inbound flows of new crude sources, along with our superior waterfront and premier distribution systems, we believe Oiltanking Houston will be well positioned for continued growth," concluded Conner.

The partnership has obtained the required environmental and internal approvals to commence construction and expects to complete construction of the pipelines and approximately 1 million barrels of new crude oil storage capacity during the first quarter of 2013. The new storage capacity is in addition to the 1 million barrels of crude storage currently being constructed at the Houston terminaling facility. Once complete, the expansion will bring total active storage capacity across all products at the partnership to approximately 18.8 million barrels. The partnership currently has low leverage levels, and as such, anticipates funding the entire project with debt.

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

Evidence of this focus was found in the company's recent acquisition of the Petal and Hattiesburg natural gas storage facilities in Mississippi from Enterprise Products Partners for $550 million. Both facilities are connected to Boardwalk's Gulf South Pipeline and are expected to be attached to the system's 42-inch Southeast expansion.

In addition to the synergies that this acquisition is expected to provide, it is located in a region that may provide up to six additional storage caverns. Horton said that one of these caverns is expected to be brought into service in 2013. Two of the remaining five caverns are already permitted by FERC and will be brought into service as market conditions dictate.

"The location and the salt dome type of storage make these assets ideal for serving natural gas demand in the Southeast, which is expected to grow substantially in the next decade due to an anticipated increase in gas-fired electric power generation," he said.

The current storage caverns in operation are subscribed on a firm basis with an average contract life of approximately seven years. About 80% of the customers are electric and gas utilities, which helps to reduce the impact of low gas prices.

Lower gas prices are having a negative effect on Boardwalk's parking and lending revenues. However, its revenues increased from last year because of increased transportation revenues due to pipeline expansions. Revenues in the quarter increased 4% to $269 million and earnings were up 1% to $148 million from Q3 2010.

– Frank Nieto

ExxonMobil Develops Software Standards DevKit

The Energistics Consortium announced that ExxonMobil Upstream Research Co. has provided an open source developer tool for the oil and gas industry.

The Standards DevKit (developed by ExxonMobil Technical Computing Company) is licensed under the Apache License, Version 2.0, and leverages Microsoft .NET technology to provide the WITSML Standard and the PRODML Standard (both developed and licensed by the Energistics Consortium Inc.) to developers without requiring the developers to learn the extensive XML structure. It allows them to quickly and easily work with objects directly in .NET and seamlessly translates those objects into XML that can be saved as files or transferred to web servers.

"We're excited about leveraging open source models and learnings to promote uptake of data exchange standards in the oil and gas industry. These standards will help drive efficiencies in our business processes," said Cindy Reece, upstream technical computing manager, ExxonMobil Technical Computing Co., and the current Board Chair of Energistics, an industry consortium working on open-data exchange standards.

The release of the Standards DevKit is intended to encourage the use of WITSML and PRODML standards across the oil and gas industry by lowering the learning curve and reducing custom development efforts. Additionally, it brings the library support for these standards up to the current level of formats like Excel and ASCII.

"The digital oilfield is moving forward with more efficient technologies associated with open data exchange standards," said Randy W. Clark, president and chief executive of Energistics. "This open source development tool kit from ExxonMobil is a very positive stride toward greater adoption of standards in the industry."

STWA Details Shale-Focused Applied Oil Technology

STWA Inc. (OTCBB: ZERO) reported that its Applied Oil Technology (AOT) for supplemental oil viscosity reduction may solve oil transportation challenges for domestic oil producers by increasing pipeline flow rates and reducing pipeline transportation costs. This includes pipelines in regions such as the Bakken formation, where production has been increasing rapidly according to the U.S. Energy Information Administration, from one million to fifty million barrels per year from 2005 to 2009.

STWA's Applied Oil Technology (AOT) is a new technology that treats crude oil within transport pipeline networks to reduce pipeline energy consumption per mile. As treatment is deployed, flow resistance within the pipeline decreases, reducing cost per barrel transportation costs and allowing flow rates to increase. AOT has been shown in recent field testing at the U.S. Department of Energy's (DOE) Rocky Mountain Oilfield Testing Center (RMOTC) to deliver immediate pipeline efficiency gains of 13.14% to 13.55% when operating at one-third of

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its minimum power requirement. The purpose of the new technology is to reduce the operation costs of pipelines per barrel of crude oil.

"We believe that major domestic pipeline companies stand to benefit from the implementation of AOT," stated Cecil Bond Kyte, chairman and chief executive of STWA Inc. "The issue is not (oil) depletion, but rather the difficulty of extraction and transportation. These include projects such as the Bakken Marketlink, which will deliver U.S. crude oil from Baker, Montana to Cushing, Oklahoma, as well as other projects where heavier grades of oil need to be moved through pipelines in cold weather conditions. The Bakken formation is certainly one of the fastest growing crude oil production regions in the U.S. today where there simply isn't enough capacity to transport what is being pulled from the ground. We believe the commercialization and application of AOT will help producers in the Bakken shale formation area and other domestic regions alleviate some of the difficulty in extraction and transportation of crude oil from new regions."

Kyte added, "As we predicted, 2011 is shaping up to be a monumental year for STWA. Field scale testing of a working AOT prototype is an exciting development. We believe the relevance our technology to the energy supply delivery system is enormous and could provide a security advantage in its ability to assist in U.S. energy independence."

RESIN PRICES – MARKET UPDATE – NOVEMBER 11, 2011					
TOTAL OFFERS: 34,807,120 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	6,413,704	0.61	0.71	0.57	0.61
LDPE - Film	5,883,612	0.62	0.75	0.63	0.67
HDPE - Blow Mold	4,484,152	0.58	0.65	0.56	0.60
PP Homopolymer - Inj	3,584,612	0.71	0.78	0.66	0.70
HDPE - Inj	3,100,760	0.60	0.76	0.58	0.62
LDPE - Inj	2,922,576	0.62	0.69	0.63	0.67
HMWPE - Film	2,920,508	0.66	0.70	0.62	0.66
LLDPE - Inj	2,240,368	0.60	0.71	0.61	0.65
PP Copolymer - Inj	1,926,828	0.68	0.82	0.68	0.72
GPPS	760,000	0.85	0.88	0.81	0.86
HIPS	570,000	0.96	0.97	0.90	0.95

Source: Plastics Exchange – www.theplasticsexchange.com

SNAPSHOT

Southern Corridor Pipeline Projects Aim To Bring Caspian Gas Supplies To Europe

A pipeline that would transport natural gas from the Caspian Region to Europe is akin to a North Slope pipeline in North America – they are both much discussed with little actual on the ground traction.

However, it is far more likely that a pipeline from the Caspian to Europe will materialize faster than one from the North Slope of Alaska for the simple matter of supply and demand. While there is little reason to believe that a pipeline out of Alaska to the Lower 48 states is necessary at this time given the prolific nature of shale plays in North America, the opposite is true in Europe where limited pipeline capacity means that LNG is the primary natural gas product in the West. These limited supplies also make it possible that several of the so-called Southern Corridor pipeline projects are brought online.

For this reason, the real question isn't if a pipeline will be developed, but when and by whom. There are multiple companies and partners with proposed projects, but the largest of them all is the Nabucco Pipeline.

This project has been discussed and negotiated for the past eight years, but has the most support of any of the competing projects. Thus far the project has garnered the official support of the governments of Austria, Bulgaria, Hungary, Romania and Turkey, along with expressed interest from French Prime Minister Nicolas Sarkozy.

In addition, the U.S. government has also backed the project as a means to curb Russian influence over natural gas prices in Western Europe. Currently, the bulk of the LNG sold into Western Europe comes from Russia, which has used its energy supplies to impose their political will over their customers.

The Nabucco Pipeline is estimated to cost €7.9 billion (US$10.75 billion),

The Nabucco Pipeline will transport natural gas from the Turkey-Azerbaijan border to Austria.
Source: Nabucco Pipeline Co.

which has been the biggest stumbling block for the project along with shipping commitments. However, the project has been making headway of late on both ends and has secured access to gas from Azerbaijan and has reportedly secured financing to cover at least €4 billion (US$5.4 billion) of the costs from the from the European Investment Bank (EIB), European Bank for Reconstruction

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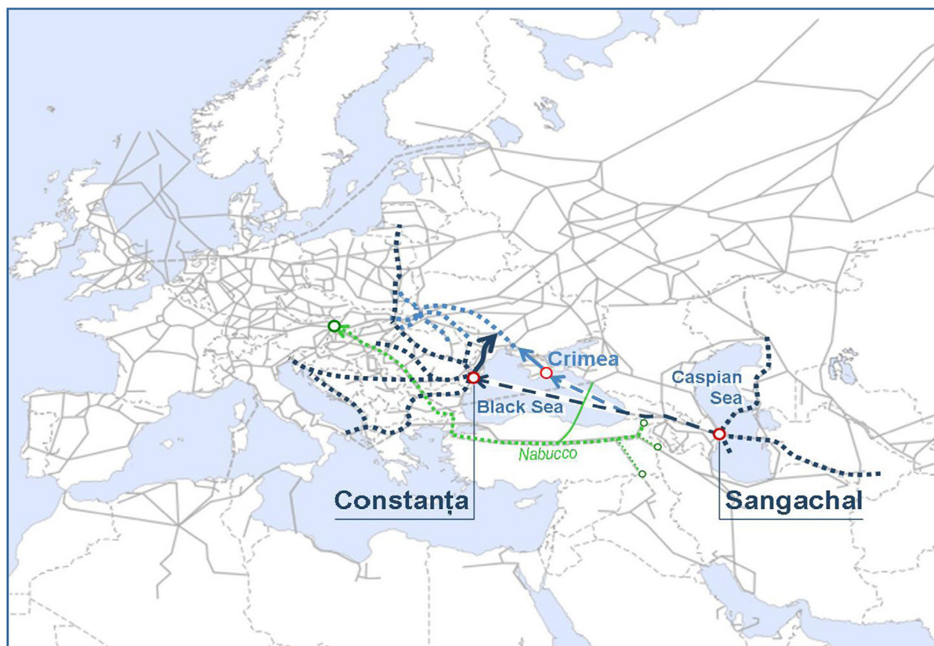
& Development (EBRD), and the World Bank's International Finance Corp. (IFC).

The 3,900-kilometer pipeline is being developed by the Nabucco Gas Pipeline International GmbH, which includes OMV of Austria, MOL of Hungary, Transgaz of Romania, Bulgargaz of Bulgaria, BOTAS of Turkey and RWE of Germany. OMV is serving as the lead company on the project.

It will have a capacity of 31 billion cubic meters per year (Bcm/yr) to deliver gas from Iraq and Egypt with the Shah Deniz gas field in Azerbaijan being the main supply source. It will deliver this gas by traveling from Erzurum, Turkey through Austria, Bulgaria, Hungary, Romania and Turkey to Baumgarten an der March, Austria. The partners estimate construction beginning in 2013 with the pipeline being brought online in 2017.

The White Stream Pipeline project is only slightly younger than the Nabucco Pipeline project, as it was introduced in 2005. This pipeline would also transport gas from Azerbaijan, but seeks a route through Georgia to Romania and Ukraine and into Central and Eastern Europe.

Another difference between the White Stream and Nabucco pipelines is that portions of White Stream are designed to be placed underwater as it travel the Black Sea in depths of more than 2,000 meters.



The White Stream Pipeline is designed to connect natural gas supplies in Azerbaijan to Central and Eastern Europe.
Source: White Stream Pipeline Co.

The project is being developed by GUEU -- White Stream Pipeline Co. in three phases with the first setting capacity at 8 Bcm/yr before the final phase brings total capacity to 32 Bcm/yr. The pipeline project is supported by both the governments of Georgia, Ukraine, Romania, Poland and Lithuania.

The Trans Adriatic Pipeline is another Southern Corridor pipeline project that is designed to cross water as it will originate in Greece and cross Albania and the Adriatic Sea before terminaling in southern Italy.

The Trans Adriatic Pipeline will ship Azeri natural gas supplies to southern Europe via a route from Greece to Italy.
Source: Trans Adriatic Pipeline Co.

The 800-kilometer pipeline was first conceived in 2003 and is designed to have a capacity to deliver 10 Bcm/yr of natural gas from the Shah Deniz field to Western Europe and be expandable to 20 Bcm/yr. The pipeline is being developed by EGL of Switzerland, Statoil of Norway and E.On Ruhrgas of Germany.

Although none of these, or other competing projects such as the multipipeline Interconnector Turkey-Greece-Italy project, have begun construction, it is becoming increasingly likely that Shah Deniz gas will make its way into Europe.

Last month, the governments of Turkey and Azerbaijan signed agreements that call for 10 Bcm/yr of Azeri gas to be transported into Europe as part of the second phase of development of the Shah Deniz field. As part of this agreement, Turkish officials said they will ensure these volumes are transported into Europe even if none of the competing projects are built.

– Frank Nieto

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MIDSTREAM Monitor

VOLUME 29 / ISSUE 62 / November 11, 2011 *Formerly* GAS PROCESSORS REPORT

NGL PRICES

Isobutane Prices Continue To Improve

Heavy NGL prices benefitted from an increase in crude prices the week of Nov. 2 with isobutane in particular experiencing a significant price surge as propylene alkylation demand is also on the rise.

Both the increase in crude prices and the greater alkylation demand resulted in Mont Belvieu isobutane prices rising 7% to $2.21 per gallon (/gal). This was the highest price at the hub since the week of July 16, 2008, when it was $2.34/gal. The Conway price improved 3% to $1.92/gal, its highest price since it was $2.03/gal the week of Sept. 28.

Butane prices increased at a slower pace this week as this market has been hindered by operational issues at a butane isomerization plant owned by Enterprise Products Partners. Consequently, prices only increased very slightly to $1.55/gal at Conway and $1.81/gal at Mont Belvieu.

Pentanes-plus (C5+) prices improved at a slightly stronger rate than butane as the Mont Belvieu price rose 1% to $2.29/gal, its highest price in three weeks. The Conway price was up very slightly to $1.93/gal.

Ethane prices were a bit of a mixed bag this week as the Conway price improved 2% to 36¢/gal and the Mont Belvieu price dropped 2% to 90¢/gal. Although there was a price improvement at Conway, it was the second lowest price at the hub in nearly three months. The Mont Belvieu price was the lowest in a month.

Despite the stagnant nature of ethane prices of late, ethane remains the most attractive feedstock to crack. However, part of the reason for the flat prices for the past few weeks may be because petrochemical companies could be selling ethane in an effort to lock in lower prices for the month, according to En*Vantage. Prices may begin to rise once this sell-off is completed.

The NGL with the worst price performance this week was propane, which was down 1% at both hubs. The $1.45/gal price at Mont Belvieu was the hub's lowest price since it was $1.45/gal the week of Oct. 5 while the Conway price of $1.32/gal was the lowest since the week of April 13, when it was $1.31/gal.

Propane prices have been negatively impacted by low heating demand because of the fact that cold temperatures have yet to take hold across the country. In addition, export levels are dropping because of limited demand from Europe because that market is experiencing negative margins. – Frank Nieto

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Nov. 2 - 8 '11	90.44	145.58	181.12	220.93	228.90	$62.19
Oct. 26 - Nov. 1 '11	91.68	146.90	180.34	207.48	227.06	$62.02
Oct. 19 - 25 '11	93.68	147.12	181.60	209.15	229.83	$62.65
Oct. 12 - 18 '11	90.01	149.60	180.58	208.43	232.00	$62.45
October '11	88.04	147.23	179.87	208.39	226.82	$61.48
September '11	77.53	156.11	192.19	216.45	236.73	$62.45
3rd Qtr '11	76.03	153.87	188.27	208.52	237.59	$61.59
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
Nov. 3 - 9 '10	64.70	128.14	159.98	162.90	200.04	$51.53
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Nov. 2 - 8 '11	36.33	131.60	155.14	192.00	193.36	$48.01
Oct. 26 - Nov. 1 '11	35.58	133.28	154.64	186.95	192.40	$47.86
Oct. 19 - 25 '11	37.08	133.46	151.74	184.38	201.08	$48.50
Oct. 12 - 18 '11	37.86	138.16	152.96	190.60	199.74	$49.33
October '11	37.79	136.85	153.16	189.69	194.62	$48.80
September '11	42.28	142.40	169.17	208.84	200.28	$51.93
3rd Qtr '11	46.69	143.07	166.30	199.68	210.98	$53.06
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
Nov. 3 - 9 '10	48.84	121.86	152.78	155.00	190.07	$47.57

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

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FRAC SPREAD

Higher Crude Prices Help Margins Improve

Frac spread margins improved this week despite natural gas prices increasing at both Mont Belvieu and Conway. The improvement was largely because heavy NGL prices improved on the back of higher crude prices.

The NGL with the greatest improvement in margin was Mont Belvieu isobutane, which rose 7% and closed the gap to 4¢ per gallon (/gal) between it and C5+ as the most profitable NGL to make at the hub.

Ethane had the greatest improvement in margin at Conway as it was up 4% from the previous week. However, Mont Belvieu ethane had the largest drop in margin of any NGL this week as it was down a little over 2%. This was followed closely by Conway propane, which was also down 2%.

Were it not for gas prices improving at both hubs, these margins would have been stronger. However, Mont Belvieu natural gas improved 2% to $3.38 per million Btu (/MMBtu) and Conway gas improved 1% to $3.32/MMBtu.

The theoretical NGL barrel price was up slightly at both Conway and Mont Belvieu this week. The Conway price was $48.01 per barrel (/bbl) with a very slight margin improvement to $35.89/bbl. The Mont Belvieu price was $62.19/bbl with a very slight drop in margin to $49.85/bbl.

For the first time in several weeks, isobutane was the most profitable NGL to make at Conway at $1.59/gal. While it seemed as though things had returned to normal the week of Oct. 21 when C5+ overtook isobutane's margin at the hub, the increased alkylation demand has once again shifted dynamics in the mid-continent. The most profitable NGL to make at Mont Belvieu remained C5+ at $1.91/gal.

The second most profitable NGL at Conway was C5+ at $1.57/gal while isobutane was the second most profitable NGL at Mont Belvieu at $1.87/gal. These were followed, in order, by butane at $1.21/gal at Conway and $1.46/gal at Mont Belvieu; propane at $1.01/gal at Conway and $1.15/gal at Mont Belvieu; and ethane at 14¢/gal at Conway and 68¢/gal at Mont Belvieu.

Natural gas in storage for the week of Nov. 4, the most recent data available from the Energy Information Administration, increase 37 billion cubic feet to 3.831 trillion cubic feet (Tcf) from 3.794 Tcf the previous week. This was down very slightly from the 3.837 Tcf figure posted last year at the same time and 6% above the five-year average of 3.616 Tcf.

Heating demand should again be low next week according to the National Weather Service's forecast. The NWS anticipates warmer than normal November temperatures along the entire East Coast through the Gulf Coast and into parts of the Midwest. By contrast the West Coast is expected to experience cooler than normal temperatures.

– Frank Nieto

Current Frac Spread (Cents/Gal)

November 11, 2011	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	36.33		90.44	
Shrink	22.01		22.41	
Margin	14.32	3.50%	68.03	-2.26%
Propane	131.60		145.58	
Shrink	30.41		30.96	
Margin	101.19	-1.98%	114.62	-1.53%
Normal Butane	155.14		181.12	
Shrink	34.43		35.05	
Margin	120.71	0.07%	146.07	0.18%
Iso-Butane	192.00		220.93	
Shrink	33.07		33.66	
Margin	158.93	3.02%	187.27	7.43%
Pentane+	193.36		228.90	
Shrink	36.82		37.48	
Margin	156.54	0.33%	191.42	0.68%
NGL $/Bbl	48.01	0.31%	62.19	0.29%
Shrink	12.13		12.35	
Margin	35.89	0.01%	49.85	-0.01%
Gas ($/mmBtu)	3.32	1.22%	3.38	1.50%
Gross Bbl Margin (in cents/gal)	83.16	-0.12%	116.62	-0.11%
NGL Value in $/mmBtu				
Ethane	2.00	2.11%	4.98	-1.35%
Propane	4.57	-1.26%	5.05	-0.90%
Normal Butane	1.68	0.32%	1.96	0.43%
Iso-Butane	1.20	2.70%	1.38	6.48%
Pentane+	2.49	0.50%	2.95	0.81%
Total Barrel Valuein $/mmbtu	11.93	0.27%	16.32	0.01%
Margin	8.61	-0.09%	12.94	-0.37%

Price, Shrink of 42-gal NGL barrel based on following: Ethane, 36.5%; Propane, 31.8%; Normal Butane, 11.2%; Isobutane, 6.2%; Pentane+, 14.3%, Fuel, frac, transport costs not included. Conway gas based on NGPL Midcontinent zone, Mont Belvieu based on Houston Ship Channel. Shrink is defined as Btus that are removed from natural gas through the gathering and processing operation. Source: Frank Nieto

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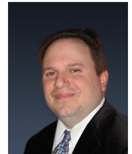

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