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FEATURE

TEAK Midstream To Build Eagle Ford Processing Plant, Gathering System

TEAK Midstream LLC announced it will spend \$280 million to build the 200 million cubic feet per day (MMcf/d) Silver Oak cryogenic gas processing plant along with a new natural gas gathering and residue delivery system that will run more than 200 miles and will transport volumes from the Eagle Ford shale. In addition, the company executed 10-year firm gathering and processing agreements with Talisman Energy USA Inc. and Statoil Natural Gas LLC to support both the gathering system and the processing plant. It is expected that the gathering system and processing plant will be in service in Q3 2012.

The gathering system will consist of a 125-mile high-pressure system originating on acreage owned by Talisman and Statoil



in La Salle County with a capacity of approximately 600 MMcf/d and the 20-mile, high-pressure Karnes Lateral system with 400 MMcf/d of capacity. The first 50-mile segment of the 125-mile system will be called the La Salle Lateral and will be owned by TEAK Midstream with the remaining 75-

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NGL PRICES

Fractionator Turnaround Plans Help Improve Ethane Prices

Ethane prices rebounded at both hubs this week on the back of the news that ConocoPhillips' Gulf Coast Fractionators ONEOK Partners' Mont Belvieu fractionator will undergo maintenance in April and May. The ethane market was similarly supported in late 2011 in response to the news that ethane crackers would undergo scheduled maintenance in early 2012.

The 30- to 45-day scheduled turnarounds for these fractionators may result in up to 115,000 barrels per day of ethane extraction to be affected. In the very near-term, ethane prices should benefit, but prices may experience some dips with the two fractionators down in the spring as the remaining fractionators and storage facilities may not be able to handle all of the volumes coming into the region. This could result in either some

short-term ethane rejection, or even the shut down of some natural gas processing plants connect to these two fractionators.

However, the region's largest fractionator, owned by Enterprise Products Partners, will remain online. In addition, the majority of the ethane cracker turnarounds should be completed by this time. The Conway market should also benefit from increased transportation capacity to Sarnia as Kinder Morgan's Cochin pipeline will begin to transport E-P mix to Nova Chemicals' ethylene plant in April.

All of this news resulted in Mont Belvieu ethane improving 5% to 46¢ per gallon (/gal), which was the hub's second-lowest price in nearly two years. The Conway price came back much stronger as it rose 54% to 23¢/gal, its highest price in a month.

During their Q4 2011 conference call, Dow Chemical reiterated its plans to build a world-scale ethane-based cracker with the most likely destination for this facility being in Texas. “We are working to consume of the excess ethane as we can ... We will expand and you can count on us putting a world-scale cracker in place to use that ethane ... and our view is we can bring that on in the 2016-2017 time frame,” Andrew Liveris, the company’s chairman and chief executive, said.

There were some market corrections taking place for propane at both Mont Belvieu and Conway this week. While moderate winter temperatures have limited heating demand this year, Conway prices seemed to have been driven down too far in recent weeks. Consequently, prices saw a bit of a turnaround this week as they gained 1% to close at 98¢/gal. The final day of the trading week also saw prices increase above the \$1.00/gal threshold. The Mont Belvieu price lost 3% to \$1.18/gal as the market corrected itself in the opposite direction of Conway.

Crude prices saw improvements this week as traders considered the possibility that Iran may restrict the global crude trade by acting to close the Strait of Hormuz in response to international sanctions. The improved prices didn’t carry over to heavy NGLs at Mont Belvieu, although the opposite was true at Conway. It is likely that the improvements at Conway were price corrections more than a stronger correlation to crude prices though.

– Frank Nieto

NGL PRICES						
Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Feb. 15 - 21, '12	45.63	117.95	183.33	189.77	239.15	\$51.98
Feb. 8 - 14, '12	43.30	121.66	186.20	191.88	240.00	\$52.33
Feb. 1 - 7, '12	48.05	125.90	187.88	191.46	233.40	\$53.19
Jan. 25 - 31, '12	55.43	128.70	190.94	203.20	227.94	\$54.77
January '12	64.67	129.56	197.46	212.13	232.57	\$57.18
December '11	79.10	139.28	202.63	243.70	221.78	\$60.95
4th Qtr '11	84.49	144.13	188.16	227.18	224.44	\$61.34
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
Feb. 16 - 22, '11	66.99	138.48	178.48	195.03	221.97	\$56.43
Conway, Group 140	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Feb. 15 - 21, '12	22.83	98.40	162.20	175.45	229.88	\$44.26
Feb. 8 - 14, '12	14.82	97.18	156.92	167.43	224.38	\$41.93
Feb. 1 - 7, '12	21.02	99.02	155.90	177.93	215.44	\$42.79
Jan. 25 - 31, '12	27.32	101.88	159.96	180.20	212.60	\$44.24
January '12	28.59	102.17	171.36	182.59	210.31	\$44.99
December '11	29.17	121.10	174.48	213.18	198.87	\$47.54
4th Qtr '11	34.29	129.43	160.82	204.27	196.08	\$48.23
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
Feb. 16 - 22, '11	47.30	123.60	168.18	204.00	224.58	\$51.99

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

FRAC SPREAD

Ethane Margins Once Again Positive At Conway

One week after officially becoming negative, Conway ethane margins returned to a marginally profitable status thanks to improved prices at the hub. In fact, Conway margins improved across the board thanks to price corrections for propane and heavy NGLs.

While the margin is theoretically profitable at 6¢ per gallon (/gal), its status at Conway is also supported by the fact that purity ethane is not traded at the hub. Instead E-P mix is traded at the hub and these margins are supported by the much stronger propane frac spread.

Mont Belvieu margins told a different tale as there were drops for all NGLs, save for ethane, as the market corrected in the opposite direction in Texas. In addition, Mont Belvieu margins were hurt by a 6% improvement in natural gas prices while Conway margins were prevented from further improvements due to a 2% gain in natural gas prices.

Propane had the largest drop in margin at Mont Belvieu as it was down 5% from the previous week. The Conway margin had the smallest gain at 1%. Lack of heating demand has been the main

culprit in preventing propane prices and margins to retreat this winter. The good news is that with prices this low it should encourage greater export demand.

The increased gas prices were caused by larger than expected natural gas withdrawals and pushed the Mont Belvieu price to \$2.57 per million Btu (/MMBtu) and the Conway price to \$2.52/MMBtu.

The most profitable NGL to make at both hubs remained C5+ because of its strong price correlation with crude oil, which improved this week. The C5+ margin was \$2.02/gal at Conway and \$2.10/

gal at Mont Belvieu. This was followed, in order, by isobutane at \$1.50/gal at Conway and \$1.64/gal at Mont Belvieu; butane at \$1.36/gal at Conway and \$1.57/gal at Mont Belvieu; propane at 75¢/gal at Conway and 94¢/gal at Mont Belvieu; and ethane at 6¢/gal at Conway and 29¢/gal at Mont Belvieu.

The theoretical NGL barrel price was up 6% at Conway to \$44.26 per barrel (/ bbl) with a 6% gain in margin to \$35.03/ bbl. The Mont Belvieu barrel price fell 1% to \$51.98/bbl despite the improved ethane price as the barrel was unable to overcome decreased prices for propane and the heavy NGLs. The margin also dropped 2% to \$42.57/bbl.

Natural gas in storage for the week of Feb. 17, the most recent data available from the Energy Information Adminis-

tration, was down 166 billion cubic feet to 2.595 trillion cubic feet (Tcf) from 2.761 Tcf the previous week. Although this withdrawal was larger than it has been recently, the storage figure was 41% higher than the 1.842 Tcf figure reported last year at the same time and 40% greater than the 1.851 Tcf five-year average.

The mild winter on the East Coast will not be abating next week, according to the National Weather Services' forecast. The forecast anticipates warmer than normal temperatures to extend from the Gulf Coast, through much of the Midwest and along the entire East Coast. The West Coast is expected to experience cooler than normal temperatures.

— Frank Nieto

INSIDE LOOK AT PROCESSING

SemGroup, Gaviion, Chesapeake Form JV In Cushing

SemGroup Corp. (NYSE: SEMG), Gaviion Midstream Energy LLC, and an affiliate of Chesapeake Energy Corp. (NYSE: CHK) formed a joint venture to meet the growing capacity demands in Cushing, Okla. The joint venture will build a 210-mile pipeline that transport crude oil to a 1 million barrel storage facility in Cushing.

There will be two laterals on the 140,000 barrel per day (b/d) pipeline -- one will originate near Alva, Okla. and the other near Arnett, Okla. These laterals will intersect near Cleo Springs, Okla., where the pipeline will increase in diameter and continue to Cushing. Capacity on the pipeline will be increased to 180,000 b/d following the addition of more horsepower. Construction will begin in July 2012 with a planned in-service date in Q3 2013.

“This project will happen because of a spirit of cooperation among the three companies that each have unique capabilities. Together, we are leveraging these capabilities to solve a significant and growing crude oil transportation constraint in the state of Oklahoma,” Norm Szydowski, chief executive of SemGroup, said in a news release. “SemGroup brings the capability to design, construct and operate crude oil pipeline and storage; Gaviion has the financial strength and risk management capabilities to clear the barrels in the Cushing market; and Chesapeake is stepping up with a volume commitment from its vast acreage holdings and high-quality reserves to anchor the project. The formation of this new joint venture

Current Frac Spread (Cents/Gal)

February 24, 2012	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	22.83		45.63	
Shrink	16.73		17.06	
Margin	6.10	-502.61%	28.57	5.16%
Propane	98.40		117.95	
Shrink	23.08		23.54	
Margin	75.32	0.90%	94.41	-5.02%
Normal Butane	162.20		183.33	
Shrink	26.13		26.65	
Margin	136.07	3.54%	156.68	-2.68%
Iso-Butane	175.45		189.77	
Shrink	25.10		25.60	
Margin	150.35	5.19%	164.17	-2.09%
Pentane+	229.88		239.15	
Shrink	28.27		28.84	
Margin	201.61	2.45%	210.31	-1.14%
NGL \$/Bbl	44.26	5.54%	51.98	-0.66%
Shrink	9.23		9.41	
Margin	35.03	6.39%	42.57	-1.98%
Gas (\$/mmBtu)	2.52	2.44%	2.57	5.76%
Gross Bbl Margin (in cents/gal)	79.57	6.23%	98.25	-2.12%
NGL Value in \$/mmBtu				
Ethane	1.25	54.05%	2.51	5.38%
Propane	3.42	1.26%	4.09	-3.05%
Normal Butane	1.75	3.36%	1.98	-1.54%
Iso-Butane	1.09	4.79%	1.18	-1.10%
Pentane+	2.93	2.45%	3.05	-0.35%
Total Barrel Value in \$/mmBtu	10.44	6.74%	12.81	-0.43%
Margin	7.92	8.19%	10.24	-1.87%

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

increases SemGroup's presence in an area with an increasing demand for midstream service we can provide.”

“We are pleased to be expanding our portfolio of midstream assets with strong industry partners,” Tom Ramsey, chief operating officer of energy at Gaviion, said in the release. “New crude oil discoveries in the U.S. necessitate additional



SemGroup, Gavilon and Chesapeake Energy are working on a crude pipeline and storage facility to help alleviate the severe bottleneck at the Cushing, Okla. hub

infrastructure and supply chain management expertise to serve producers and consumers, which has been the focus of growth for Gavilon’s energy segment.”

“Strong crude prices continue to provide attractive economics for producers in these plays,” Mike Stice, senior vice president of Chesapeake Energy, added.

“We are excited about this expansion and working with SemGroup and Gavilon to accommodate the increase in production. This pipeline will further improve the upstream economics of Chesapeake Energy Corporation by providing a lower-cost transportation alternative to move production from

Report: Midstream Will Add More Than 100,000 Jobs, \$400B In Economic Output From 2012 To 2035

This week the INGAA Foundation released a report that claims midstream infrastructure development will economically benefit every region of the country. The report, titled “Jobs & Economic Benefits of Midstream Development,” stated that although regions with large natural gas plays that are economic to develop will reap the largest impacts, other regions supplying goods and services for these projects also stand to benefit greatly.

“Given the competitive advantage of being in close proximity to natural gas

investment locations, midstream infrastructure development presents an opportunity for suppliers of materials used in such investments to reverse or at least slow the decades-long decline seen in most manufacturing in the U.S.,” the report said.

The report, which was prepared by Black & Veatch, added that studies have found that these construction projects will also help the U.S. in improved national energy security, lower emissions and lower prices. “These benefits can be brought quickly to the marketplace

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / February 23, 2012	
Gas Hub Name	Current Price
Carthage, TX	2.61
Katy Hub, TX	2.65
Waha Hub, TX	2.63
Henry Hub, LA	2.67
Perryville, LA	2.64
Houston Ship Channel	2.61
Agua Dulce, TX	2.64
Opal Hub, Wyo.	2.63
Blance Hub, NM	2.56
Cheyenne Hub, Wyo.	2.58
Chicago Hub	2.77
Ellisburg NE Hub	2.81
New York Hub	2.89
AECO, Alberta	2.22

Source: Bloomberg

the field to downstream markets at the Cushing interchange, and will provide the same economic advantage to other producers in these drilling plays.”

to benefit, by direct and indirect means, the entire U.S. economy.”

According to the study, natural gas midstream investments in the lower 48 states will total more than \$205 billion from 2012 through 2035 with an additional \$46 billion in capital investment for oil and liquids projects in the lower 48 states and offshore Gulf of Mexico.

These projects will add an average of 2,000 miles of new natural gas transmission lines and laterals, 1,300 miles of oil and liquids transmission pipe, more than 200,000 horsepower of compression, 24

billion cubic feet of gas storage, and 1.3 billion cubic feet per day of processing capacity each year.

These investments will help support an estimated annual average of 104,579 jobs with an average of \$56,300 in labor income (including wages and benefits) worth a cumulative \$141 billion. By comparison, the average position in 2011 was worth approximately \$53,100 per job.

In all, the total cumulative economic output of these projects will be almost \$425 billion added into the U.S. economy. The bulk of these expenditures and jobs will be concentrated in the Southwest (\$131 billion and 33,342 jobs), Northeast (\$111 billion and 24,753 jobs) and the Midwest (\$96 billion and 21,507 jobs). However, even the region with the smallest level of investment, the West, will still reap \$34 billion in investment and 7,791 jobs.

“Virtually all industries will be impacted by midstream investments; some

(e.g., pipeline and compressor manufacturers) will directly supply equipment and materials for midstream construction and other industries (e.g., fast food and tourism) as workers spend their income on goods and services,” the study stated. The midstream infrastructure build-up from 2012 to 2035 will also result in \$16.8 billion of state and local taxes being generated along with \$30.9 billion in federal tax revenues.

Operations and maintenance associated with these facilities and pipelines will see \$28.9 billion in cumulative expenditures from 2012 to 2035, generating an annual average of 20,760 jobs. These jobs will pay workers an average of \$60,000 per year in salary and benefits. This will generate \$3.3 billion in total state and local taxes and \$6 billion in federal taxes.

The study found that with these significant economic benefits, state and local municipalities can minimize local

impacts by utilizing some of the tax revenues generated by the projects in impacted regions. This is especially true given that the added revenue should be consistently generated because of the nature of the projects.

“What is interesting about the projected upstream and midstream investments is that the number and magnitude of projects projected to be built through 2035 are so large (and projects are generally contiguous) that, as a whole, the construction of upstream and downstream projects will tend to have a fairly steady impact on the national economy and many regions will experience sizable expenditures for decades to come,” according to the report.

— Frank Nieto

TEAK Midstream To Build Eagle Ford Processing Plant ... *(continued from page 1)*

mile segment called the Bee Express and jointly owned by TEAK Midstream and TexStar Midstream. The Karnes Lateral will be fully owned by TEAK Midstream.

The company is building a 51-mile residue gas pipeline that will transport dry gas from the Silver Oak Plant to interconnections with the Tennessee Gas Pipeline, Texas Eastern, Transco and NGPL interstate pipelines. In addition, TEAK Midstream will build a three-mile NGL pipeline from the plant to DCP Midstream’s Sand Hills NGL Pipeline.

“We are extremely pleased to have negotiated agreements with Talisman

and Statoil, whose commitments fully support our project. We look forward to a long-term working relationship with these outstanding energy companies as we build our asset base in the Eagle Ford,” TEAK co-chief executive A. Chris Aulds said in a news release. “Our new assets, which will be complementary to our 325-mile Texana gathering system in South and East Texas, will expand our footprint in South Texas and provide us with an ideal growth platform. The project greatly enhances our gathering and processing capabilities and raises our customer service to a new level as

we help producers move their gas and NGLs to market.”

“This project is a big positive step forward for TEAK and greatly enhances our assets in the Eagle Ford shale in South Texas. We appreciate the invaluable guidance and support of Natural Gas Partners, our private equity partner, on this project, which will significantly accelerate TEAK’s growth,” TEAK co-chief Executive Jim Wales added in the release.

Marcellus, Eagle Ford Are Focal Points For Boardwalk

Boardwalk Pipeline Partners LP (NYSE: BWP) will be heavily focused on the Marcellus and Eagle Ford shales with two major infrastructure projects in each play. The company followed up its November 2011 announcement that it was building a \$90 million rich-gathering system in the Marcellus with the Feb. 6 announcement that it was planning to build a \$180 million Eagle Ford gathering system.

“The Marcellus and Eagle Ford are two of the most profitable shale plays in North America. Rigs are still growing in both of these liquid-rich areas and significant midstream infrastructure is still needed. That is why Boardwalk Field Services has focused its efforts on producer needs in these areas,” Stan Horton, president and chief executive of Boardwalk Pipeline Partners, said during the company’s recent conference call to discuss Q4 2011 earnings.

The Eagle Ford system will add 55 miles of pipeline along with the 150

million cubic feet per day (MMcf/d) Flag City cryogenic natural gas processing plant to the company’s South Texas gathering system. He added that much of the new gathering line can be built on the existing system’s right-of-way.

Once the new system is completed it will provide Boardwalk with approximately 400 miles of pipeline with the capacity to transport more than 300 MMcf/d of liquids-rich gas from Karnes and DeWitt counties in the heart of the Eagle Ford once it is placed into service in early 2013. The company will also provide redelivery services for processed residue gas to a number of interstate and intrastate pipelines, including Gulf South.

The processing plant will be located in Edna, Texas, and built by Exterran. Boardwalk executed long-term fee-based gathering and processing agreements with Statoil and Talisman for approximately 50% of the plant’s processing capacity.

Boardwalk anticipates that the Flag City plant will be ramped up in the first three months of operations when it comes online in Q1 2013 and it is designed to be expandable with added volumes from the South Texas system.

Horton said that while the company’s Field Services unit will focus on the Marcellus and Eagle Ford in the near-term, that the Utica is likely to become another focal point for the division. “The Utica is fairly close to the northern end of the Texas Gas Pipeline system, so that’s an area that has a lot of interest for us as well ... [The] Eagle Ford, Marcellus and Utica are three very, very good basins. All are strategic to us. Two of them we have projects in; the third one is in close proximity to our pipeline system.”

– Frank Nieto

Trend Toward Liquids-Rich Gas Grabs The Spotlight

The buzz created by the shale gas revolution and a trend toward liquids-rich gas is having – and will continue to have – a profound effect on the energy sector, according to panelists at a Standard & Poor-sponsored conference in Houston on Feb. 9.

Regarding shale gas and natural gas liquids, John Kingston, director of news, Platts, said, “It’s staggering what’s going on in the industry. All of the relationships that once seemed so right and so understandable, and that we could predict with a fair degree of certainty, have been blown out of the sky. It’s really fascinating.”

A supply of cheap oil and gas brought about by unconventional drilling technology is forging a path for new manufacturing facilities, and with these new plants will come jobs by the hundreds of thousands, he said.

Kingston cited a Price Waterhouse projection that manufacturing employment could increase by approximately 1 million workers by 2025 in high shale-recovery scenarios if natural gas supply continues to increase at a healthy pace.

“I think that the most interesting story of 2011 is that Shell plans to build an ethylene plant near Pittsburgh. There seems to be two towns in the running (for the

plant’s location). Both are on the Ohio River, one on the West Virginia side and one on the Ohio side. Building this plant was far beyond anyone’s imagination five or six years ago,” he said.

But the ethylene plant is just one of the projects in the near-future forecast. Kingston talked about other upcoming projects:

- Dow plans to build two new chemical plants near the Gulf Coast and upgrade or reactivate others as part of a planned investment of \$4 billion during the next six years.
- Nucor Corp., the steel company, has announced that it will build a DRI (direct reduced iron) plant in Louisi-

ana that will “use cheap gas. Again, that’s something we never could have foreseen,” he said.

- Nucor also plans to build a new steel pipe and tube plant in Youngstown, Ohio, one of the towns hit hardest by the collapse of the industrial Midwest, Kingston said. The facility will produce pipe and tubing needed in the Marcellus.

- Sasol Ltd., a South African company, plans to build a gas-to-liquids (GTL) plant in Calcasieu Parish, Louisiana.

“Gas-to-liquids is a fascinating comparison in terms of money when you look at cost of this Sasol plant, which is estimated to be about \$10 billion,” Kingston said. “If you wanted to buy a refinery that would produce the same amount of diesel, it would cost you about \$350 million -- probably even less now with the East Coast refineries that are on the block. So compare that: You’ve got \$300 million to \$350 million for a refinery, and you’ve got \$10 billion for a gas-to-liquids plant. The only way that works is if the feedstock costs are at the level they are now.”

Fuel For Thought, And For Vehicles

Kingston also talked about the role of natural gas in propelling the nation’s car fleet. What would need to happen to get vehicles running on natural gas? Simply put, it’s a complex issue with some tall barriers that could be difficult to clear.

“The first thing you would need is a distribution system. Remember that when you go past a Shell service station that it’s not owned by Shell. It’s a contractual agreement between Shell and the independent owner. But how many of these companies that run these service stations have the capital to overhaul the distribution system -- to put compressed natural gas distribution systems on their

facilities? I would probably argue not too many,” he said.

According to Kingston, diesel is the fuel of economic growth, not gasoline. While gasoline demand is down, he points out that diesel growth continues to rise. Diesel, Kingston theorizes, can be the bridge to bringing natural gas liquids into the vehicle-fuel supply.

“I would throw out the idea that as a renewable fuel standard you should allow gas-to-liquids,” he said. “Granted, gas is certainly not renewable. But I think you could argue, given the reserves, that it is sustainable. If you have 100 years of natural gas and you can economically reproduce GTL, and you put that in the diesel pool, this will allow companies to achieve [future] renewable fuel standards a lot easier.

“If we can get GTL technology working economically in the U.S., you’re basically bringing natural gas surplus into the motor-fuel supply without going through the whole rigmarole and all the pain and agony of going to natural-gas vehicles. That’s why I happen to think that the most important project in the world right now is the Shell GTL Pearl Project in Qatar. It’s been running for a little more than a year. I really do want to see how that plant does because I really think it’s extremely important in answering the question, ‘can we use natural gas to fuel our vehicles?’ ”

The Economic Impact Of Shale Gas

Citing a U.S. Energy Information Administration report, George Schink, managing director and principal, Navigant Economics, stated that shale gas will account for about half of the natural gas production in the United States by 2035. Yet, reaching that milestone hinges on broadening the footprint of midstream infrastructure.

“In the case of shale plays, it’s not normally where oil and gas have historically been produced. In the Marcellus, the infrastructure you need to get the product to market -- to process the gas and liquids -- is just not there,” he said, adding that the Bakken and Niobrara have a similar challenge.

But with the need for infrastructure come “drastic economic impacts,” Schink said. “Not only will shale gas grow to dominate the U.S. gas supply, production will grow sufficiently to eliminate imports; generate exports; expand end-usage in manufacturing, transportation and electricity generation; and spur substantial investment and employment in natural gas production, processing and pipelines.”

Shale oil production, on the other hand, will not grow to dominate the U.S. petroleum supply, but will be “an important part of the supply,” he said.

Schink thinks that shale oil production will grow sufficiently to revitalize declining crude-production areas; provide a stable supply of light, sweet crude that should extend the economic life of U.S. refineries requiring crude; reduce dependence on crude imports; and generate substantial investment and jobs in crude production and pipelines that transport crude.

Weighing Investment Options

Michael Kay, equity industry analyst, S&P Capital IQ, said he expects to see stronger growth in liquids and natural gas in 2012. Capex is expected to rise and the M&A market should be strong, he stated.

Kay identified factors that are “fueling the big switch to onshore liquids-rich” and impacting investment opportunities:

- Weak gas prices are feeding an onshore oil and NGL rush, he said, emphasizing that global M&A remains focused on North America and that

a competitive dynamic between IOCs and NOCs are driving M&A markets.

- The Gulf of Mexico oil spill has encouraged a Capex shift to onshore.
- Higher oil prices are making horizontal oil drilling economically viable.

Looking at liquids-rich investment opportunities, Kay said S&P analysts give Apache Corp. a five-star, or Strong Buy, rating.

Forecasts for production, earnings and cash-flow growth look strong for 2012, Kay said. He also cited Apache's

"top-tier balance sheet with the best debt ratios" in S&P Capital IQ's coverage universe. In addition, "Apache has historically demonstrated consistent success in integrating acquisitions," he said.

EOG Resources and Chesapeake Energy, meanwhile, earned four-star ratings. Both companies are shifting their portfolios to liquids, Kay said.

At EOG, 80% of a \$7 billion Capex plan is being allocated to liquids, he said. Liquids accounted for about 40% to total

production by year-end 2011, versus 20% in 2006.

Chesapeake, which Kay refers to as "highly leveraged and trying to reduce its debt," plans to spend 75% of its \$6.5 billion capex plan on liquids opportunities. Historically, about 90% of Chesapeake's production has consisted of natural gas. But that is expected to decrease to 70% by year-end 2013.

— Mike Madere

New Energy Sources Fuel Global Deal Market

A need for sizable investments to develop and transport new sources of energy is forging the way for an active oil and gas deal market in the United States and around the world, according to a report released Feb. 8 by the Deloitte Center for Energy Solutions.

Roger Ihne, principal, Deloitte Consulting LLP, provided an overall snapshot of how a resurgent North American energy market, buoyed by a plentiful supply of shale oil and gas, is stirring interest in mergers and acquisitions (M&A).

The M&A market has traditionally been driven by exploration and production (E&P) deals, Ihne said. However, that was not the case in 2011. E&P deals were down from robust 2010 models.

"But that was more than made up by a significant increase in the Midstream and all of the deals announced there -- and some very large deals in that area," Ihne said at a Feb. 8. news conference in Houston. "Two of the top three deals for 2011 were actually in the Midstream area, something that we could have never expected and certainly have never seen before. It shows how transformative the market and the industry have become."

The deal market, after a slow start in the first half of 2011, picked up during the second half of year. In the last six months of 2011 total deal value jumped 29% to \$155 billion, compared with \$120 billion during the second half of 2010.

The number of deals finalized in 2011 declined to 240, compared with 258 in 2010.

Outside of shale-related activity, the study concluded that a major trend in 2011 was for integrated companies to initiate transactions that allow them to focus on their core businesses.

"We have seen some companies making divestitures in order to maximize shareholder value," Jed Shreve, principal, Deloitte Financial Advisory Services LLP, said in the report. "Other traditional diversified companies are deciding to split their operations into separate companies, and we believe splits like these will continue to drive M&A activity and be part of a trend toward larger transactions."

In 2011, the largest deal in the oil and gas industry took place in the midstream sector -- Exxon's \$41-billion acquisition of XTO, which created the largest natural gas pipeline network in the United States.

While the total midstream deal count for the second half of 2011 was roughly the same as the second half of 2010, several large deals pushed total deal value to \$65.1 billion, compared with \$5.4 billion during the last six months of the previous year.

"We're seeing a new wave of midstream activity, which makes sense given the new challenges of getting resources to market in the U.S.," Thomas said. "Because of the positions of the shale fields, we do not yet have a midstream infrastructure that fully supports the location of E&P activity."

Key Midstream takeaways include:

- More than \$10 billion is required to fully develop America's pipeline infrastructure to meet rising energy production from unconventional.
- The need for infrastructure investment and ability to serve the changing needs of customers and producers is spurring M&A activity and consolidation in the midstream market.

— Mike Madere

PIPELINES & TECHNOLOGY

Cabot, Williams To Build Pipeline To Transport Marcellus Gas

Cabot Oil & Gas Corp. (NYSE: COG) announced a new joint venture with Williams Partners LP (NYSE: WPZ) to develop and construct a large diameter pipeline, specifically designed to transport Cabot's Marcellus production to both the New England and New York markets.

Deemed the "Constitution Pipeline," this high-pressure pipeline will be capable of moving at least 500,000 Mcf per day from the heart of Cabot's Marcellus acreage in Susquehanna County, Pa., to interconnect with both Iroquois Gas Transmission and Tennessee Gas Pipeline in Schoharie County, N.Y. Williams Partners will be a 75% owner and, through its affiliate, will operate the pipeline, while Cabot will retain a 25% equity position. Cabot's commitment to firm transportation representing the

initial design capacity of the pipeline is sufficient to enable the project to go forward subject to receipt and acceptance of the necessary regulatory approvals. The initial in service date for the system is slated for March 2015.

"This pipeline is truly the next big step of our capacity expansion program and positions us with access to the premium New England and New York marketplace that has historically been constrained from both a lack of reliable supply and pipeline infrastructure," said Dan O. Dinges, chairman, president and chief executive of Cabot. "We see this pipeline playing an important role in the future development of our world-class resource that will bring a reliable and dependable long-term natural gas supply into an expanding premium market which for

years has been searching for that fundamental supply link. As we move forward as a country and progress toward true energy independence, just consider what positive possibilities exist with our Marcellus production entering both a constrained demand area and an area hungry for development, especially in the power generation industry."

Dinges added, "The vast majority of our investment in the pipeline will be contributed during the 2014 and early 2015 time frame, when the macro environment for gas will benefit from new gas power generation and the potential for export. Additionally, we expect to be producing multiples of our current production volumes at that time."

Enterprise Begins Seaway Oil Pipeline Purging Ahead Of Reversal

Enterprise Products Partners LP has begun purging the Seaway pipeline ahead of a reversal that will move crude out of the glutted Midwest and into the U.S. Gulf Coast refining hub and likely bring U.S. oil futures closer in line with world prices, according to a Feb. 21 Reuters report.

"We just started that this weekend. We're not really giving information out as to when it will be completed. But we will still expect to be able to reverse flow by June 1. We're on schedule," Enterprise spokesman Randy Burkhalter was quoted as saying.

"We expect to be able to flow up to 150,000 barrels per day (b/d) south," Burkhalter added.

To empty the 669-mile (1,076-kilometer) line for reversal, real-time power-supply originator, Genscape Inc., estimates that at least 90,000 b/d are being pushed into Cushing, Okla. – the only direction in which purging could occur prior to reversal, Genscape spokesman Abudi Zein told Reuters.

Genscape monitors key pipelines by measuring the amount of power being used at pump stations.

With 2.3 million barrels in the line, which historically has run from the U.S. Gulf Coast to Cushing, it will take weeks to accomplish emptying, according to the report.

The decision to reverse the line followed sale of Conoco Phillips' 50% inter-

est in the line to Enbridge Inc. last fall. Enbridge then agreed with the other owner, Enterprise, to reverse the line to ease the oil glut at Cushing.

It appears that at least initially, purging Seaway will add to oil inventories at Cushing, the report noted.

Reversal is expected to occur in several stages, with an initial 150,000 b/d flowing from Cushing to refineries in the Houston area by June 1, according to the schedule most recently disclosed by Enterprise.

The U.S. Midwest has been inundated with rising flows of crude from Canada and North Dakota over the past year and a shortage of pipeline outlets to the Gulf Coast.

Historically, oil flowed from the Gulf Coast to the Midwest. That has driven up inventories of crude in the region – including the Cushing delivery point for the

New York Mercantile Exchange’s U.S. oil futures contract.

The regional glut has weakened prices for U.S. oil futures – West Texas

Intermediate – relative to international benchmark Brent as well as other regional U.S. crudes.

Delphi Midstream Sells Laser Northeast To Williams

Delphi Midstream Partners LLC completed the sale of Laser Northeast Gathering Company LLC, its natural gas gathering business located in Pennsylvania and New York, and other gathering assets in Texas to Williams Partners LP. The purchase price included \$329 million in cash and approximately 7.5 million Williams Partners’ units. Delphi Midstream Partners is owned by American Securities LLC and management.

Matthew F. LeBaron, a managing director of American Securities, commented, “We are pleased to have completed the sale of Laser and Delphi’s

Texas assets to Williams Partners. We believe Williams Partners will be a great steward for Laser’s business and its employees moving forward. American Securities, Tom Karam, CEO of Delphi Midstream Partners, and Laser’s management team worked hard to build a world-class midstream company that will now benefit from the strength of Williams Partners’ leadership.”

Karam said, “Williams Partners is a terrific long-term home for Laser. As a result of the completion of this sale, we are confident that by integrating Williams Partners’ expertise and Laser’s

local industry experience and knowledge, the combined company will have excellent opportunities for growth.”

Laser is a high-pressure gathering system currently comprised of 33 miles of 16-inch natural gas pipeline and associated gathering facilities in Susquehanna County, Pa., and Broome County, N.Y. The acquisition is supported by existing long-term gathering agreements that provide acreage dedications and volume commitments. When all phases are complete, the system will comprise more than 75 miles of pipeline and total system capacity of 1.3 billion cubic feet per day.

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Kinder Morgan To Proceed With Trans Mountain Pipeline Expansion

Kinder Morgan Energy Partners LP (NYSE: KMP) will proceed with the construction of the Trans Mountain crude oil pipeline expansion based on the commercial support it received in its recent open season. The 715-mile pipeline will add 300,000 barrels per day (b/d) of capacity to increase the total capacity to

600,000 b/d at a cost of \$3.8 billion. The system delivers crude from Edmonton, Canada, to terminals and refineries in British Columbia and Washington.

“The response to our open season was very encouraging,” Ian Anderson, president of Kinder Morgan Canada, said in a news release. “The strong support re-

ceived through this process will now allow us to complete initial project design and planning. We are looking forward to engaging in dialogue with First Nations, interested stakeholders and communities along the pipeline. The final decision on the proposed project will be known by the end of the first quarter of this year.”

TransCanada: 75% Of Keystone XL Pipe Would Be Made In North America



TransCanada Corp. (TSX & NYSE:TRP) confirmed the vast majority of the pipe for Keystone XL would be manufactured in North America. In addition, the company intends to purchase approximately 90% of all other goods for the \$7.6 billion project from companies on the continent.

“Seventy-five per cent of the pipe used to build Keystone XL in the U.S. would come from North American mills, including half made by U.S. workers in Arkansas,” said Alex Pourbaix, TransCanada’s president, Energy and Oil Pipelines. “In addition, we have already sourced goods for the pipeline valued at approximately \$800 million from U.S. manufacturers.”

Pourbaix points out that the American Iron and Steel Institute recently sent a letter to the U.S. House of Representatives and Senate stating its support of Keystone XL, describing it as vital to the national economic recovery. The Institute’s member companies represent 80% of both U.S. and North American steel capacity.

TransCanada estimates 821,000 tons of high-strength line pipe will be used on the project in Canada and the U.S. TransCanada has estimated it will use 660,000 tons of steel for the U.S. portion of the Keystone XL pipeline.

The following are the line pipe mills that are manufacturing the pipe:

- Welspun - Little Rock, Arkansas, USA 332,800 tons, 50%.
- Evraz - Regina, Saskatchewan, Canada, 156,266 tons, 24%.
- ILVA - Italy, 103,147 tons, 16%.
- Welspun - India, 69,457 tons, 10%

There are a number of materials and equipment items containing steel that have not yet been contracted for, which would amount to approximately 35,000

tons of steel yet to be sourced. The major items are as follows:

- Houston lateral and Nebraska re-route - line pipe and associated materials such as fittings, valves, etc.
- Cushing, Oklahoma and Baker, Montana Terminals - steel will be required for the construction of tanks plus the steel required for the other materials related to the terminal such as tanks, piping, pumps.
- Pump stations - pumps, motors and other related materials such as valves, fittings, etc. to be added at each location in the U.S.

TransCanada anticipates that virtually all of the 35,000 tons of steel products described above will be purchased from North American mills and manufacturers. TransCanada has already entered into contracts to purchase more than \$800 million of finished pipe and other products from U.S. manufacturers for Keystone XL. The company anticipates purchasing additional products from U.S. manufacturers as it completes procurement for the project.

3M, Chesapeake To Launch CNG Tank Technology

3M (NYSE: MMM) and Chesapeake Energy Corp. (NYSE: CHK) announced an agreement to collaborate in designing, manufacturing and marketing a broad portfolio of compressed natural gas

(CNG) tanks for use in all sectors of the United States transportation market. The new CNG tanks developed through the partnership will reduce costs while increasing performance.

3M’s CNG tank solution combines the company’s proprietary liner advancements, thermoplastic materials, barrier films and coatings, and damage-resistant films to transform the pressure vessel

industry. Using nanoparticle-enhanced resin technology, 3M™ Matrix Resin for Pressure Vessels, 3M will create CNG tanks that are 10 to 20% lighter with 10 to 20% greater capacity, all at a lower cost than standard vessels.

Chesapeake has pledged an initial \$10 million toward design and certification services, market development support and a commitment to use the new tanks for its corporate fleet conversion to CNG. The company's investment will be

provided by Chesapeake NG Ventures Corp. (CNGV), established in 2011, to identify and invest in companies and technologies that will replace the use of gasoline and diesel derived primarily from foreign oil.

NEWS & TRENDS

U.S. EIA Boosts 2012, 2013 Oil-Demand Growth Forecast

The U.S. Energy Information Administration (EIA) has boosted its forecast for global oil demand growth for the first time since October, and predicts the market will tighten as gains in non-Organization of Petroleum Exporting Countries (OPEC) production lag.

The federal agency hiked estimates for 2012 oil demand growth from last month's report by 50,000 barrels per day (b/d) for 2012 to 1.32 million b/d. The EIA also revised its 2013 growth up by 20,000 b/d to 1.49 million b/d.

It was the first time the EIA had increased its global oil demand growth forecast in four months, having trimmed expectations by a total of 270,000 b/d in the previous three reports.

The agency also reduced its forecast for output from non-OPEC countries by 140,000 b/d to 52.54 million b/d for 2012 – up 770,000 b/d from 2011 levels.

“EIA expects that the market will rely on both inventories and increases in production of crude oil and non-crude liquids from OPEC members to meet world demand growth,” the agency said in its monthly Short Term Energy Outlook and forecasted that benchmark U.S. oil prices could average more than US\$100 per barrel for the first time ever this year.

The EIA expects prices for regular-grade motor gasoline in the U.S. to average

US\$3.55 per gallon (/gal) in 2012 – up 2¢ a gallon from last year. The agency cautioned, however, that “recent options and futures price data imply that the market believes there is about a one-in-four chance that the U.S. average pump price could exceed \$4/gal by June.

An oil exports dispute between South Sudan and Sudan is expected to cut oil production there this year by more than half to 210,000 b/d from 425,000 b/d in 2011, according to the EIA. Output was expected to bounce back to around 340,000 b/d in 2013.

The agency also expects other output declines in Russia, Mexico and the United

Kingdom to be offset by growth from U.S. shale formations, Canada, Brazil, Kazakhstan and China.

For 2013 non-OPEC production growth, the EIA increased its estimates by 90,000 b/d with total output forecast at 53.39 million b/d.

The U.S. is expected to remain a net oil-product exporter this year, the EIA noted. With muted U.S. demand for products such as gasoline, the country is expected to be a net product exporter of 350,000 b/d in 2012, and a more modest 320,000 b/d in 2013, the agency said.

The EIA cautioned, however, that its forecasts remained subject to significant

RESIN PRICES – MARKET UPDATE – FEBRUARY 23, 2012					
TOTAL OFFERS: 15,085,852 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	4,714,924	0.64	0.79	0.67	0.71
PP Copolymer - Inj	4,533,920	0.78	0.88	0.77	0.81
HDPE - Inj	4,419,164	0.66	0.76	0.66	0.7
PP Homopolymer - Inj	3,197,588	0.68	0.87	0.75	0.79
GPPS	2,325,000	0.84	0.86	0.86	0.91
LDPE - Film	2,290,692	0.65	0.78	0.73	0.77
HDPE - Blow Mold	1,812,312	0.63	0.72	0.65	0.69
LDPE - Inj	1,321,576	0.62	0.82	0.73	0.77
HIPS	380,000	1.01	1.03	0.96	1.01
HMWPE - Film	264,552	0.75	0.79	0.7	0.74
LLDPE - Inj	131,092	0.7	0.74	0.71	0.75

Source: Plastics Exchange – www.theplasticsexchange.com

uncertainty surrounding tensions between the West and Iran and the ongoing Eurozone crisis.

“Should a significant oil supply disruption occur, and OPEC members do not increase production, or projected

non-OPEC projects come online more slowly than expected, oil prices could be significantly higher than projected in this Outlook,” the EIA said.

“If the pace of global economic growth fails to accelerate in Organization for

Economic Cooperation and Development (OECD) countries, or if economic growth slows in non-OECD countries, reduced demand could result in lower prices,” the agency noted.

Gazprom To Study Possible Construction Of Vladivostok LNG Terminal

Gazprom commissioned a study to review the possibility of partnering with a consortium of Japanese companies to build a plant in Vladivostok, Russia, to liquefy natural gas for transport to Japan.

Japan is already the world’s largest importer of LNG, and this demand is ex-

pected to increase in the coming years because of the effects of last year’s devastating earthquake and tsunami that resulted in a meltdown at the Fukushima nuclear power plant. The country has been dialing down its energy mix from nuclear power and will be

utilizing greater quantities of LNG for power-generation needs.

The Japanese consortium includes Cieco, Inpex Corp., Itochu Corp., Japex Corp. and Marubeni Corp.

ConocoPhillips To Sell Vietnam Business Unit

ConocoPhillips (NYSE: COP) reached definitive agreements to sell its Vietnam business unit to a subsidiary of Perenco for \$1.29 billion plus customary working capital adjustments. The sale was part of an ongoing strategy to create shareholder value.

The sale, which includes ConocoPhillips’ 23.25% interest in Block 15-1, a 36%

interest in Block 15-2, and a 16.3% interest in the Nam Con Son Pipeline, is expected to close in H1 2012. The 248-mile natural gas pipeline connects the Nam Con Son basin offshore field to onshore power and industrial markets.

“The sale of our Vietnam business unit is an important component of our \$15-20 billion 2010-2012 asset divestiture

program. ConocoPhillips has conducted business in Vietnam for more than 15 years, and we are pleased that Perenco has recognized the value of these quality assets,” Al Hirshberg, senior vice president, Planning and Strategy, ConocoPhillips, said in a news release.

ETE To Launch Credit Facility In Connection With Southern Union Deal

Energy Transfer Equity LP (NYSE: ETE) announced the syndication of a new senior secured credit facility of up to \$2.3 billion to help fund a portion of its acquisition of Southern Union Co. (NYSE: SUG).

These proceeds, combined with Southern Union’s contribution of its 50% interest in Citrus Corp. to Energy Transfer Partners LP (NYSE: ETP) for \$2 billion will fund the \$3.7 billion cash portion of the

\$9.4 billion purchase. This credit facility is expected to close in Q1 2012, in conjunction with the closing of the Southern Union acquisition.

SPOTLIGHT

Crude-By-Rail Improvements Coming To Canada, Louisiana

On the heels of the commissioning of a new gathering truck-to-rail transload facility in Canada’s oil sands-producing region, Louisiana Gov. Bobby Jindal (R) joined officials with two operating firms to announce capital-improvement projects worth more than a half-billion dollars.

Canadian Pacific (CP) launched crude-by-rail shipments from a new transload origination facility near Lloydminster, Saskatchewan, after leveraging its North Main Line infrastructure.

The new facility is a key enhancement to CP’s growing energy portfolio. It accommodates the initial transload and

transportation needs of NuStar Energy LP (NYSE: NS), with a further planned expansion in 2012.

“Moving Canadian crude through CP’s North American network is a great complement to our asset base, which includes terminals and a large and expanding fleet of 1,700 coiled and insulated rail



Several new crude rail projects will increase crude shipments from Canada to Louisiana

cars,” said NuStar president and CEO Curt Anastasio. “We believe that moving undiluted heavy Canadian crude by rail to coastal markets is an economically viable solution that brings added value to the end users, as well as the producers in Canada.”

“This new facility and the planned expansion in 2012 represent an exciting growth opportunity for CP’s energy portfolio,” said CP energy and merchandise vice president Tracy Robinson. “CP offers a flexible, reliable and efficient method of transporting crude oil and other energy-related products to emerging markets, and we are proud to be partnering with NuStar to meet its growing transportation needs.”

Canadian Pacific is the only North American railway to serve the Alberta Industrial Heartland, the Bakken Formation and the Marcellus Shale. In addition, CP is the only Class I railway to connect the energy hubs of Alberta, Saskatchewan and the U.S. Midwest to the Northeast U.S.

The Lloydminster facility, operated by Torq Transloading, enables CP to transport

crude oil by rail to NuStar’s terminals in the Northeast U.S. and Gulf Coast.

In addition to the new facility near Lloydminster, CP continues to transport oil from other transload facilities in Saskatchewan and Alberta. The transloading process involves the use of a specialized pump and closed loop hose system, which safely transfers the oil from trucks to purpose-designed rail cars.

Crude oil is not the only energy commodity moved by CP in its annual shipments that come to 140 million tons of freight every year. Hundreds of thousands of carloads are directly related to sulfur, fuels, diluents and materials key to the energy industry, such as pipe and frac sand used as proppant in hydraulic fracturing techniques.

Expanded Louisiana Crude Terminal

One of NuStar’s Gulf Coast operating assets is soon to see a major capital expansion. On Feb. 7, Jindal and NuStar Energy CEO Curt Anastasio announced a \$365-million capital investment by NuStar that will add 3 million barrels of new crude oil tank storage capacity at the

company’s expanding St. James terminal, creating 32 new direct jobs at the facility and an estimated 269 new indirect jobs in Southeast Louisiana.

The 32 new direct jobs will pay an average of \$98,000 a year, which includes an all-employee bonus, plus other benefits, and NuStar will retain 23 existing jobs. NuStar Energy LP, a Fortune 500 company based in San Antonio, began working on elements of the expansion last year and expects to complete the work in 2016. The project will increase NuStar’s tank storage capacity at the Mississippi River site from 8 million barrels to 11 million barrels.

Jindal said the investment by NuStar “reinforces Louisiana’s well-deserved reputation as the energy gateway to North America.”

The state began working with NuStar more than a year ago to cultivate the expansion project. NuStar’s St. James terminal provides a vital connection via pipeline and shipping with a number of major energy companies that have a presence in the area.

Combined with earlier investments by NuStar and future expansion plans at the site, the company anticipates spending \$505 million on capital-improvement projects at the St. James terminal during a five-year period.

“The tax benefits that NuStar will realize as part of this project is just one example of how Louisiana and St. James Parish have helped NuStar’s investments become a reality,” said Anastasio, the NuStar president and CEO. “These expansion projects also will give our customers much greater ability to move and store production from very significant crude oil discoveries throughout the U.S.”

The NuStar terminal is located on the west bank of the river, with three docks and a maximum draft of 45 feet.

— Greg Haas

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