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FEATURE

Blackstone To Provide $2B Financing For Sabine Pass Liquefaction Project

Cheniere Energy Partners, L.P. (NYSE Amex: CQP) entered into an exclusive arrangement with Blackstone Energy Partners L.P., Blackstone Capital Partners VI L.P., and certain affiliates to finalize and execute definitive agreements under which Blackstone would purchase newly issued CQP Senior Subordinated Paid-in-Kind Units for $2 billion. CQP would use the proceeds of the financing to fund the equity portion of the costs of developing, constructing and placing into service its Sabine Pass liquefaction project being developed at the Sabine Pass LNG terminal, the purchase of the Creole Trail pipeline from Cheniere Energy, Inc. and other partnership business purposes.

Cheniere Partners is advancing towards a positive final investment decision for the development and construction of the first two of four liquefaction trains. The cost for the construction of the first two trains is currently estimated to be $4.5 billion to $5.0 billion, before financing costs. The debt financing for the Liquefaction Project is expected to be completed by the end of the first quarter. Construction is expected to commence in the first half of 2012. The purchase

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NGL PRICES

Uncertainty Over Crude Prices Helps Increase Heavy NGL Prices

Ethane prices continued to improve this week as the market prepared for scheduled maintenance turnarounds for several large fractionators in the Gulf Coast this spring. While the price support has been strong the past few weeks, it may be even greater once the turnarounds are completed.

The Mont Belvieu price rose 9% to 50¢/gal, its highest price in a month. The Conway price improved 31% to 30¢/gal, its highest price in seven weeks. Although prices are likely to dip in the near-term as there will be capacity constraints for fractionation and storage, Mont Belvieu prices should improve to at least 60¢ per gallon (/gal) in May and up to 70¢/gal in June, according to En*Vantage.

Propane prices also improved at both hubs despite the lack of heating demand. The Conway price increase has been positively affected by a decline in storage levels at the hub. This resulted in a 7% price increase to $1.05/gal, its first time above the $1.00/gal threshold in a month and its highest price since it was $1.15/gal the week of Dec. 28. While storage levels continue to increase at Mont Belvieu, the price increased 4% to $1.23/gal, as the market was in the midst of a correction.

Heavy NGL prices benefitted from increased crude prices spurred by the widespread embargo on Iranian crude that is causing some European nations to scramble

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to replace crude supplies. Crude prices rose to their largest levels in nearly a year as they topped over $100 per barrel. This resulted in heavy NGL prices largely rising across the board at both hubs.

The NGL with the closest relationship to crude, C5+, had the largest price increase of the heavys as it improved 3% to $2.46/gal at Mont Belvieu and 4% to $2.39/gal at Conway. The Mont Belvieu price was its highest since it was $2.49/gal the week of July 20 while the Conway price was the highest it had been since it was $2.49/gal the week of May 4.

Butane rose 2% to $1.87/gal at Mont Belvieu, its highest price at the hub in a month. The Conway price increased 3% to $1.67/gal, its highest price in six weeks. Mont Belvieu isobutane prices rose 3% to $1.95/gal, which was its highest price in a month. Curiously, the Conway isobutane price decreased 1% o $1.73/gal.

While such a decrease could easily be explained at Mont Belvieu, where isobutane alkylation units are undergoing maintenance turnaround, it isn't as easily explained in the Mid-Continent. However, given that the decrease was rather small, it is most likely that this movement was evidence of a price correction at the hub.

– Frank Nieto

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Feb. 22 - 28, '12	49.80	122.74	186.58	195.06	245.63	$53.95
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
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. 23 - March 1, '11	68.53	147.35	182.46	194.13	241.68	$59.25
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Feb. 22 - 28, '12	29.80	105.14	166.66	173.40	238.46	$46.96
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
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. 23 - March 1, '11	47.06	135.85	172.00	189.50	253.83	$55.20

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

FRAC SPREAD

Natural Gas Price Drop Helps Margins Improve

A sharp drop in natural gas prices combined with a steady increase for NGL prices helped push nearly all NGL frac spread margins up this week. The lone exception was Conway isobutane, which was also the only NGL to experience a price decrease this week at either hub. Even at that, it fell less than 1%.

Natural gas prices dropped 7% at Conway and 9% at Mont Belvieu to $2.35 per million Btu as the mild winter temperatures lessened storage withdrawals below their average levels. The price decrease for NGL feedstocks resulted in margins largely improving.

The largest increase in margin was for Conway ethane, which has returned to a solidly positive status after hitting a negative margin two weeks ago following two very large increases in margin. Mont Belvieu ethane had the largest gain in margin at 20%.

While heavy NGL prices benefitted from increased crude prices this week, it was propane that had the second largest gain in margin at both hubs. The Conway increase of 11% was largely attributed to propane storage decreasing at the hub while the 7% increase at Mont Belvieu was evidence of the market correcting the price.

The theoretical NGL barrel price improved 6% to $46.96 per barrel (/bbl) with a 10% increase in margin to $38.35/bbl at Conway while the Mont Belvieu price roe 4% to $53.95/bbl with a 7% increase in margin to $45.34/bbl.

The most profitable NGL to make at both hubs was C5+ at $2.12 per gallon (/gal) at Conway and $2.19/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.50/gal at Conway and $1.72/gal at Mont Belvieu; butane at $1.42/gal at Conway and $1.62/gal at Mont Belvieu; propane at 84¢/gal at Conway and $1.01/gal at Mont Belvieu; and ethane at 14¢/gal at Conway and 34¢/gal at Mont Belvieu.

Natural gas in storage for the week of Feb. 24, the most recent data available from the Energy Information Administration, was down 82 billion cubic feet to

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2.513 trillion cubic feet (Tcf) from 2.595 Tcf the previous week. This was 43% greater than the 1.757 Tcf figure posted the same time last year and 45% greater than the five-year average of 1.733 Tcf.

Once again the winter weather is expected to remain very mild, according to the National Weather Service's forecast. At this rate the weather has been so warm in much of the U.S. this season that it would be apt to call it an extension of the fall or an early spring rather than winter. Next week's forecast anticipates much warmer than normal weather in the Northeast, parts of New England and much of the Southeast, Gulf Coast and Midwest. Once again, the lone section of the country that is expected to experience cooler weather is the West Coast.

– Frank Nieto

Current Frac Spread (Cents/Gal)				
March 2, 2012	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	29.80		49.80	
Shrink	15.60		15.60	
Margin	14.20	132.83%	34.20	19.71%
Propane	105.14		122.74	
Shrink	21.53		21.53	
Margin	83.61	11.02%	101.21	7.21%
Normal Butane	166.66		186.58	
Shrink	24.37		24.37	
Margin	142.29	4.57%	162.21	3.53%
Iso-Butane	173.40		195.06	
Shrink	23.41		23.41	
Margin	149.99	-0.24%	171.65	4.56%
Pentane+	238.46		245.63	
Shrink	26.37		26.37	
Margin	212.09	5.20%	219.26	4.25%
NGL $/Bbl	46.96	6.11%	53.95	3.78%
Shrink	8.61		8.61	
Margin	38.35	9.50%	45.34	6.51%
Gas ($/mmBtu)	2.35	-6.75%	2.35	-8.56%
Gross Bbl Margin (in cents/gal)	87.34	9.76%	104.83	6.70%
NGL Value in $/mmBtu				
Ethane	1.64	30.53%	2.74	9.14%
Propane	3.65	6.85%	4.26	4.06%
Normal Butane	1.80	2.75%	2.02	1.77%
Iso-Butane	1.08	-1.17%	1.21	2.79%
Pentane+	3.04	3.73%	3.13	2.71%
Total Barrel Valuein $/mmbtu	11.21	7.29%	13.36	4.26%
Margin	8.86	11.76%	11.01	7.48%

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

INSIDE LOOK AT PROCESSING

Crestwood Midstream To Acquire Antero Resources' Marcellus Shale Gathering Assets

Crestwood Midstream Partners LP (NYSE: CMLP), Crestwood Holdings Partners LLC and Antero Resources Appalachian Corp. announced the execution of definitive agreements whereby CMLP and Crestwood Holdings, through a newly formed joint venture, Crestwood Marcellus Midstream, have agreed to acquire certain of Antero's Marcellus Shale gathering system assets located in Harrison and Doddridge Counties, West Virginia for $375 million in cash plus an earn-out which would allow Antero to earn additional purchase price payments of up to $40 million based upon average annual production levels achieved during 2012 and 2013.

Additionally, at closing, the parties have agreed to enter into a 20-year gas gathering and compression agreement, which will provide for an Area of Dedication of approximately 127,000 gross acres, or 104,000 net acres, largely located in the rich gas window of the southwestern core of the Marcellus Shale play. The transaction will have a January 1, 2012 effective date and is expected to close in March 2012, subject to regulatory approvals and customary closing conditions.

Antero is a Marcellus Shale producer with 220,000 net acres in the heart of the play, with approximately 75% of the acreage expected to have rich gas potential. Antero's current Marcellus Shale wells are among the highest rate wells completed in the play to date and Antero's finding and development costs have consistently ranked as some of the lowest among the unconventional shale gas leaders in the United States. Antero is currently running 6 rigs in the Area of Dedication and has recently announced year end 2011 net proved reserves of approximately 2.8 Tcfe attributable to its total Marcellus Shale acreage. The assets to be acquired by Crestwood Marcellus Midstream include 33 miles of low pressure gathering pipelines currently gathering approximately 210 million cubic feet per day from 59 existing horizontal Marcellus Shale wells. The gathering pipelines deliver Antero's Marcellus Shale production to various regional pipeline systems including Columbia,

Dominion and Equitrans and later this year will begin deliveries to intermediate systems which will connect to MarkWest Energy Partners' Sherwood Gas Processing Plant, expected to be placed in service in the third quarter of 2012.

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Paul M. Rady, chairman and chief executive of Antero, commented that "this is a strategic transaction for Antero that allows us to redeploy capital into further drilling and acreage consolidation in Appalachia. We look forward to working closely with Crestwood as our midstream partner in this development going forward."

"Crestwood is pleased to partner with Antero in the long term development of this exceptional Marcellus Shale acreage," stated Robert G. Phillips, president and chief executive of CMLP's general partner. "The transaction is an excellent fit with our strategy and adds to our portfolio another great shale focused producer, a long-term fixed-fee contract and core acreage dedication in the rich gas window of the premier natural gas shale play in the industry. This acquisition will be immediately accretive to CMLP, is supported by a minimum volume commitment and offers tremendous visible growth potential for many years as volumes increase and the systems expand. We are also very pleased to work with First Reserve, through its indirect ownership of Crestwood Holdings, to fashion an acquisition and financing structure that enables CMLP to maintain sufficient liquidity and conservative leverage which highlights the value of strong general partner sponsorship."

First Reserve Corporation Managing Director Michael G. France added, "This marks another significant milestone for Crestwood as the management team continues to successfully execute on their growth plans. We are pleased to support Crestwood in the formation of this strategic and premier industry partnership to strengthen its position in the Marcellus Shale."

At closing, Crestwood Holdings, through its indirect subsidiary, Crestwood Holdings LLC, will contribute approximately $244 million in exchange for its 65% ownership interest in the joint venture, while CMLP will contribute approximately $131 million in exchange for its 35% ownership interest in the joint venture. At closing, the joint venture will also enter into a $200 million revolving credit facility to finance future capital requirements related to growth in the Area of Dedication. CMLP will fund its joint venture contribution with available capacity under its existing $500 million credit facility. Crestwood Holdings has arranged long term financing to support its share of the joint venture acquisition through financing commitments from a syndicate of banks including BofA Merrill Lynch, BNP Paribas, Citigroup, RBC Capital Markets, The Royal Bank of Scotland plc and UBS Securities which will also participate in the joint venture credit facility.

The proceeds from the sale will be used for further development of Antero's Appalachian drilling inventory as well as for future leasehold acquisition. Following closing, Antero is expected to have approximately $780 million of undrawn bank commitments and over $1.1 billion of unused borrowing base capacity.

Barclays Capital acted as financial advisor and Vinson & Elkins L.L.P. acted as legal counsel to Antero in connection with the transaction. Locke Lord LLP and Simpson Thacher & Bartlett LLP acted as legal counsel to Crestwood Midstream Partners LP and Crestwood Holdings LLC in connection with the transaction.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / March 2, 2012	
Gas Hub Name	Current Price
Carthage, TX	2.30
Katy Hub, TX	2.31
Waha Hub, TX	2.30
Henry Hub, LA	2.36
Perryville, LA	2.34
Houston Ship Channel	2.32
Agua Dulce, TX	2.64
Opal Hub, Wyo.	2.23
Blance Hub, NM	2.23
Cheyenne Hub, Wyo.	2.23
Chicago Hub	2.46
Ellisburg NE Hub	2.52
New York Hub	2.59
AECO, Alberta	1.90

Source: Bloomberg

Exterran Breaks Ground On New Youngstown, Ohio, Facility

Ohio Lt. Governor Mary Taylor and executives from Houston-based Exterran on Feb. 28 broke ground on a new 65,000 square-foot manufacturing facility that is expected to employ more than 100 workers in the Youngstown, Ohio, area. The new facility will be located in the Salt Springs Industrial Park and is scheduled to open in the fourth quarter of 2012.

An international leader in oil and natural gas services, Exterran is expanding its manufacturing in the Northeast United States to accommodate its clients' growing demand for products and services. Exterran, which is not involved in drilling or extraction, has numerous clients participating in the development and production of oil and natural gas in the Northeast United States, including the Marcellus and Utica shale plays.

"We chose the Youngstown area for our new facility to ensure the rapid, efficient delivery of quality products to our clients working in the region and because of the outstanding quality of the local workforce here," said Exterran senior vice president Daniel Schlanger.

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Ohio Lt. Gov. Mary Taylor (fifth from left) is shown at a groundbreaking ceremony for Exterran's new 65,000-square-foot fabrication facility in Youngstown, Ohio. (Courtesy Exterran)

"The Youngstown facility will allow Exterran to meet existing demand and will position us to quickly respond to our valued clients' future needs."

The new facility will be dedicated to the fabrication of production equipment used to treat or otherwise process natural gas and oil after it is extracted from the ground such as separation, dehydration, natural gas conditioning, oil treating and conditioning, filtration and air emissions control. The new facility will utilize a streamlined lean manufacturing process which will shorten lead times, increase manufacturing output and produce high-quality products.

Schlanger added, "We greatly appreciate the support we have received from the community including the state of Ohio, city of Youngstown, JobsOhio, Youngstown/Warren Regional Chamber and TeamNEO."

Employment Opportunities

Exterran anticipates the hiring process to begin late this summer, ultimately employing approximately 100 full-time team members. The Mahoning-Columbiana Training Association (MCTA) / Ohio One Stop will serve as the single point for recruiting, screening, referral and placement for new employees. Additionally, Exterran will work closely with local technical schools to meet its needs for skilled welders.

Tom Humphries, President & CEO of the Regional Chamber, thanked Exterran for its decision to locate a new manufacturing facility and create more than 100 jobs in the Mahoning Valley. "We were pleased to work with Exterran since June 2011 to locate a site that best fits their needs while making them aware of every incentive program and opportunity our community and state has to offer. We are proud to have such a major manufacturer in our Valley."

"This is another example of what we can accomplish as a region by working together to create an environment where businesses can succeed," said Tom Waltermire, chief executive officer of Team NEO. "It's an exciting time for our region as we emerge as an ideal location for shale-related businesses."

Blackstone To Provide $2B Financing ... *(continued from page 1)*

of the Creole Trail pipeline is expected to close concurrently with the closing of the financing.

Under the units purchase agreement currently under negotiation, Blackstone would purchase approximately 111 million CQP PIK Units for $18 per unit. The CQP PIK Units would have a quarterly PIK rate of 4.2% and convert into CQP common units after two liquefaction trains begin commercial operation, which we expect to occur in 2016. The parties contemplate that the board of directors of CQP's general partner would consist of eleven members, including four directors appointed by Blackstone, four directors appointed by Cheniere Energy, Inc. and three independent directors.

"Obtaining this financing will be a significant milestone for the advancement towards construction of the first two liquefaction trains. Blackstone is one of the world's largest private equity investors, with significant experience in the energy sector and a history of successful development of large scale energy projects. We look forward to a successful working relationship with Blackstone as a value-added partner in the development of our Sabine Pass liquefaction project," said Charif Souki, chairman and chief executive. "We expect to obtain the remaining financing needed to fund the first two trains by the end of the first quarter and to commence construction in the first half of 2012."

David Foley, senior managing director of Blackstone and chief executive of Blackstone Energy Partners said, "We have been impressed with the vision and capability of Cheniere's management, which have afforded Cheniere Partners a competitive advantage and compelling opportunity to develop the first natural gas liquefaction export facility in the continental United States, creating thousands of jobs for American workers and providing significant benefits to the local economy and the state of Louisiana."

The closing of the Financing is subject to, among other things, the execution of definitive documents, receipt of regulatory approvals required to permit commencement of construction of the

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Liquefaction Project, closing of the purchase of the Creole Trail pipeline, closing of the debt financing for the first two trains and other conditions necessary to complete the transaction.

Cheniere Partners owns 100 percent of the Sabine Pass LNG receiving terminal located on the Sabine Pass Channel in western Cameron Parish, Louisiana. The Sabine Pass terminal has regasification and send-out capacity of 4.0 billion cubic feet per day (Bcf/d) and storage capacity of 16.9 billion cubic feet equivalent (Bcfe). Cheniere Partners is developing a project to add liquefaction and export capabilities to the existing infrastructure at the Sabine Pass LNG terminal. As currently contemplated, the Liquefaction Project is being designed and permitted for up to four modular LNG trains, each with a nominal capacity of approximately 4.5 mtpa.

The Liquefaction Project is expected to be constructed with each LNG train commencing operations approximately six to nine months after the previous train. In November 2011, Sabine Liquefaction entered into a lump sum turnkey contract for the engineering, procurement and construction of the first two trains of the project with Bechtel Oil, Gas and Chemicals, Inc. Sabine Liquefaction has also entered into four long-term customer sale and purchase agreements for 16.0 mtpa of LNG volumes, which represents approximately 89 percent of the nominal LNG volumes. The customers include BG Gulf Coast LNG, LLC ("BG") for 5.5 mtpa, Gas Natural Fenosa for 3.5 mtpa, KOGAS for 3.5 mtpa and GAIL (India) Ltd. for 3.5 mtpa. The BG SPA commences with the start of train one operations and the Gas Natural Fenosa SPA commences with the start of train two operations.

Commencement of construction for the first two trains is subject, but not limited to, regulatory approvals and Cheniere Partners making a final investment decision. The KOGAS SPA commences with the start of train three operations and the GAIL (India) Ltd. SPA commences with the start of train four operations. Commencement of construction for the third and fourth trains is subject, but not limited to, entering into an EPC contract, regulatory approvals and Cheniere Partners making a final investment decision.

BP, Sinopec, SK Group To Build $1.1B Petrochemical Complex In China

BP, Sinopec and the SK Group of South Korea will build a $1.1 billion petrochemicals complex in Chongqing, China that will produce up to 200 million tons per year of butanediol, 600 million tons per year of acetic acid and 250 million tons per year of ammonia. Construction is expected to being in July or August

What's Behind Chesapeake's 4th Quarter Earnings?

Chesapeake Energy just announced fourth quarter earnings, and that sound you hear is the sound of champagne corks popping from exhausted shareholders.

That's because Chesapeake has put a lot on the plate these days, and you can't blame investors for wondering if the end result is positive or negative.

At first glance, Chesapeake reported some strong earnings for the fourth quarter.

According to the Oklahoma City-based energy company-- it's the second-largest natural gas company in the U.S., and a "Top 15" oil and gas producer – it posted a $429 million profit (that's up from $180 million from the same period the year before), and earned 63 cents per share compared to 28-cents per share.

Chesapeake's hedging practices really helped beef up earnings for the quarter. It reported 2011 fourth quarter and full year results include realized natural gas and liquids hedging gains of $315 million and $1.554 billion, respectively.

Shareholders also learned about Chesapeake's financial plan for 2012, which involves pullback in some areas, some overdrive in others, and a balancing act between its oil and gas production. This in a February 21, 2012 company statement:

Chesapeake's primary business goal is to continue creating at least $10 billion of shareholder net asset value each year through a strategy dedicated to growing its reserves and production and transitioning to a more balanced mix of liquids and natural gas production. As a result of this strategy, the company plans to make capital expenditures in 2012 and 2013 that will exceed its projected cash flow from operations.

The company also says it expects about $2 billion in a pair of transactions involving two asset transactions in Texas and Oklahoma, and the possible exit from the Permian Basin. Chesapeake says it "may consider a 100% sale of its Permian Basin assets if it receives a compelling offer." All told, the company says it expects to garner $6-to-$8 billion from proposed asset sales, a process it expects to wrap up by the end of the third quarter in 2012. Further investment gains and assets ales could push that number to $10-$12 billion by the end of the year.

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That cash infusion tees up Chesapeake to "achieve its previously announced debt reduction goals while providing additional financial strength during this current period of low U.S. natural gas prices."

How does all this shake out for Chesapeake shareholders? Analysts seem to be coming down on both sides of that question.

First up is Tudor Pickering's energy analyst David Heikkinen, a genuine bull on the subject of Chesapeake stock price potential. Heikkenen pegs the company's target price at $51 per share (it's trading at around $25 per share, with an average one-year price estimate of $30 per share).

On the other end of the argument (way on the other end) is JPMorgan's Joseph Allman, who sees Chesapeake drifting downward to about $15 per share. Allman tells investors that Chesapeake is on the wrong side of the natural gas glut, and still has plenty of work to do before it pulls all of its asset deals together.

The stock does seem to on an upward glide so far in 2012, with Chesapeake's stock price rising from almost 20% in the last month alone. But in a technical sense, the company's fourth quarter earnings didn't clock in exactly where analysts wanted it.

Zacks Consensus estimate had Chesapeake's fourth quarter earnings of 58 cents per share -- off by a single penny. But Zacks also points to a year-long drift in earnings from 70 cents per share, dragged downward by a 26% decline in average prices for natural gas.

Zacks isn't exactly down on Chesapeake, but its not waving any pom-poms, either. This from Zacks:

The company has grown rapidly and now ranks as the second-largest producer of natural gas. Since 2000, the company has created the largest combined inventories of onshore leasehold of about 15.3 million net acres in the U.S.

We think Chesapeake's focus on shale gas plays should provide the impetus to monetize these assets more effectively. This, coupled with the company's concentration on liquids will boost returns. However, since natural gas accounted for about 82% of Chesapeake's production in the quarter and as near-term speculations of challenging natural gas fundamentals remain, we are apprehensive that the company's results will be vulnerable to fluctuations in the relevant markets. Hence, we believe that the stock will perform in line with the group and maintain our long-term Neutral recommendation for Chesapeake.

No doubt, Chesapeake has some support struts already in place that could stabilize the company's stock, and help it climb higher. The Permian sale alone should beef up Chesapeake's cash position, and any military activity in Iran, by Israel or anyone else, would lead to more global consumption and demand for natural gas, a scenario that would prove highly beneficial to companies like Chesapeake.

Short sellers on Chesapeake are betting, of course, that natural gas prices will remain low. But Chesapeake, at $25 per share is already priced fairly low, and likely would not represent too much risk for investors who think natural gas prices will eventually rise, and carry companies like Chesapeake out to calmer financial waters.

That's where Chris Lau, a contributor and financial analyst with the investment web site Seeking Alpha, sees Chesapeake heading. He points out three winning net positives for the company's stock heading deeper into 2012:

1. Asset sales of $8.5B, with $437M gains appearing in income statement
2. Positive cash flow of 3% in 2011,even with a drop in natural gas prices.
3. A strategic shift away from 90% natural gas production in 2009 to oil

"The company acknowledged negative analyst commentary against the company's capital expenditures," notes Lau. "Chesapeake said that it aimed to be cash flow-positive by 2014, generating and to a place in $10 billion to $11 billion in cash flow in 2015. More importantly, management believes this can be accomplished with natural gas below $3."

If Chesapeake can pull that hat trick off, then investors may well have the clarity needed to pull the trigger on Chesapeake.

But that decision likely won't be made overnight, and given all that Chesapeake has given investors to chew on so far in 2012, that's probably a good strategy.

– Brian O'Connell

PIPELINES & TECHNOLOGY

TransCanada Set To Re-Apply For Keystone XL Permit

TransCanada Corp. (NYSE & TSX: TRP.TO) sent a letter to the U.S. Department of State (DOS) informing the Department the company plans to file a Presidential Permit application (cross border permit) in the near future for the Keystone XL Project from the U.S./Canada border in Montana to Steele City, Nebraska. TransCanada would supplement that application with an alternative route in Nebraska as soon as that route is selected.

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The company also informed the DOS that what had been the Cushing to U.S. Gulf Coast portion of the Keystone XL Project has its own independent value to the marketplace and will be constructed as a stand-alone Gulf Coast Project, not part of the Presidential Permit process. The approximate cost is US$2.3 billion and subject to regulatory approvals. We anticipate the Gulf Coast Project to be in service in mid to late 2013.

"Our application will include the already reviewed route in Montana and South Dakota," said Russ Girling, TransCanada's president and chief executive officer. "The over three year environmental review for Keystone XL completed last summer was the most comprehensive process ever for a cross border pipeline. Based on that work, we would expect our cross border permit should be processed expeditiously and a decision made once a new route in Nebraska is determined."

TransCanada will continue to work collaboratively with the State of Nebraska on determining an alternative route for Keystone XL that avoids the Sandhills. TransCanada has been working on assessing the routing in Nebraska since November 2011, following the State Department's notice to delay a decision on a Presidential Permit until an adjusted route that avoids the Sandhills was developed.

U.S. crude oil production has been growing significantly in States such as Oklahoma, Texas, North Dakota and Montana. Producers do not have access to enough pipeline capacity to move this production to the large refining market at the U.S. Gulf Coast. The Gulf Coast Project will address this constraint.

"The Gulf Coast Project will transport growing supplies of U.S. crude oil to meet refinery demand in Texas," added Girling. "Gulf Coast refineries can then access lower cost domestic production and avoid paying a premium to foreign oil producers. This would reduce the United States' dependence on foreign crude and allow Americans to use more of the crude oil produced in their own country."

Reapplying for the Keystone XL permit is supported by words used in President Obama's statement January 18, 2012 when he said the denial of the permit was not based on the merits of the pipeline but rather on an imposed 60-day legislative timeline to make a decision on the project.

With respect to moving forward on an initiative like the Gulf Coast Project, President Obama stated: "In the months ahead, we will continue to look for new ways to partner with the oil and gas industry to increase our energy security - including the potential development of an oil pipeline from Cushing, Oklahoma to the Gulf of Mexico."

Saddle Butte Planning North Dakota Crude Pipeline

Saddle Butte Pipeline LLC is planning to build a pipeline that will transport up to 150,000 barrels of crude oil per day from North Dakota to Minnesota. The company is currently fielding shipper commitments for the proposed project, which would run 450 miles from Alexander, ND to Clearbrook, Minn. If the company secures the necessary permits and commitments, the project could be in service by late 2013.

Canadian, Bakken, Mississippi Lime Oil Bottleneck In Race To Gulf Coast

Railing in lieu of pipe is expensive and not enough railcars are available, says Dahlman Rose's Seidl.

Oil production from the Bakken play in North Dakota has now reached some 600,000 barrels per day, up from virtually none just five years ago and some 400,000 a day a year ago, according to John Seidl, director, E&P research, for Dahlman Rose & Co.

Additional new Canadian oil production has put between 2.0- and 2.4 million barrels of oil per day into the U.S. market, up from some 1.8 million a day five years ago, Seidl adds.

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And the barely year-old Mississippi Lime oil and gas liquids play in northern Oklahoma and southern Kansas has SandRidge Energy Inc. in an arrangement with Plains All American Pipeline LP to ship out 150,000 barrels a day. Meanwhile, Chesapeake Energy Corp. is in a deal with Semgroup Corp. and Gavilon LLC to send out 140,000 a day, note analysts with Tudor, Pickering, Holt & Co. Securities Inc.

Bottlenecks are growing, Seidl says, as Canadian oil meets with North Dakota oil in trying to get to the U.S. Gulf Coast and both are running into new Oklahoma oil production along the way.

"Producers in Canada and the Bakken are increasingly turning to rail as a transportation option to move barrels," Seidl says. "For example, in the Bakken, the current capacity to get oil onto rail is 160,000 barrels per day, but, by early 2013, that capacity is expected to increase to 527,000. Hess Corp....expects to generate higher profits from railing crude to the Gulf Coast than it currently receives from selling oil into the pipeline system. Anecdotal reports from Canadian E&Ps suggest they are also using rail to get around the pipeline bottlenecks, as they are working on adding capacity."

Meanwhile, Canadian oil-sands producers who have been counting on the Keystone XL project to get their oil to the Gulf Coast are looking west, note the TPH analysts. Kinder Morgan Inc.'s Trans-Mountain Expansion (TMX) project will move an additional 300,000 barrels per day by 2016 to the West Coast, up from 300,000 a day currently. "TMX challenges Enbridge Inc.'s larger Northern Gateway (pipeline) for Alberta-to-the-Pacific supremacy as post-XL regulatory uncertainty increases interest in projects that utilize existing pipes, like TMX," the TPH team reports.

Seidl notes that Canadian oil is now fetching $10 less on the market than U.S. onshore—that is, West-Texas-Intermediate-priced oil—which is fetching $18 less than Gulf Coast or Brent-priced oil or nearly $30 less combined. Meanwhile, railing oil from the oil sands of Alberta to the Houston Ship Channel costs $10 to $14 a barrel.

Seidl says, "There appears to be an opportunity to narrow that gap by arbitraging the differential; the aforementioned cost from Edmonton to Houston suggests there should also be an arbitrage between WTI and Gulf Coast pricing too. However, the mathematical arbitrage does not exist in reality because of the shortage of rail cars."

In early January, 19,376 North American railcars carried petroleum products, he adds—"the highest weekly traffic ever for the commodity."

Some relief to producers seeking to get their oil to the highest-priced, Gulf Coast market will come this summer as the existing Seaway pipeline that brings Gulf Coast oil to Cushing, Oklahoma, is reversed, moving 150,000 barrels per day to the Gulf Coast instead and as much as 400,000 a day in 2013.

"Enbridge expects to bring on an additional pipeline from Cushing to Houston in 2014, along with a new pipeline from Illinois to Cushing, which would essentially open up capacity for Canadian crude to reach the Gulf Coast. Another Enbridge project to reverse the flow of oil from Sarnia, Canada, to Montreal by 2014 could also aid in reducing the differential between the Midcontinent and the Gulf Coast. "However, North American oil production likely will also grow sizable volumes during the same timeframe. Other future sources of potential relief would come from approvals to build Keystone XL, Northern Gateway and the TransMountain Expansion," Seidl concludes.

– Nissa Darbonne

Government Report Endorses Enbridge's Northern Gateway Pipeline

Enbridge Inc. (TSX & NYSE: ENB) welcomed the publication of Transport Canada's TERMPOL Review Process Report of the proposed Northern Gateway Pipeline Project's proposed marine operations. Transport Canada has filed the results of the study with the federal Joint Review Panel tasked with assessing the project. The study reviewed the marine operations associated with the Northern Gateway terminal and associated tanker traffic in Canadian waters.

The review concluded that: "While there will always be residual risk in any project, after reviewing the proponent's studies and taking into account the proponent's commitments, no regulatory concerns have been identified for the vessels, vessel operations, the proposed routes, navigability, other waterway users and the marine terminal operations associated with vessels supporting the Northern Gateway Project."

It also made the following points:

- "The review has not identified any regulatory issues or gaps or the need to consider any new regulatory requirements at this time."
- "The existing international and Canadian marine laws and regulations,

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complemented by the enhanced safety measures the proponent is committed to implementing and monitoring will provide for safer shipping in support of the Northern Gateway project."

- "The proposed shipping routes are appropriate for the oil tankers that will be used at the proposed terminal."
- "For the Northern Gateway Project, the proponent is proposing to implement safety measures that exceed national and international regulatory frameworks for vessel safety and operations."
- "Since 2009, the proponent has completed 16 studies and submitted close to 3,500 pages of surveys, studies, technical data, analysis and other information related to the marine transportation components of the Northern Gateway Project."

Janet Holder, Enbridge's Executive Vice-President of Western Access and the senior executive with responsibility for Northern Gateway, welcomed the TERMPOL report as "a very positive step forward in the public review of the project."

"It is important for the public, particularly BC residents, to know that we've done our homework and that our marine plan has been thoroughly reviewed. I think the TERMPOL report underlines that what we are proposing is well planned and safe - and indeed would enhance safety for all shipping on BC's north coast."

The TERMPOL report was prepared and approved by the following Canadian government authorities:

- Transport Canada
- Environment Canada
- Fisheries and Oceans Canada
- Canadian Coast Guard
- Pacific Pilotage Authority Canada

The TERMPOL report is one stage in the review of the Northern Gateway project. Further review of the Northern Gateway application by the Joint Review Panel, as well as other agencies, is ongoing.

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Enbridge Announces Open Season For Bakken Expansion & Sanish Pipeline Project

Enbridge Energy Partners L.P. (NYSE:EEP) and Enbridge Income Fund Holdings Inc. (TSX:ENF), affiliates of Enbridge Inc. (NYSE & TSX:ENB) announced a second Open Season for the Bakken Expansion Program in conjunction with an Open Season for EEP's proposed Sanish Pipeline. The Sanish Pipeline will transport crude oil production from Johnson's Corner to Beaver Lodge, North Dakota. The Bakken Expansion Program Open Season will offer pipeline capacity on Enbridge's system from Beaver Lodge into Enbridge's terminal at Cromer, Manitoba where it connects with the Enbridge Mainline System, which offers access to refineries throughout the Upper Midwest, eastern Canada, Mid-Continent and as far as the U.S. Gulf Coast.

The two open seasons are being conducted jointly to provide shippers with the option of contracting for capacity from Johnson's Corner to Enbridge's Beaver Lodge and Berthold Stations as well as to Cromer.

EEP's proposed Sanish Pipeline is a new 36-mile, 12" crude oil line capable of transporting a minimum 67,000 barrels per day (b/d) from Johnson's Corner into EEP's existing facilities at Beaver Lodge. The Bakken Expansion Program, currently under construction by EEP in the US and by Enbridge Income Fund in Canada, will provide a total of 145,000 b/d of incremental pipeline capacity from Beaver Lodge to Cromer when it comes into service in Q1 2013. At Berthold, EEP is constructing a new 80,000 b/d rail export facility which is planned to be in-service at the same time.

"The Bakken and Three Forks formations have catapulted North Dakota into the position of being one of the leading oil producing states in the U.S. Along with this proposed Sanish Pipeline, we have increased the export capacity of our North Dakota system by almost 350% since 2008," said Stephen J. Wuori, president, Liquids Pipelines, Enbridge. "Sanish provides customers located South of the River with an entrance to Enbridge's expanded systems to access a total of 475,000 bpd of capacity out of North Dakota in 2013. Enbridge is developing other projects that will continue our significant capital investment in this prolific region to provide reliable, economical and secure access to a wide variety of refinery markets, including the US Gulf Coast."

Through the open seasons, shippers will have the opportunity to secure space on the Sanish Pipeline, including 15,000 b/d of service from Johnson's Corner to Cromer.

The binding Open Seasons begin today, February 28, 2012, and closes at 5 p.m. MT on April 11, 2012.

NEWS & TRENDS

Kinder Morgan, Martin Midstream To JV On Permian Rail Terminal

Kinder Morgan Energy Partners LP (NYSE: KMP) and Martin Midstream Partners LP (NASDAQ: MMLP) formed the Pecos Valley Producer Services LLC joint venture to build a rail terminal in Pecos, Texas. The facility, which will handle natural gas and oil produced in the Permian basin, is to be built and operated by a subsidiary of Watco Companies Inc.

The terminal will be located along the Pecos Valley Southern Railway, directly adjacent to the Union Pacific mainline in Pecos. Services provided at the terminal will include crude oil hauling, storage, transloading and marketing while also offer access to light Louisiana sweet

RESIN PRICES – MARKET UPDATE – MARCH 1, 2012

TOTAL OFFERS: 18,396,244 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	3,566,716	0.64	0.78	0.67	0.71
PP Copolymer - Inj	2,785,472	0.76	0.85	0.79	0.83
HDPE - Blow Mold	2,735,520	0.64	0.76	0.65	0.69
HDPE - Inj	2,703,876	0.71	0.75	0.66	0.7
LDPE - Film	2,643,428	0.65	0.81	0.73	0.77
PP Homopolymer - Inj	1,301,196	0.68	0.84	0.77	0.81
LDPE - Inj	915,472	0.76	0.825	0.73	0.77
GPPS	615,000	0.86	0.86	0.86	0.91
HMWPE - Film	440,920	0.76	0.79	0.71	0.75
HIPS	380,000	1.01	1.03	0.97	1.02
LLDPE - Inj	220,460	0.65	0.69	0.71	0.75

Source: Plastics Exchange – www.theplasticsexchange.com

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crude oil markets. In addition, NGL storage, takeaway and fractionation services will be offered by Kinder Morgan and Martin Midstream. The partners are considering adding gas and crude gathering and processing systems in the region along with a frac sand unit train terminal for the Reeves County region. The project's first stage is scheduled to complete this May. Once the terminal is fully completed, it will have a total railcar capacity of 300 to 600 per day.

"KMP is excited for the opportunity to join with Martin Midstream and Watco to develop this opportunity in the Permian Basin. We believe this unique partnership will provide a wide range of services and expertise for the benefit of customers in Reeves County and surrounding areas, while expanding each company's footprint in this very active rich gas shale play," Duane Kokinda, president of Kinder Morgan Texas Pipeline LLC, said in a news statement.

"We are pleased to be involved with quality partners in the formation of this joint venture. This project represents another strategic transloading facility offering truck to rail logistics, one of MMLP's core competencies," Ruben Martin, president and chief executive officer of MMLP, added in the release.

Boardwalk Pipeline Completes Boardwalk HP Storage Drop-Down Acquisition

Boardwalk Pipeline Partners LP (NYSE: BWP) completed a drop-down acquisition for the remaining 80% interest in the Boardwalk HP Storage Co. LLC from Boardwalk Pipelines Holding Corp.,a subsidiary of Loews Corp. (NYSE: L) for $285 million. Loews owns Boardwalk's general partner.

"Acquiring the remaining ownership interest in Boardwalk HP Storage was one of our key goals for 2012," Stan Horton, president and chief executive of Boardwalk, said in a news statement. "Boardwalk has been operating these assets since they were acquired in December 2011 and the transition has gone extremely well."

Boardwalk HP Storage provides approximately 29 billion cubic of natural gas storage capacity through seven salt dome storage caverns in Forrest County, Mississippi. The company also owns undeveloped land that could house an additional six storage caverns. It is anticipated that one of these undeveloped caverns will be brought into service in 2013 for $35 million.

ExxonMobil Supplants Chesapeake As Nation's Largest Gas Driller

ExxonMobil is now the nation's most active gas driller, replacing long-time champion Chesapeake Energy Corp. as the oil and gas industry closes quickly on a projected 150-unit drop in gas-directed rig count that sell-side analysts are projecting for 2012.

ExxonMobil currently has 41 rigs classified as gas-directed domestically compared to 24 for Chesapeake. However, that transition happened quickly. As of Jan. 20, 2012, Chesapeake operated 70 units classified as gas-directed. That number fell to 46 on Feb. 10, and dropped an additional 22 units in the last two weeks. ExxonMobil went from a distant second in gas-directed rig count during the month of January to the nation's leading gas driller midway through February despite a modest two-unit gain in its gas-directed activity.

Hart's Unconventional Activity Tracker identified 570 rigs as gas-directed at the end of February 2011. That number is down 100 units from the 670 recorded during the first week in 2012, and down 116 units from the 2012 peak of 686 rigs classified as gas-directed on Jan. 20.

The first 60 days of 2012 certainly fits within the new consensus that gas-directed drilling will decline in 2012. But the second part of the narrative projects a corresponding increase in oil and liquids drilling that will offset the decline in gas-directed drilling, moving overall 2012 rig count averages to a marginally net positive level versus 2011.

That, too, appears to be the case. The industry added 99 units to the oil-directed rig count since the first week in January and 96 units in the last 30 days, largely offsetting the 100 unit decline in gas-directed drilling.

Thus, a land rig count that began in 2012 at 1,540 units, according to the Hart Unconventional Activity Tracker, stood at 1,539 units as of the Friday, Feb. 24, 2012, sample date. Sixty days into 2012, rig count was unchanged, despite the significant evolution in the oil/gas mix.

It is instructive to look at the details behind those numbers.

As 2012 began, the top four gas-directed operators included Chesapeake (63), ExxonMobil (39), Devon (33), and Anadarko (31) -- all of whom had more than 30 rigs listed as gas-directed.

Sixty days later, the top four gas drilling programs included ExxonMobil (41), Devon (31), BHP-Billiton (30), and Chesapeake (24).

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Of note, Chesapeake Energy Corp. and Anadarko Petroleum Corp. account for the majority decrease in gas-directed rig count during the first 60 days of 2012. The two together have decreased gas-directed activity by 55 units, or more than half of the 100-unit drop in 2012. So, if the industry were to lose another 50 gas-directed rigs to meet existing forecasts, it is difficult to see where those additional cuts will come from. In other words, the decline in gas-directed drilling to date has largely reflected the actions of a handful of oil and gas operators rather than a systemic change in the industry.

Chesapeake also figures heavily the increase in oil-directed activity in 2012 with a net 18-unit change, or nearly one in five of the 99-unit gain over the first of the year. Unlike the gas-directed situation, the change in oil-directed drilling has not influenced the rankings among the top five oil-directed drilling companies.

Chesapeake's numbers are likely to rise further as units listed as rigging up in the Midcontinent begin drilling in an expanded Mississippi Lime program that appears ready to add another eight to 12 rigs to Chesapeake's oil-directed activity.

While the change from gas-directed to oil/liquids directed activity is notable on a numerical basis, there is some evidence that the change is semantic. In late January, the Midcontinent recorded a significant change involving a sharp drop in gas-directed drilling coupled with a similar increase in oil-directed activity.

It appears industry metrics are in a state of flux as 2012 gets under way. That flux is creating material change as the list of top gas drillers evolves, leaving ExxonMobil as the undisputed champ domestically. However other elements of the change from gas to liquids is found, rather prosaically, in how the industry classifies rigs by commodity objective.

– Richard Mason

SPOTLIGHT

Wells Fargo: Additional NGL Storage Capacity Not Needed At Mont Belvieu

Despite the increased fractionation capacity being built at Mont Belvieu to compensate for the additional NGLs flowing to the hub, there doesn't appear to be a strong need for additional storage capacity, according to Wells Fargo Securities. The investment firm stated there is currently 200 million barrels of NGL storage at the hub, but according to EIA data NGL inventory in PADD III was only 74.7 million barrels in August, which implies a 37% utilization rate.

It is expected that fractionation capacity at the hub will increase by 65% in the next to two to three years. The investment firm noted in its Feb. 2012 NGL Snapshot that the current storage capacity of 200 million barrels at the hub will be able to handle these increased volumes in the region for the foreseeable future. However, the report added that there could be a need for additional above-ground brine-pit capacity.

While Wells Fargo doesn't anticipate the need for additional NGL storage capacity, it does foresee producers utilizing more brine to help counterbalance the withdrawal and injection of NGLs into and out of storage as fractionation capacity is added. The firm estimates that storage operators carry one barrel of brine for each barrel of hydrocarbon removed from storage in most cases. However, the report states that the ratio is slightly greater than 1:1 at Mont Belvieu.

"The reasons for maintain a higher NGL-to-brine ration are based on cost and operational considerations. The cost of producing and storing enough brine for a 1:1 ratio would be prohibitive and an inefficient use of capital. Further, because of the seasonality of demand associated with certain purity NGL components (e.g., propane and butane), a 1:1 ratio of brine to storage capacity is not necessary," according to the report. Because propane is most used in the winter and can see withdrawal levels that are quite high, which require storage operators to backfill storage caverns with brine.

Wells Fargo calculates that Mont Belvieu NGL storage operators currently have 200 million barrels of NGL storage and 50 million barrels of brine-pit capacity. Enterprise Products Partners having the largest share of both NGL storage capacity at 100 million barrels and brine-pit capacity at 25 million barrels.

"NGL storage at Mont Belvieu is used primarily for load-balancing purposes to support fractionation facilities and/or downstream petrochemical plants. With fractionation capacity at Mont Belvieu expected to increase by an estimated 65% over the next 2-3 years, we estimate that NGL logistics companies could construct up to 33 million barrels of additional brine-pit to support the build-out of new NGL fractionation facilities. As an estimated cost of $5-8 per barrel, this implies roughly $150-250 million of expansion opportunities…[W]e view brine storage capacity as the key bottleneck that could require incremental investments," the report said.

– Frank Nieto

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