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In This Week's Edition

FEATURE

MarkWest Announces Midstream Build-Out In Utica 1

NGL PRICES & FRAC SPREAD

Isobutane Prices, Margins Increase As Alkylation Units Come Back Online 1

February 2012 Frac Spread: Conway Ethane Margins Rally 2

INSIDE LOOK AT PROCESSING

Chesapeake Midstream Confident Of Meeting Earnings Outlook Despite CHK Production Curtailment 3

DCP Midstream Partners: Growing From Point Of Strength 5

Report: Oil And Gas Price Volatility Is Top Concern Among Executives 6

Total May Increase Port Arthur Petrochemical Capacity 7

Petrobras Adds Third Processing Train In Bolivia 8

Panhandle Eastern, Next Generation Processing Sign Saddle Agreement ... 8

PIPELINES & TECHNOLOGY

Texas Express Secures Transportation Commitments 8

WGL Holdings To Jointly Develop 200-Mile Interstate Pipeline With UGI Energy Services, Inergy Midstream ... 9

Gateway Announces Acquisition Of Natural Gas Pipeline 9

Spectra Energy Begins Open Season For Renaissance Gas Transmission ... 9

Chesapeake, GE To Develop CNG Technology 11

NEWS & TRENDS

Vail Forum: Speakers Endorse Natural Gas 11

TransCanada Announces Open Season For Keystone Hardisty Crude Terminal 13

33 Sites Contenders For North American LNG Export Terminals, Survey Finds 13

Despite Sanctions, China To Support Iranian Petrochemical Projects......... 13

SNAPSHOT

Developing In-House Talent Can Create Competitive Advantages 14

FEATURE

MarkWest Announces Midstream Build-Out In Utica

MarkWest Utica EMG LLC, a joint venture between MarkWest Energy Partners LP (NYSE: MWE) and The Energy and Minerals Group, signed a letter of intent with Gulfport Energy Corp. (NASDAQ: GPOR) to develop gathering, processing, fractionation and marketing services in the liquids-rich portion of the Utica shale.

MarkWest will build this infrastructure to focus on Harrison, Guernsey and Belmont with processing and fractionation services being offered in Harrison County.

"We are very excited to announce the development of midstream infrastructure with Gulfport and other producers to fully develop the rich-gas acreage in the southern Utica shale," Frank Semple, chairman, president and chief executive of MarkWest, said in a news release. "The full spectrum of natural gas midstream services, particularly the fractionation and marketing of NGLs at a world-scale fractionation complex, is essential to the success of Utica producers, and we are excited to work closely with our producer customers to develop this prolific shale play."

NGL PRICES & FRAC SPREAD

Isobutane Prices, Margins Increase As Alkylation Units Come Back Online

(Note: Beginning this week, Midstream Monitor is combining the weekly Frac Spread and NGL Price columns to provide readers with a better context of the market. We will continue to provide separate charts for both along with the information previously found in the separate columns.)

Natural gas liquids (NGL) prices and frac spread margins made gains the week of Feb. 29 as prices continued to stabilize and rebalance. Frac spread margins also benefitted from the continued depression of natural gas prices.

Mont Belvieu natural gas prices dropped 6% to $2.22 per million Btu (/MMBtu) while Conway prices fell 4% to $2.26/MMBtu. This resulted in the margins for the theoretical NGL barrel at both hubs to improve with the Mont Belvieu margin up 3% to $46.47 per barrel (/bbl) and the Conway margin up 6% to $40.52/bbl.

Isobutane had the largest price and margin gains at both hubs, thanks to several alkylation units this week. The Mont Belvieu price rose 6% to $2.08 per gallon (/gal), its highest price since it was $2.13/gal the week of Jan. 11. This resulted in an 8% gain in margin. Conway isobutane had even larger gains as the price rose 10% to $1.91/gal, its highest price since it was $1.95/gal the week of Jan. 5. This resulted in a 12% margin improvement.

Conway ethane had the largest gain in margin at 21% due to a 8% increase in price to 32¢/gal. This was the hub's highest price

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since it was 34¢/gal the week of Nov. 23, 2011. It appears that these increases are a result of market corrections more than any increased demand, especially given that ONEOK's fractionator in Medford, Okla. was offline for much of the week following a blowout at a nearby propane storage well. The facility was brought back online on March 7 and shouldn't have any long-term impact on prices or margins.

Mont Belvieu ethane prices were relatively quiet this week as they gained 1% to 50¢/gal, the highest price at the hub since it was 55¢/gal the week of Jan. 31. This resulted in a 3% gain in margin. The ethane market should experience a significant uptick in June once ethylene plant and fractionator turnarounds are completed.

The lone NGL to experience a price decrease this week at either hub was Mont Belvieu propane, which dropped 1% $1.22/gal. This is largely the same price it has been trading at for the past month though as the market has been relatively quiet due to limited heating demand. Export demand may be experiencing an improvement in the coming weeks based on forward prices, which should support prices and demand. Despite the price decrease, the margin was actually up slightly.

Conway propane improved 2% to $1.07/gal as the market continued to rebalance after the price fell below $1.00/gal for several weeks two weeks ago. The margin rose 3% at Conway as a result.

The most profitable NGL to make at both hubs was C5+, which continued to benefit from strong crude prices. The frac spread for the product at Conway was $2.19/gal and $2.23/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.68/gal at Conway and $1.86/gal at Mont Belvieu; butane at $1.50/gal at Conway and $1.67/gal at Mont Belvieu; propane at 86¢/gal at Conway and $1.02/gal at Mont Belvieu; and ethane at 17¢/gal at Conway and 35¢/gal at Mont Belvieu.

Natural gas in storage for the week of March 2, the most recent data available from the Energy Information Administration, decreased 80 billion cubic feet to 2.433 trillion cubic feet (Tcf) from 2.513 Tcf the previous week. This was 44% higher than the 1.694 Tcf figure posted last year at the same time and 48% higher than the five-year average of 1.641 Tcf.

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Feb. 29 - March 6, '12	50.11	121.94	190.28	207.65	248.20	$54.60
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
February '12	46.97	122.28	186.50	192.29	239.97	$52.99
January '12	64.67	129.56	197.46	212.13	232.57	$57.18
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
March 2 - 8, '11	66.55	140.06	176.04	181.52	250.38	$58.00
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Feb. 29 - March 6, '12	32.20	107.04	173.26	190.77	244.36	$48.79
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
February '12	22.65	100.24	160.71	173.94	227.79	$44.18
January '12	28.59	102.17	171.36	182.59	210.31	$44.99
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
March 2 - 8, '11	49.50	129.78	166.70	188.50	252.95	$54.52

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

Gas storage withdrawals are likely to remain sluggish given the weather outlook for next week. According to the National Weather Service's forecast for the week, it is highly unlikely that heating demand will increase as the bulk of the country is expected to experience warmer than normal March temperatures. At this rate, it may be worth considering the cooling demand increases rather than heating demand. The warmest weather is expected along the East Coast and throughout the Midwest. Once again, only the West Coast is expected to experience normal or cooler than normal temperatures.

– Frank Nieto

February 2012 Frac Spread: Conway Ethane Margins Rally

Although NGL prices largely suffered in February, margins moved in the opposite direction, thanks to depressed natural gas prices. Conway natural gas prices fell 9% to $2.35 per million Btu (/MMBtu) while Mont Belvieu prices dropped 8% to $2.35/MMBtu.

The largest increase in margin at both hubs was ethane, which fell to a negative state at Conway at one point in the month before experiencing a strong rally to close the month, thanks to a price correction. Mont Belvieu margins held firm despite the maintenance turn-

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arounds being performed at several ethane crackers.

Prices were supported by the news that there would be several high-profile fractionators at Mont Belvieu being taken offline for maintenance in the spring and into early June. It is likely that some companies and traders are seeking to cover for the fractionated volume shortfall ahead of time.

Pentanes-plus (C5+) prices had the second-largest margin increases in the month because of an increase in crude prices. Crude prices rose in February because of fears that there could be global shortages should Iran block the Strait of Hormuz as a result of new international sanctions that have been undertaken by the United States and Western Europe as a result of the country's unwillingness to halt its nuclear program.

The lone NGL to experience a decrease in margin in the month of February was Mont Belvieu, which fell 2% because of a lack of heating demand that caused prices to decrease.

The theoretical NGL barrel price rose 13% at Conway to $48.38 per barrel (/bbl) with a 19% improvement in margin to $39.78/bbl. The Mont Belvieu barrel price rose 2% to $54.30/bbl with a 4% gain in margin to $45.69/bbl.

The most profitable NGL to make at both hubs was C5+ at $2.15 per gallon (/gal) at Conway and $2.18/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.59/gal at Conway at $1.77/gal at Mont Belvieu; butane at $1.47/gal at Conway and $1.66/gal at Mont Belvieu; propane at 85¢/gal at Conway and $1.01/gal at Mont Belvieu; and ethane at 18¢/gal at Conway and 36¢/gal at Mont Belvieu.

– Frank Nieto

Monthly Frac Spread (Cents/Gal)				
February 2012	Conway	Change from Start of Year	Mont Belvieu	Start of Year
Ethane	33.50		51.00	
Shrink	15.60		15.60	
Margin	17.90	352.47%	35.40	13.99%
Propane	106.30		122.20	
Shrink	21.53		21.53	
Margin	84.77	12.31%	100.67	-1.73%
Normal Butane	171.00		190.20	
Shrink	24.37		24.37	
Margin	146.63	13.45%	165.83	2.79%
Iso-Butane	182.50		200.00	
Shrink	23.41		23.41	
Margin	159.09	4.44%	176.59	6.41%
Pentane+	241.50		244.30	
Shrink	26.37		26.37	
Margin	215.13	15.29%	217.93	6.48%
NGL $/Bbl	48.38	13.08%	54.30	2.08%
Shrink	8.61		8.61	
Margin	39.78	19.18%	45.69	4.28%
Gas ($/mmBtu)	2.35	-8.56%	2.35	-8.20%
Gross Bbl Margin (in cents/gal)	90.54	19.05%	105.62	4.02%
NGL Value in $/mmBtu				
Ethane	1.84	59.37%	2.80	6.14%
Propane	3.69	7.35%	4.24	-2.94%
Normal Butane	1.85	9.69%	2.05	1.23%
Iso-Butane	1.14	2.57%	1.24	4.46%
Pentane+	3.08	12.10%	3.11	4.67%
Total Barrel Valuein $/mmbtu	11.59	14.44%	13.46	1.90%
Margin	9.24	22.25%	11.11	4.33%

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

Chesapeake Midstream Confident Of Meeting Earnings Outlook Despite CHK Production Curtailment

Chesapeake Midstream Partners (NYSE: CHKM) officials are confident that the company will meet its 2012 outlook of $475 million in earnings and $660 million in capital spending despite the decision by its general partner, Chesapeake Energy Corp. (NYSE: CHK), to curtail its gross natural gas production by up to 1 billion cubic feet per day (Bcf/d).

"Our low risk business model has proven to be successful at delivering predictable cash flows, even in volatile times," Mike Stice, Chesapeake Midstream's chief executive, said during a Feb. 29 conference call to discuss Q4 2011 earnings. "Our contractual structure that continues to deliver on our promise of predictable cash flows includes 10-year minimum volume commitments with Chesapeake and Total in the Barnett and a three-year minimum volume commitment in the Haynesville from Chesapeake."

He added that the company also held EBITDA (earnings before interest, taxes, depreciation and amortization) guarantees in the Marcellus shale along with redetermination provisions in the Barnett, Marcellus, Hayensville and the Mid-Continent. According to Stice, these guarantees protect the downside risks of decreased drilling in these regions.

These guarantees are also acting as protection for the company's capital outlay, which includes its $865 million acquisition of Appalachia Midstream Services from Chesapeake Midstream Development LP. The deal made CHKM the largest gathering and processing MLP as measured by throughput volumes. The acquisition added roughly 200 miles of

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gathering pipeline in the Marcellus with just over 1 Bcf/d in throughput through 15-year fixed fee gathering agreements with producers.

"The added benefit of significant additional acreage dedication in the liquids-rich region in the Marcellus South coupled with the material diversification of our customer base makes this our crowning achievement to date," Stice said. The acquisition helped the company increase its non-Chesapeake revenue from 17% in 2011 to approximately 24% in Q1 2012. CHKM hopes to eventually reach a 50/50 split between Chesapeake revenue and non-Chesapeake revenue with the Appalachia Midstream Services acquisition being a major driver towards this goal.

Stice declined to state an exact timeframe for future dropdown acquisitions, but stated that the company planned to make a annual dropdown of $500 million annually for the next decade. "Each and every year, we're going to do a dropdown like [Appalachia Midstream Services]...We are working hard already looking for what the right next opportunity is...[T]here is likely going to be a delay on doing any that are in a dry gas play," he said while adding that assets in the Mid-Continent and Permian are strong targets.

Chesapeake Energy Aiming To Increase Natural Gas Demand

CHKM should continue to benefit from increased midstream demand thanks to the efforts of its parent, Chesapeake Energy, to not only find new gas plays in the U.S., but its efforts to increase demand for these volumes.

This week, Chesapeake announced a partnership with GE to build new CNG refueling stations for natural gas vehicles. This announcement follows its efforts to garner $400 million in investments in Clean Energy Fuel (NYSE: CLNE).

"Clean Energy is the nation's largest provider of natural gas as a transportation fuel and they have very strong momentum in building out the infrastructure for America's natural gas superhighway. I can assure you that the move is underway to move the nation's transportation sector increasingly away from imported diesel and gasoline towards domestically produced and much cheaper natural gas," Aubrey McClendon, Chesapeake Energy's chairman and chief executive, said during the company's Feb. 22 conference call to discuss Q4 2011 earnings.

As gas demand increases, it should help increase demand for new midstream infrastructure development along with gas prices, which would allow for further dropdown opportunities for CHKM. McClendon noted that the company's plan to curtail dry gas production in 2011 was down in order to stimulate gas prices.

– Frank Nieto

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / February 8, 2012	
Gas Hub Name	Current Price
Carthage, TX	2.15
Katy Hub, TX	2.18
Waha Hub, TX	2.18
Henry Hub, LA	2.22
Perryville, LA	2.20
Houston Ship Channel	2.18
Agua Dulce, TX	2.64
Opal Hub, Wyo.	2.16
Blance Hub, NM	2.17
Cheyenne Hub, Wyo.	2.09
Chicago Hub	2.28
Ellisburg NE Hub	2.37
New York Hub	2.40
AECO, Alberta	1.75

Source: Bloomberg

Current Frac Spread (Cents/Gal)				
March 09, 2012	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	32.20		50.11	
Shrink	15.01		14.74	
Margin	17.19	21.12%	35.37	3.43%
Propane	107.04		121.94	
Shrink	20.70		20.34	
Margin	86.34	3.26%	101.60	0.39%
Normal Butane	173.26		190.28	
Shrink	23.44		23.02	
Margin	149.82	5.29%	167.26	3.11%
Iso-Butane	190.77		207.65	
Shrink	22.51		22.11	
Margin	168.26	12.18%	185.54	8.09%
Pentane+	244.36		248.20	
Shrink	25.36		24.91	
Margin	219.00	3.26%	223.29	1.84%
NGL $/Bbl	48.79	3.90%	54.60	1.22%
Shrink	8.28		8.13	
Margin	40.52	5.63%	46.47	2.50%
Gas ($/mmBtu)	2.26	-3.83%	2.22	-5.53%
Gross Bbl Margin (in cents/gal)	92.26	5.64%	107.39	2.44%
NGL Value in $/mmBtu				
Ethane	1.77	8.05%	2.75	0.62%
Propane	3.72	1.81%	4.23	-0.65%
Normal Butane	1.87	3.96%	2.06	1.98%
Iso-Butane	1.19	10.02%	1.29	6.45%
Pentane+	3.11	2.47%	3.16	1.05%
Total Barrel Valuein $/mmbtu	11.66	4.04%	13.50	1.05%
Margin	9.40	6.13%	11.28	2.46%

Price, Shrink of 42-gal NGL barrel based on following: Ethane, 36.5%; Propane, 31.8%; Normal Butane, 11.2%; Isobutane, 6.2%; Pentane+, 14.3%, Fuel, frac, transport costs not included. Conway gas based on NGPL Midcontinent zone, Mont Belvieu based on Houston Ship Channel.

Shrink is defined as Btus that are removed from natural gas through the gathering and processing operation. Source: Frank Nieto

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MIDSTREAM Monitor

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DCP Midstream Partners: Growing From Point Of Strength

DCP Midstream Partners LP reached an agreement to acquire the remaining 66.7% interest in the Southeast Texas joint venture from its general partner, DCP Midstream, in a $240 million dropdown acquisition. As part of the agreement, DCP Midstream will take approximately 20% of the total consideration in common units from the partnership.

The agreement, expected to close by Q2 2012, will add 675 miles of natural gas pipelines, 9 billion cubic feet of natural gas storage capacity, along with three natural gas processing plants with a total of 400 million cubic feet per day (MMcf/d) of processing capacity. The assets have favorable access to interstate and intrastate industrial gas markets, as well as NGL market deliveries to ExxonMobil and Mont Belvieu via the company's Black Lake NGL pipeline.

"This asset has a mix of fee- and commodity-based margins, with commodity exposure expected to be substantially hedged, consistent with our overall hedging philosophy. In conjunction with the transaction, DCP Midstream will provide us with a direct NGL product hedge for a three-year period," Mark Borer, president and chief executive of DCP Midstream Partners, said during the company's Feb. 28 conference call to discuss Q4 2011 earnings. "It's another prime example of how we are co-investing and effectively partnering with our general partner. In line with our strategy of utilizing MLP as a growth vehicle for the DCP enterprise, DCP Midstream will re-deploy the proceeds into ongoing capital projects."

This latest dropdown continues with the partnership's previous successes in co-investments with DCP Midstream. Since Q4 2010, it has participated in agreements totaling roughly $700 million. These include the third-party acquisition of the DJ Basin Fractionators, the completion of the Wattenberg NGL pipeline expansion, the construction of the 200 MMcf/d natural gas processing plant in the Eagle Ford shale, and the dropdown acquisition of the East Texas joint venture.

Since Q4 2010, the company has announced approximately $700 million of co-investment agreements, including the third-party acquisition of two DJ Basin fractionators, the Wattenberg NGL pipeline expansion project, a 200 million cubic feet per day (MMcf/d) Eagle Ford processing plant that is set to complete in Q4 2012, and the Southeast Texas joint venture dropdown acquisition.

These investments and acquisitions have helped fuel the company's ability to generate organic projects such as the Discovery Pipeline expansion in the deepwater Gulf of Mexico. This project, the Keathley Canyon Connector, is being undertaken in a partnership with Williams Partners as the system's operator.

This pipeline will run 200 miles with a 400 MMcf/d capacity and is supported by long-term fee-based natural gas gathering and processing services agreements with the Lucius and Hadrian South owners.

Additionally, DCP Midstream Partners has successfully acquired and integrated the Marysville NGL storage facility, the Chesapeake wholesale propane terminal and the Black Lake NGL Pipeline. "We continue to view our diverse geographic footprint as a strong positive, as it provides us with access to multiple resource plays, contract types, and customers," Borer said.

Future Growth Opportunities

For the past four years, DCP Midstream has been ranked by Midstream Monitor's annual rankings as the largest NGL producer in the United States. The company is now seeking to leverage this strength to reposition the company from being gathering- and processing- centric to being a full NGL value chain midstream service provider.

"This repositioning created additional NGL infrastructure opportunities such as the Southern Hills and Sand Hills NGL pipelines, which represent more than $2 billion of investments in projects with attractive fee-based earnings," Borer said. "Those pipelines have also created a platform for additional growth going forward, as the NGL logistics needs of the industry continue to grow."

As producers continue to focus on liquids-rich plays, DCP Midstream Partners is looking at adding new well connects to existing assets in regions with increased production activity.

These liquids-rich growth opportunities will have a large focus on the company's Seabreeze and Wilbreeze pipelines with increased volumes from the Eagle Ford. The Wattenberg pipeline is also experiencing growth due to increased production from the DJ Basin.

The company also anticipates realizing growth opportunities through the Discovery Pipeline for fee-based gathering volumes while the Marysville storage facility is expected to experience increased volumes from refiners and petrochemical operators in Sarnia, Canada. "We are in active discussions with various Sarnia market participants regarding storage expansion opportunities associated with NGL takeaway solutions

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for the Marcellus and other emerging shale plays in the area," Borer said.

The bulk of the company's growth in the next few years will remain focused on co-investments. The Partnership is eyeing more than $600 million of such opportunities with its general partner in 2012 and more than $1 billion annually in 2013 and 2014 with the Southern Hills and Sand Hills pipelines ultimately residing fully within the Partnership.

Further growth will come in the form of organic expansion and bolt-on acquisitions, which are expected to account for approximately $100 million annually. In 2012, these opportunities are expected to be even larger at $250 million to $300 million.

– Frank Nieto

Report: Oil And Gas Price Volatility Is Top Concern Among Executives

The volatility of natural gas and oil prices is the chief concern of industry leaders, but that uncertainty should not affect companies' plans for expanding exploration this year, according to Grant Thornton LLP's 10th Survey of Upstream U.S. Energy Companies.

According to the March 5 report, even though the industry has concerns about industry regulations, oil and gas executives in the United States say their companies are primed for growth and optimistic about shale reserves and a corresponding escalation of employment.

The report revealed that 77% of U.S. oil and gas senior executives think new reserves found in domestic shale plays change the nation's dependence on foreign oil, and that 66% anticipate an increase in domestic capital expenditures in 2012. In fact, most capital budgets are expected to exceed 2011 levels anywhere from 15% to 30%.

Regarding jobs, 71% of executives are expecting higher employment levels at their companies this year, compared with 61% in 2011 and 50% 2010. In addition, 86% think employment levels in the oil and gas industry will rise in 2012, compared with 61% in 2011 and 50% in 2010.

"Many seem to think that these hiring plans will exacerbate the war for talent, as a majority of our respondents this year believe their companies will have difficulty hiring and retaining top talent," said Brandon Sear, leader of Grant Thornton's National Energy Industry Practice.

Most survey respondents predict that natural gas prices will recover in 2011, with the average price expectation at the Henry Hub exceeding $4 per Mcf by year's end. Meanwhile, the price of West Texas Intermediate (WTI) crude is expected to hover near the $100-per-barrel level for the next several years.

The average price of natural gas needs to be $5.29 per MMbtu to justify a 20% increase in domestic drilling activity, the majority of respondents said. Sixteen percent expect natural gas prices to reach that threshold, compared with 8% in 2011. Furthermore, 88% indicated that production would be curtailed if prices were less than $4 per MMbtu in 2012.

"Natural gas production continues to outpace demand, resulting in a few notable companies electing to curtail gas production in 2012," Sear said. "Although uncertain and volatile prices are inherent in the industry, it is difficult to be optimistic about a significant and sustained run up in gas prices in the near future."

Other key takeaways from the report include:

- The spot price at the Henry Hub is expected to average $3.91 per Mcf this year, $4.30 in 2013 and $4.69 in 2014.
- Respondents expect the price of WTI to average $93.14 per barrel in 2012, $97.09 in 2013 and $101.75 in 2014.

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- Forty-one percent expect the price of crude will be high enough to support a more than 20% increase in drilling activity in 2012, down from 55% in 2011.
- Foreign capital outlays should remain virtually unchanged this year as 82% of respondents anticipate holding the line on such expenditures.
- Fifty-five percent anticipate difficulties in hiring and retaining employees this year, up from 22% in 2011. The availability of technical staff was rated as one of the industry's major concerns.
- While 28% think their company will qualify as an "end-user," 65% have not begun to implement the documentation and reporting required by the Dodd-Frank Act. Dodd-Frank, signed into law by President Obama in 2010, overhauled the financial regulatory system in the United States.

A Look Back At 2011

In reviewing the 2011 economic year, the Grant Thornton report points out that the civil war in Libya resulted in a loss of 1.8 million barrels of oil production per day; hydraulic fracturing, which was heavily scrutinized last year, will be subject to further studies; nuclear and alternative energy sources are falling from favor; and regulators approved 39 deep-well permits in the Gulf of Mexico, which is still trying to rebound from the Macondo tragedy.

Mergers and acquisitions were numerous in 2011. "Announced transactions reached almost three times their 2010 total. In addition, transaction sizes increased during 2010," the report stated.

Joint ventures contributed sizeable amounts of capital to the industry last year. "As in prior years, the majority of joint-venture transactions involved foreign partners whose investment objectives also included making their energy supply secure and gaining access to technological and production knowledge," according to the report.

Another trend for 2011 was that more equity capital was made available. "In the public markets, IPOs for companies in exploration and production, as well as energy services, raised almost $2.4 billion last year -- nearly $1 billion, or 70% more than they did in 2010," the report indicated.

– Mike Madere

Total May Increase Port Arthur Petrochemical Capacity

Total SA (FP), Europe's third-biggest energy producer, may add petrochemical capacity at its 174,000 barrel-a-day refinery in Port Arthur, Texas, to convert low-priced natural gas into more valuable chemical products.

Installing petrochemical capacity at Port Arthur would add to the $2.2 billion spent upgrading the refinery to take heavier crude, Patrick Pouyanne, the company's president of refining and chemicals, said in an interview.

The upgrade was the largest investment Paris-based Total has made in refining in five years, Pouyanne said at CERAWeek, a Houston conference held by IHS Cambridge Energy Research Associates. He declined to give a timeline or potential cost.

The Port Arthur expansion would represent another petrochemical investment seeking to wrest more value from natural gas prices that have reached the lowest point since at least 2006, according to data compiled by Bloomberg. Royal Dutch Shell Plc. plans to build a plant to produce ethylene and related plastics in Appalachia.

Total is considering a similar expansion at its $10 billion plant at Jubail in Saudi Arabia built with the Saudi Arabian Oil Co., or Aramco., he said. The French company remains in "preliminary talks" with Kuwait Petroleum Corp. in an effort to help build a 300,000 barrel-a-day, $10 billion refinery for China Petroleum (386) and Chemical Corp., Pouyanne said.

Total has abandoned plans to sell its Lindsey refinery in the U.K. after failing to find a buyer, he said.

"The increasingly difficult market conditions have resulted in the fact that we have not received sufficiently attractive offers to sell the refinery," Michael Crochet-Vourey, a Total spokesman, said in an e-mail message. "The refining asset sale process has been long and difficult for the local teams."

- Bloomberg

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Petrobras Adds Third Processing Train In Bolivia

Petrobras completed construction of its $115 million third natural gas processing train at the Sabalo field in Bolivia. The project is part of the company's $300 million second development phase at the San Antonio block of the field. The facility will increase production from the block to 17 million cubic meters per day before increasing to 19 million cubic meters per day in June.

The field is operated by Petrobras, which has a 35% ownership stake. The remaining interest is held by YPFB Andina at 50% and Total SA at 15%.

Panhandle Eastern, Next Generation Processing Sign Saddle Agreement

Panhandle Eastern Pipe Line Co., a subsidiary of Southern Union Co., signed a straddle agreement with Next Generation Processing LLC to process natural gas from Panhandle Eastern's Haven compressor station.

The volumes delivered from the pipeline system will be processed at an NGL extraction plant that Next Generation Processing will build in Haven, Kan., by Q4 2013. The contract includes an option for Panhandle Eastern to purchase the facility, which will have a capacity of 1.4 billion cubic feet per day.

"Panhandle Eastern believes that this plant will provide attractive processing opportunities for local producers of rich gas in the nearby Granite Wash and Mississippi Lime formations and benefit its current shippers by increasing supply on the Panhandle Eastern Pipe Line system," Eric D. Herschmann, vice chairman, president and chief operating officer of Southern Union, said in a news statement.

PIPELINES & TECHNOLOGY

Texas Express Secures Transportation Commitments

The Texas Express Pipeline will proceed with construction after the project's developers, Enterprise Products Partners LP (NYSE: EPD), Enbridge Energy Partners LP (NYSE: EEP) and Anadarko Petroleum Corp. (NYSE: APC) secured long-term contracts for capacity on the NGL pipeline.

These 15-year, ship-or-pay transportation agreements provide 232,000 barrels per day of commitments on the system, which will run 580 miles from near Skellytown in Carson County, Texas, to Mont Belvieu fractionation and storage facilities owned by Enterprise. The system will increase transportation capacity for NGLs from the Rockies, Permian Basin and Mid-Continent by connecting to Enterprise's Mid-America Pipeline System (MAPL).

"This joint venture with Enbridge and Anadarko brings together partners with unique and complementary strengths to provide an industry solution that addresses the need for flow assurance and market choices for producers, as well as reliable supplies of price-advantaged, natural gas-derived feedstocks to meet the increasing demand of petrochemical operators," Michael A. Creel, president and chief executive officer of Enterprise's general partner, said in a news statement. "For Enterprise, this project is a 'bolt-on' expansion that enhances the value of our integrated midstream network of assets, including the pipelines that will feed TEP, as well as our fractionators, storage facilities and distribution network at Mont Belvieu, which will be fed by the new pipeline."

In addition to the Texas Express system, the partners will also build two new NGL gathering systems with one connected to processing plants in the Texas Panhandle and Western Oklahoma section of the Anadarko/Granite Wash and the other connecting the system to processing plants in the Barnett shale.

"Enbridge Energy Partners is pleased to be working with Enterprise and Anadarko on the Texas Express Pipeline, which will secure long-term access to the premium NGL market at Mont Belvieu and effectively enhance the netback to our customers," Mark Maki, president of Enbridge Energy Partners, said in the news release. "Enbridge expects that this project will be accretive to our unit holders and it exemplifies EEP's growth strategy to further integrate our natural gas gathering and processing systems with downstream NGL infrastructure."

The Texas Express and its related gathering systems are expected to begin service in Q2 2013.

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WGL Holdings To Jointly Develop 200-Mile Interstate Pipeline With UGI Energy Services, Inergy Midstream

WGL Holdings Inc. (NYSE: WGL) on March 1 announced that its subsidiary, Capitol Energy Ventures Corp. (CEV), has entered into an agreement with UGI Energy Services Inc. and Inergy Midstream LP, to jointly market and develop a 200-mile interstate pipeline known as the Commonwealth Pipeline.

The proposed pipeline is expected to go into service in 2015 and transport at least 800,000 dekatherms of natural gas per day. Capital Energy Ventures Corp. and UGI Energy Services Inc. are expected to execute precedent agreements to become anchor shippers on the pipeline.

"We look forward to a mutually beneficial alliance with UGI Energy Services and Inergy Midstream as well as success for all our stakeholders," said WGL Holdings Chairman and CEO Terry D. McCallister. "This agreement is a testament to our commitment to invest in, and maintain, a strong pipeline infrastructure. The expansion and reinforcement of our regional natural gas delivery system will benefit all those residential and commercial customers who rely on natural gas."

The pipeline is planned to extend south from the terminus of Inergy's Marc I line in Lycoming County, Pa., and run through central and eastern Pennsylvania accessing markets in and around Philadelphia, Baltimore and the Washington, D.C., metropolitan region.

The new pipeline is expected to provide these markets with direct access to abundant supplies of Marcellus natural gas through a safe, reliable and cost-effective transportation system. The pipeline is expected to cross and link with a number of interstate pipelines along its route, providing even greater supply diversity to the mid-Atlantic region while simultaneously providing Marcellus producers with direct access to expanding markets currently served by legacy interstate pipelines.

The sponsors expect to own equal equity interests in the project company formed to own the pipeline. Inergy Midstream will construct and operate the pipeline, which is expected to cost approximately $1 billion and be funded equally by the sponsors.

A non-binding open season will be announced in March 2012 for shippers interested in acquiring capacity on the proposed pipeline.

CEV has engaged Vega Energy Partners Ltd. to assist in marketing transportation capacity for the pipeline.

Gateway Announces Acquisition Of Natural Gas Pipeline

Gateway Energy Corporation (OTCBB: GNRG.OB) on March 1 announced that it has closed the acquisition of a natural gas pipeline from Commerce Pipeline, L.P. ("Commerce") for an undisclosed purchase price.

The pipeline is located in Commerce, Texas, and delivers natural gas into an aluminum smelting plant owned by Hydro Aluminum Metal Products North America. In connection with the acquisition, Gateway will acquire a long-term contract with Hydro Aluminum to provide transportation capacity at a fixed monthly charge. Gateway financed the acquisition through a combination of cash on hand and bank debt.

Spectra Energy Begins Open Season For Renaissance Gas Transmission

Spectra Energy Corp. announced a non-binding open season for its Renaissance Gas Transmission (Renaissance) project, a new pipeline system that will link growing natural gas supplies to high-demand power generation and distribution markets in Georgia, Alabama and Tennessee. The company also announced it has executed a non-binding letter of intent with AGL Resources to explore a joint business arrangement and transportation service options for the local distribution companies owned by AGL Resources that operate near the proposed pipeline.

Spectra Energy expects natural gas demand in this region to significantly grow as power generators look to increase their use of existing facilities and new gas-fired generation. The Renaissance project will support multiple service offerings to these generators, as well as local distribution companies and industrial users, by bringing high-pressure capabilities to serve the swing and

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hourly delivery requirements that these markets require.

The Renaissance project will commence at an interconnect with Spectra Energy's Texas Eastern Transmission LP (Texas Eastern). Texas Eastern is strategically positioned with existing connectivity through the Marcellus, Utica, Appalachian and other shale gas supply sources, creating a direct link from these basins to the Renaissance project. Texas Eastern offers additional supply options for Renaissance customers with its traditional access to the Gulf of Mexico and Gulf Coast supply as well as its access to the Fayetteville, Haynesville, Woodford, Barnett and Eagle Ford shale plays. These direct links to multiple supply basins will serve to diversify customer's clean energy options and offer significant liquidity and supply reliability. The new pipeline runs 230 miles in length, and the projected capacity is approximately 1.25 billion cubic feet per day (Bcf/d), with an estimated in-service in late 2015.

"Taking advantage of expanding domestic onshore resources and creating access to growing natural gas markets will enable us to offer greater flexibility to both new and existing customers," said Mark Fiedorek, group vice president, Spectra Energy Transmission, Southeast.

"With our existing Texas Eastern system footprint, Spectra Energy can readily connect the shale gas production potential from the Marcellus and Utica shales to the doorstep of an exciting, high-demand market," Fiedorek added. "We hope to reach a mutually beneficial arrangement with AGL Resources to anchor this project, and are confident we also can meet the future needs of other potential customers in the Southeast."

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Chesapeake, GE To Develop CNG Technology

In an effort to develop natural gas a transportation fuel, Chesapeake Energy Corp. (NYSE: CHK) and GE (NYSE: GE) announced a collaboration to develop compressed natural gas (CNG) and liquefied natural gas (LNG) infrastructure transportation and home fueling solutions to the market.

The memorandum of understanding will seek to marry GE's global oil and gas technology portfolio with Chesapeake's expertise in developing fueling solutions for natural gas vehicle (NGV) fueling stations to create modular and standardized CNG stations. These stations, which will be called "CNG In A Box," will begin to be delivered by GE in fall 2012.

Terms call for Peake Fuel Solutions, a Chesapeake Energy affiliate, to bring this technology to market with 250 such stations being prepared by GE. CNG In A Box will compress natural gas on-site at an industrial location or traditional automotive refilling station to turn it into CNG.

"Both GE and Chesapeake are known for taking on tough energy challenges and putting the best minds and technologies to work to develop solutions," Aubrey K. McClendon, Chesapeake's chief executive, said in a news statement. "The partnership announced between GE and Chesapeake's affiliate, Peake Fuel Solutions, combines Chesapeake's natural gas expertise with GE's extensive global manufacturing capabilities and will bring transformative products to industries and individual consumers across the U.S. These products and services will allow customers to enjoy the clear advantages of clean, affordable and abundant American natural gas at about half the cost of gasoline."

"GE is fundamentally committed to natural gas -- our technologies help extract it, move it and turn it into power, whether it's highly efficient gas turbines delivering electricity at the utility scale or, in the near future, a vehicle at a refueling station. What makes this project particularly exciting is that it paves the way to taking the immense reserves of natural gas being discovered in the U.S. and using them right here in the U.S. That paves the way for faster economic growth, energy security, more jobs and reduced environmental impact," said John Krenicki, GE Energy president and chief executive.

NEWS & TRENDS

Vail Forum: Speakers Endorse Natural Gas

The inaugural Vail Global Energy Forum, held in early March at Beaver Creek's Vilar Center, tackled all aspects of energy. The forum was assembled by the Vail Valley Foundation and Precourt Institute for Energy at Stanford University to bring together a non-partisan group of top thinkers in the energy space. The forum was deliberately designed to be affordable and accessible to the general public, and particularly to high school and college students.

Natural gas had clearly captured the hearts and minds of many in the lineup. Opening keynote speaker Colorado Gov. John Hickenlooper noted that the top two issues that occupy governments and elected officials are jobs and energy.

"Everyone everywhere wants a full-time job, and a lot of these jobs come out of energy," said Hickenlooper. Colorado was held up as an example of a pro-business and pro-energy state that at the same is committed to environmental protection.

Throughout Colorado, and indeed across many American states, natural gas supplies have grown spectacularly, thanks to the innovative uses of horizontal drilling and fracturing technologies. "This will dramatically reduce our dependence on traditional supplies," said Hickenlooper.

Natural gas has many positives: It is cleaner and less expensive that other energy sources, it can create jobs, and it can

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keep money home in the U.S. by displacing foreign energy supplies.

The governor addressed public suspicions that swirl around hydraulic fracturing: "There is misinformation about frac fluids being pushed into groundwater."

The state has wrestled with questions around how trade secrets and the environment can both be protected, but after a collaborative effort between industry, regulators and the public Colorado recently enacted the most transparent frac fluid disclosure rules in the world.

"We will continue to be pro-business and hold ourselves to the highest possible standards," he said.

Former Secretary of State George Shultz spoke on his vision of the future of energy. Shultz said that the world is on the cusp of a genuine energy revolution, and it stems from hydraulic fracturing technology. Indeed, fracing technology is fostering a geopolitical revolution, as countries that have depended on very high prices and a monopoly on prices are feeling the ground shift beneath their feet.

Two battles must be won on the political front, in Shultz's view. The first battle is to see that hydraulic fracturing is used, and that it is used responsibly. The second is over research and development. "We have to keep R&D going in a strong and sustained way. This is a political issue we have to win."

Shultz noted that if he were steering the nation's energy policies, he would eliminate all subsidies and put in place a revenue-neutral carbon tax.

Ernest Moniz, professor of physics at MIT, presented the results of an extensive study of natural gas conducted at the university. He anointed natural gas as a critical component of the energy mix going forward, as natural gas first displaces coal before it is then displaced by other, cleaner options.

RESIN PRICES – MARKET UPDATE – MARCH 8 2012					
TOTAL OFFERS: 20,066,604 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	3,739,452	0.64	0.78	0.68	0.72
LDPE - Film	3,537,980	0.65	0.81	0.73	0.77
PP Homopolymer - Inj	2,825,520	0.77	0.85	0.78	0.82
HDPE - Inj	2,378,876	0.71	0.74	0.67	0.71
HDPE - Blow Mold	2,338,692	0.64	0.76	0.66	0.7
PP Copolymer - Inj	2,127,312	0.77	0.86	0.8	0.84
LDPE - Inj	831,472	0.81	0.85	0.73	0.77
HMWPE - Film	793,656	0.75	0.79	0.71	0.75
GPPS	615,000	0.86	0.86	0.87	0.92
LLDPE - Inj	498,644	0.65	0.765	0.71	0.75
HIPS	380,000	1.01	1.03	0.98	1.03

Source: Plastics Exchange – www.theplasticsexchange.com

No evidence of groundwater contamination from fracturing operations was found in more than 4,000 well completions that MIT studied, said Moniz. Oil and gas drilling are heavy industrial processes, so environmental impacts are present. However, in the MIT study, about one-half of environmental complaints were due to poor well completions and one-third to issues with management of waters at the surface. "These issues are completely manageable," said Moniz, "but they are challenging."

Another speaker was Franklin Orr, director of the Precourt Center at Stanford University. Energy use is woven through the fabric of modern life, and the scale of the energy system has grown hugely. Great investments will be needed going forward, as energy demand is certain to grow. "There is no question that we have abundant energy resources."

Keys to energy security include a diversity of resources and diversity of energy delivery systems, he noted. At the same time, energy impacts can be reduced by the substitution of natural gas for coal in power plants and by increased efficiencies in energy use in cars and buildings and such.

Tom Petrie, vice chairman, Bank of America, Merrill Lynch, and co-founder of Petrie Parkman & Co., offered his petroleum supply outlook. "Unconventional sources give us breathing room and flexibility," he said.

There is no single solution and no ideal answer, and a portfolio of options will be needed to address energy supply issues. New petroleum realities include significantly enhanced supply, as unconventionals are becoming the most important source of new North American supply.

– Peggy Williams

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VOLUME 30 / ISSUE 6 / March 9, 2012

Formerly GAS PROCESSORS REPORT

TransCanada Announces Open Season For Keystone Hardisty Crude Terminal

TransCanada Corp. (TSX & NYSE :TRP) launched an open season to obtain binding commitments from interested parties for the Keystone Hardisty Terminal, which will be located at the major crude oil terminal hub in Hardisty, Alberta. The proposed project is an above-ground, 2 million barrel crude oil terminal with tankage and pipeline infrastructure that could be expanded subject to the level of interest received in this open season.

The proposed project will provide new infrastructure for Western Canadian producers and access to the Keystone Pipeline System. Following completion of the open season, which closes at 12 p.m. (Mountain) on March 22, and subject to receipt of sufficient contractual commitments from shippers, TransCanada intends to proceed with the necessary regulatory applications for approvals to construct and operate the terminal. The project is expected to be in-service by early 2015. The Keystone Pipeline System is an operational 3,461 kilometre (2,151 mile) pipeline that is delivering more than 500,000 barrels per day of Canadian crude oil to U.S. Midwest markets and Cushing, Okla.

33 Sites Contenders For North American LNG Export Terminals, Survey Finds

LNG industry analyst Zeus Development Corp. has identified 33 sites in the United States, Canada and Mexico that hold possible competitive advantages for developers of LNG export terminals.

Sixteen of those sites would offer access to Pacific trade routes to Asian markets without having to transit the Panama or Suez Canal. The remaining are on the East Coast or along the Gulf of Mexico.

"North America's natural gas landscape has changed so radically in the past five years that many sites once considered for import terminals now offer advantages as export plants," Bob Nimocks, president of Zeus, said. "Former liquefaction and export sites such as the once-proposed Yukon Pacific near Valdez, Alaska, might offer advantages as well."

The American Gas Association's Potential Gas Committee estimates that the United States has nearly 2 quadrillion cubic feet of undiscovered gas. Canada and Mexico also are believed to hold vast undiscovered reserves. British Columbia alone is estimated to contain 1.1 quadrillion cubic feet of natural gas, enough to supply 20 world-scale export plants for more than 100 years.

In recent months, natural gas in North America has traded for as little as $2.50 per million Btu while Asian gas prices have exceeded $15/MMBtu. Yet, U.S. export projects are being delayed by government regulators, opening an opportunity for Canada and Mexico.

Fifteen pipelines connect Mexico to the United States. Mexico increased its imports of U.S. natural gas by 50 percent last year. Domestic production has also been climbing with successes in Mexican gas field development. The Zeus survey has identified eight potential LNG export sites in the country.

In total, the 33 sites represent a potential export capacity of 300 million tonnes, which would more than double world LNG trade.

Each represents more than 1,000 construction jobs and investments of more than $5 billion in new infrastructure and equipment.

Despite Sanctions, China To Support Iranian Petrochemical Projects

Despite calls from the United States and western Europe to ban Iranian hydrocarbon exports, China continues to increase its crude oil imports from Iran and is now planning to back multiple petrochemical plants in the Middle Eastern nation. China already imports approximately 557,000 barrels of crude per day from Iran and is seeking to grow its trade relationship with the country.

According to Iran's Fars News Agency, China is planning to invest in 20 petrochemical projects in Iran. "Based on the latest agreements, Chinese investors intend to use such credit line for investing in 20 petrochemical projects in Iran," Rostam Qassemi, Iran's oil minister, said while speaking at a recent petrochemical conference.

The U.S. and western European nations are seeking to increase trade sanctions against Iran due to its failure to heed calls for it to halt its nuclear program.

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SNAPSHOT

Developing In-House Talent Can Create Competitive Advantages

Energy companies seeking to grow their competitive position through the long haul should look to put in place an organization succession plan that extends beyond C-suite positions, according to a recent PwC report, "Succession Planning: What Is The Cost of Doing It Poorly…Or Not At All?"

"Companies that view succession planning as a one-time effort – with a deliverable that consists of nothing more than a binder with proposed organizational charts – will be disappointed in their results. But investing the resources necessary to maintain an ongoing, in-depth succession planning effort is worth the time and effort," according to the report's authors, Todd Hoffman and Stanley Womack.

Because of the complexities involved in the energy industry that require specialized skill sets and experience, the costs involved in recruiting for replacement throughout an organization can be exceptionally costly. In addition to the recruiting costs, energy companies must also account for the time and efforts necessary to train new employees. Thus, if companies instead put forward the efforts for long-term succession planning they can reap garner a real advantage over their competitors by taking the time to identify and nurture pivotal talent within their organization.

Hoffman and Womack noted that most companies claim to have such a program in place, but these are frequently only focused on a handful of high-potential executives. "Beyond that first or second organizational layer, the succession planning team typically has only minimal awareness of the employees who actually produce results for the company – the 'pivotal talent' that makes the organization successful."

Most oil and gas companies have a host of employees with unmatched technical knowledge and experience scattered throughout their organization that are critical to its success. "Losing a handful of these pivotal talents over a short time frame would cripple some companies. And in the case of especially skilled employees working in highly technical fields, finding and recruiting equivalent talent from outside the company would be extremely difficult if not impossible; there simply aren't many workers in the industry with similar expertise," the report said.

In addition, companies are still dealing with recruiting issues due to the "talent gap" that was created by the downturn in the oil and gas industries in the 1980s that caused many companies to layoff younger employees. This has caused the ages of experienced oil and gas professionals to skew much higher than in other industries.

Although the booming nature of the past few years has seen companies increase their recruiting efforts of younger workers, many in the oil and gas industries lack experienced depth that is ready to step in for the current generation of pivotal workers. Thus it is to an organization's tremendous benefit to be able to identify talented employees early on and coordinate their training and development so they can eventually fill this gap.

"When performed properly, succession planning can provide a significant long-term competitive advantage, ensuring that the company has the talent, skills and expertise to achieve its strategic objectives over time," according to Hoffman and Womack.

To properly maintain such a development program requires the input of senior management, human resources, managers and supervisors along with training and development. "Implementing a succession planning program is no different than the rollout of any other important corporate initiative, requiring a focus on change management, communication and cultural alignment that must be actively managed," the report said.

Hoffman and Womack identified five elements of successfully integrating a plan aimed at developing key successors compared to replacing them:

1. The program must be integrated into the organization's long-term business strategy.
2. It must be owned by the senior management team.

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3. The company must continually assess key talent.
4. Succession planning needs to be linked to other talent management processes and practices.
5. The performance of these planning efforts must be continuously monitored and evaluated.

Hoffman and Womack noted that not all companies have the in-house resources for such efforts. In this case, they recommended that such companies work with third-party consultants to help in the creation and maintenance of succession plans. – Frank Nieto

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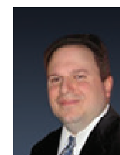
Contact Information:

FRANK NIETO Editor
fnieto@hartenergy.com



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