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FEATURE

Williams Partners To Acquire Caiman Marcellus Assets; Form Utica JV

Williams Partners (NYSE: WPZ) continued to expand its footprint in the Marcellus shale this week as it reached an agreement to acquire Caiman Eastern Midstream LLC from Caiman Energy for $2.5 billion. The agreement, which also provides Williams Partners with an avenue to grow into the Utica shale, follows the company's acquisition of the Laser Northeast Gathering System in the Marcellus from Delphi Midstream Partners last month.

Williams Partners' Frank Billings (left) and Caiman Energy's Jack Lafield (right) discussed their companies' agreement at this week's Marcellus Midstream conference presented by Hart Energy in Pittsburgh, Pa.

The Caiman Eastern Midstream acquisition includes the Fort Beeler cryogenic natural gas processing plant near Cameron, W.V., and the Moundsville processing and fractionation plant in Marshall County, W.V., along with a related gathering system and a planned ethane pipeline.

"This acquisition continues to expand on Williams' footprint in the Marcellus, and we especially like that it is in the wet gas window of the play, allowing us to expand our NGL footprint. It's a great opportunity for us because we like scale," Frank Billings, vice president, Williams Partners, said at a March 20 news conference at Hart Energy's Marcellus Midstream conference in Pittsburgh, Pa.

(continued on page 6)

NGL PRICES & FRAC SPREAD

NGL Prices Relatively Stable As Uncertainty Over Crude Prices Rises

Natural gas liquid (NGL) prices were relatively flat this past week as they followed crude oil prices, which have been in a holding pattern the last two weeks. Crude prices have been stuck in neutral as there are two schools of thought on where they are headed.

The bulls see prices pushing past their current state of $105 per barrel (/bbl) due to continued uncertainty over the West's showdown with Iran over its nuclear program and the resulting oil embargo that will force prices up. On the bearish side, there is the feeling that the U.S. economy is improving and Saudi Arabia will be able to fill the supply gap created by the Iranian embargo. However, without a consensus on where prices are headed they remain in limbo. Further muddying the situation is growing evidence that domestic demand is down and could drop further should gasoline prices continue to increase.

This uncertainty has carried over to the NGL market, where the demand level from refiners for the spring and summer is an unknown. It appears that last week's sharp drop in natural gas prices experienced some market correction as the price rose at both Conway and Mont Belvieu, which further hurt impeded frac spread margins.

For the week, NGL prices were down across the board at both hubs. The largest drop in price was for ethane, which fell 6%

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at both locations. The Mont Belvieu price dropped to 50¢ per gallon (/gal) with the frac spread margin falling 8%. However, the price remains strong as it was the second highest at the hub in nearly two months. The Conway price fell to its lowest level in a month as it was down to 31¢/gal with a 14% drop in margin.

These price decreases were partially due to an extension of the maintenance turnaround at ExxonMobil's Baytown #1 ethylene plant, which will bring the facility back online in early April. The maintenance will increase the plant's capacity from 53,000 barrels per day (b/d) of ethylene to 62,000 b/d. However, it is being reported that Flint Hills Resources' Port Arthur cracker will come back online following the return of Dow's St. Charles cracker last weekend. In addition, En*Vantage reported that there may have been increased market pressure due to movement of larger volumes of EP mix from Conway to Mont Belvieu.

Current Frac Spread (Cents/Gal)

March 23, 2012	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	31.18		50.44	
Shrink	13.68		14.08	
Margin	17.50	-13.86%	36.36	-7.66%
Propane	107.26		125.40	
Shrink	18.87		19.42	
Margin	88.39	-6.02%	105.98	-2.96%
Normal Butane	173.28		194.45	
Shrink	21.36		21.98	
Margin	151.92	-2.82%	172.47	-0.29%
Iso-Butane	193.40		205.40	
Shrink	20.52		21.12	
Margin	172.88	-2.62%	184.28	-2.45%
Pentane+	240.15		245.40	
Shrink	23.11		23.79	
Margin	217.04	-3.08%	221.61	-1.05%
NGL $/Bbl	48.44	-3.02%	55.03	-2.00%
Shrink	7.54		7.76	
Margin	40.89	-4.55%	47.27	-2.39%
Gas ($/mmBtu)	2.06	6.19%	2.12	0.47%
Gross Bbl Margin (in cents/gal)	93.27	-4.70%	109.41	-2.50%
NGL Value in $/mmBtu				
Ethane	1.71	-6.08%	2.77	-5.53%
Propane	3.72	-4.08%	4.35	-2.44%
Normal Butane	1.87	-1.79%	2.10	-0.20%
Iso-Butane	1.20	-1.76%	1.28	-2.15%
Pentane+	3.06	-2.26%	3.13	-0.90%
Total Barrel Valuein $/mmbtu	11.57	-3.31%	13.63	-2.38%
Margin	9.51	-5.14%	11.51	-2.88%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
March 14 - 20, '12	50.44	125.40	194.45	205.40	245.40	$55.03
March 7 - 13, '12	53.39	128.54	194.84	209.92	247.63	$56.15
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
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 16 - 22, '11	70.01	146.42	185.10	196.28	238.60	$59.35
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
March 14 - 20, '12	31.18	107.26	173.28	193.40	240.15	$48.44
March 7 - 13, '12	33.20	111.82	176.44	196.86	245.70	$49.95
March 7 - 13, '12	32.20	107.04	173.26	190.77	244.36	$48.79
Feb. 29 - March 6, '12	29.80	105.14	166.66	173.40	238.46	$46.96
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 16 - 22, '11	50.45	132.18	170.54	185.75	238.28	$54.09

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

(Left) 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

Propane prices dropped at both hubs, but there has been an increase in demand for volumes from the export market as a petrochemical feedstock. Thus far exports haven't hit levels that will increase prices though as the Mont Belvieu price was down 2% to $1.25/gal with a 3% drop in margin. The Conway price experienced a greater drop as it was down 4% from the previous week to $1.07/gal with a 6% drop in margin.

Even with greater increases in heating demand in the future, it is possible that export markets could remain attractive to producers. "The seasonality of propane adds complexity to the extent that you can't find a home for it in the summer. We're looking for where that highest value market might be," Frank Billings, vice president, Williams Partners said at a press conference at Hart Energy's Mar-

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cellus Midstream in Pittsburgh (see this week's feature).

In the coming years as the Utica shale production comes online and the Marcellus shale continues to grow, it is possible that these plays will serve to support the Northeast propane market.

"The East Coast is a 40 million barrel per year market for propane and it's only been supplied by Appalachia by less than 10%, so there is a lot of growth for local propane," Jack Lafield, president and chief executive of Caiman Energy, added. "Most of the propane used in the East Coast comes from the Gulf Coast, Canada and offshore. That will start to change with the Marcellus being the main supplier and within five to 10 years the Northeast will be a net exporter of propane."

Heavy NGL prices were largely flat by comparison due to their close relationship to crude prices. Mont Belvieu butane was down very slightly to $1.95/gal with a margin drop that was less than 1%. The Conway price dipped 2% to $1.73/gal with a 3% drop in margin. Butane is also benefitting from use as a diluent by Canadian oil sands producers.

Isobutane's three-week winning streak that was a result of several alkylation units returning to operation was halted this week. The price fell 2% at both hubs with the Mont Belvieu price down to $2.05/gal with a 3% drop in margin. The Conway price fell to $1.93/gal also with a 3% drop in margin.

Pentanes-plus (C_{5+}) prices remained the highest at both hubs despite decreases at both Mont Belvieu and Conway. The Texas price dipped 1% to $2.45/gal with a 1% drop in margin while the Kansas price was down 2% to $2.40/gal with a 3% drop in margin.

The theoretical NGL barrel price was down 3% at Conway to $48.44/bbl with a 5% drop in margin to $40.89/bbl. The Mont Belvieu barrel price fell 2% to $55.03/bbl with a 2% drop in margin to $47.27/bbl.

The most profitable NGL to make at both hubs remained C_{5+} at $2.17/gal at Conway and $2.22/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.73/gal at Conway and $1.84/gal at Mont Belvieu; butane at $1.52/gal at Conway and $1.73/gal at Mont Belvieu; propane at 88¢/gal at Conway and $1.06/gal at Mont Belvieu; and ethane at 18¢/gal at Conway and 36¢/gal at Mont Belvieu.

According to the EIA, natural gas in storage for the week of March 16 increased 11 billion cubic feet as injection season looks to be getting underway. This pushed the storage level to 2.38 trillion cubic feet (Tcf) from 2.369 Tcf the previous week. This was 48% greater than the 1.614 Tcf recorded last year at the same time and 54% greater than the five-year average of 1.545 Tcf.

The good news is that while storage injection season may be starting following a nearly non-existent withdrawal season, the cooling demand season appears to be ahead of the curve. For the fourth straight week the National Weather Service's forecast is calling for much warmer than normal weather throughout much of the country. This is expected to be especially true in the Midwest although the warm weather expected to extend from the Mountain region and Southwest through the Gulf Coast and Midwest to the East Coast. The West Coast is expected to once again experience cooler than normal temperatures for late March.

– Frank Nieto

INSIDE LOOK AT PROCESSING

Shell Signs Land Option To Potentially Build Pennsylvania Ethane Cracker

The first round in the three-way battle between Pennsylvania, Ohio and West Virginia to entice a petrochemical manufacturer to build an ethane cracker in the Northern section of the U.S. for Marcellus and Utica production has been won by Pennsylvania. Shell Chemical LP signed an agreement for an option to purchase Horsehead Corp.'s zinc plant in Monaca, Pa., for an undisclosed fee.

Shell will evaluate the site as a potential location for an ethane cracker that would handle volumes from the Marcellus and Utica shales. The option, if exercised, would require Horsehead to vacate its Monaca site by April 30, 2014.

Should Shell choose to proceed with construction at the site, located in Potter Township in Beaver County, it would take roughly four years to build the facility, which is expected to cost approximately $2.5 billion. It would be the company's fifth ethane cracker in the U.S.

"For several months, I have been actively engaged and working with Shell officials, as have members of my cabinet,

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to get Pennsylvania to this point in the process," said Gov. Tom Corbett. "Shell now knows what we all do: Pennsylvania is ideal for this project. Not only do we sit atop the richest known reserves of natural gas in the world, but we have a world-class workforce, an expansive transportation network including rail, roads and air; excellent educational institutions; and a thriving quality of life here in Pittsburgh."

Each state offered financial incentives to companies to select them for construction of the petrochemical plant, including Pennsylvania's Keystone Opportunity Zone program. This program provides owners or businesses in certain locations with reduced or tax-free status for a certain period of time and is expected to generate millions of dollars in incentives to Shell.

Corbett told *The Pittsburgh Post-Gazette* that the project could be the largest industrial project in the southwestern portion of the state in a generation. "I know that we were in competition with West Virginia and Ohio. I would spend hours at the governor's residence in my library on my computer on Google Map, pulling up the Ohio River the whole way, and saying where are the best facilities, not even knowing what they were, just looking for open areas. I kept coming back to the facility that was selected."

Jim Hensler, Horsehead president and chief executive, stated that the company would move its zinc production operations to a new plant in North Carolina, which is expected to start up in Q3 2013. "We believe this option provides the best value proposition for Horsehead among the several alternatives we are considering for this site," he said in a news release.

– Frank Nieto

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / March 22, 2012	
Gas Hub Name	Current Price
Carthage, TX	2.06
Katy Hub, TX	2.11
Waha Hub, TX	2.07
Henry Hub, LA	2.18
Perryville, LA	2.06
Houston Ship Channel	2.12
Agua Dulce, TX	2.64
Opal Hub, Wyo.	2.07
Blance Hub, NM	2.02
Cheyenne Hub, Wyo.	1.96
Chicago Hub	2.17
Ellisburg NE Hub	2.14
New York Hub	2.26
AECO, Alberta	1.94

Source: Bloomberg

Enterprise To Build Two More NGL Fractionators At Mont Belvieu; Expands Eagle Ford Midstream Network

Enterprise Products Partners LP (NYSE:EPD) announced that the partnership plans to construct two more natural gas liquid fractionators at its Mont Belvieu, Texas complex that would provide 150,000 barrels per day ("BPD") of incremental fractionation capacity. Projected to begin service in the fourth quarter of 2013, the two 75,000 BPD units, together, along with a sixth unit currently under construction and on schedule to commence service in the fourth quarter of 2012, would give Enterprise the capacity to fractionate more than 610,000 BPD at the Mont Belvieu facility.

The process of obtaining the necessary permits for fractionators seven and eight is already under way. The fractionators would facilitate the continued growth of NGL production from various Rocky Mountain producing basins and the Eagle Ford Shale play in South Texas.

In the Eagle Ford Shale, Enterprise is nearing completion of several key infrastructure projects and announcing new expansion initiatives for delivering the NGLs that will underpin the increased fractionation capacity at Mont Belvieu. Specifically, the partnership has entered into a long-term commitment with Anadarko Energy Services that will support construction of a 173-mile extension of Enterprise's recently completed Eagle Ford NGL pipeline that links the partnership's Yoakum natural gas processing facility in Lavaca County, Texas to Mont Belvieu. This extension will originate near Yoakum and extend to Western Gas Partners, LP's natural gas processing facility in LaSalle County, Texas.

Through a connection with Enterprise's existing NGL pipeline network near Falls City, Texas, the partnership's seven other integrated South Texas processing facilities will have access to markets served by Mont Belvieu. Consisting of 16-inch diameter pipeline, the extension will have a capacity of 140,000 BPD and is expected to begin service in the second quarter of 2013.

To date, Enterprise has completed construction of approximately 375 miles of natural gas pipeline, ranging from 16 inches to 36 inches in diameter. When

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the remaining 66-mile segment is completed, Enterprise's Eagle Ford Mainline system will be able to deliver 900 million cubic feet per day (MMcf/d) of rich natural gas to the partnership's Yoakum cryogenic natural gas processing facility.

The Yoakum plant will then have the capability of processing up to 900 MMcf/d of natural gas and produce up to an estimated 111,000 BPD of NGLs. Including Enterprise's seven other integrated South Texas processing facilities, the partnership will be able to offer approximately 2.4 billion cubic feet per day of processing capacity for the region when Yoakum is fully operational.

The first 300 MMcf/d train of the Yoakum processing facility is expected to begin commercial operations in May 2012. The second train is scheduled to begin service in July 2012, followed by the third train in the first quarter of 2013.

MarkWest Announces Gathering, Processing Agreements

MarkWest Energy Partners LP has announced the execution of long-term gathering and processing agreements with Anadarko Petroleum Corp. that will support the recently announced 120 million cubic feet per day (MMcf/d) expansion of the Partnership's cryogenic processing capacity in East Texas. MarkWest will provide gathering and processing services to support Anadarko's liquids-rich development program within Panola County, Texas, according to a March 19 news release.

To provide midstream services to Anadarko and other producer customers that are expanding their drilling programs in East Texas, including Chevron, PetroQuest Energy and Samson Lone Star LLC, MarkWest is constructing the Carthage East plant, which will have cryogenic processing capacity of 120 MMcf/d, increasing total processing capacity in East Texas to 400 MMcf/d. In addition, Carthage East will expand the Partnership's gathering capacity in East Texas by 140 MMcf/d and residue gas outlet capacities by 60 MMcf/d.

"We are very pleased to announce agreements with Anadarko, Chevron, PetroQuest, and Samson to support the expansion of our East Texas assets," said Frank Semple, MarkWest chairman, president and chief executive. "Providing best-of-class, fully integrated natural gas midstream services is essential to the success of our producer customers, and we are excited to continue to play a role in our customers' ongoing success in East Texas."

Marcellus Shale Gas Continues To Drive Investment

The growing supply of natural gas in the United States remains the driving impetus behind a large number of midstream infrastructure projects, a panel of experts told attendees of Hart Energy's third annual Midstream Marcellus conference held recently in Pittsburgh, Pennsylvania.

The growing production from the Marcellus shale, in particular, has reshaped many traditional market patterns and provided incentives to expand the region's midstream infrastructure.

Production in the Marcellus region should increase from 4.1 billion cubic feet (bcf) per day in 2011 to 9.4 bcf per day in 2015 to about 14 bcf per day by 2020, said Stan Chapman, senior vice president of customer services and marketing at Nisource Gas Transmission and Storage Co.

Demand in the northeast is expected to grow more slowly than supply. By 2019, Chapman said the Northeast will be self sufficient by 2019. Supply will exceed demand for the region.

"That means that gas has to find a way out. It has to go somewhere," he said. "The challenge we face is how do we physically get those supplies out of the region."

Many of the challenges facing the industry today stem from the fundamentals of supply and demand. From 1990 until about 2005, U.S. domestic production of natural gas fluctuated around 50 billion cubic feet per day. "We really didn't have any significant growth at all," he said.

After 2007, growth in production picks up and is expected to continue to grow.

"That projected supply growth is really the driver behind a lot of the infrastructure projects we are talking about today," Chapman said.

Within Canada, supplies are flat or growing marginally, but the demand for gas continues to grow. "There is less gas available from Canada to be imported into the United States," Chapman said.

Robert Parks, president of Superior Pipeline LLC, said the company spends about $225 million a year in capital expenditures, about half of which is driven in the Appalachian basin. Superior Pipeline was formed in 1996 and has been a wholly-owned subsidiary of Unit Corp. since July 2004. Superior was initially focused on the midcontinent but over the last four years has expanded the Marcellus region, Parks said.

Superior is working to finalize the 16-mile, 12-inch and 16-inch diameter Pittsburgh Mills gathering system, which

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lies immediately north of Pittsburgh. The line's initial deliveries flowed into the Dominion Transmission line, with the permanent line first flows scheduled for May 2012.

In addition, Superior is in the process of extending the Bruceton Mills Pipeline Project in northeastern West Virginia. The 16-mile, 16-inch diameter gathering system connects with Columbia Gas Transmission Co's line 1804, with a delivery capacity of 220 million cubic feet per day. It went into service in November 2011, Parks said.

Parks also gave an update on Superior's Snow Shoe Pipeline Project, a trunk line of about 15 miles in length that is under development. Superior plans to install a 24-inch diameter line in Centre and Clearfield counties of Pennsylvania. It has secured all of the right of way permits and regulatory permits and is waiting for drilling activity in the region to pickup, he said.

Stan Brownell, vice president business development at Millenium Pipeline Company LLC, said the company's system was originally designed to receive natural gas from the Empire system to bring gas from Canada and bring it towards market in New York .

Consolidated Edison Inc., Central Grid and Central Hudson Gas and Electric Corp. were the main customers for the system. The system was originally designed to move 525 million cubic feet per day of natural gas from west to east, he said.

The growing production from Marcellus has compelled the company to transform into a header system that can move gas in a variety of directions depending on the needs of the market, Brownell said.

– Keefe Borden

Williams Partners To Acquire Caiman Marcellus Assets... *(continued from page 1)*

He compared the potential for this acquisition with Williams Partners' operations in the Picenace basin. "We have large processing plants out west and we can bring that same operating capability to this play and help producers maximize their production through high reliability and over time lower costs because of our scale," Billings said.

Williams Partners anticipates bolt-on acquisition opportunities related to the Caiman Eastern Midstream assets as the Marcellus continues to grow. "As this business grows over the next three to five years, we think we'll be able to increase our NGL production. We also think there is the potential for acquisitions for NGL handling facilities on top of the gathering and processing facilities that Caiman has started," Billings said.

"The goal of every company is deciding where to go next and we realized that as the Marcellus and Utica shales began developing that we didn't have the capability and capacity to do a lot of the necessary build-out such as long-haul pipelines, interstate pipelines and long-haul NGL facilities," Jack Lafield, president and chief executive of Caiman Energy, stated during the news conference.

Caiman Energy was fortunate to enter the Marcellus at a time when the midstream wasn't very active in the play because they would be building ahead of drilling by producers, according to Lafield. However, as the play has grown in size, the company realized it didn't have the capability or capacity to complete much of the build-out left to complete, specifically long-haul pipelines, interstate pipelines and long-haul NGL facilities.

"Our focus became: Who can we partner with? We looked at companies that had the necessary assets and capabilities on their side of the table. I think Williams can jump in and take on the NGL opportunity in the Marcellus and Utica shales. We're turning these assets over to some very capable hands in Williams Partners. I think you'll see them come in and be a very aggressive and major player here," Lafield said.

Utica Joint Venture

In addition to acquiring the Caiman Energy Marcellus assets, Williams Partners also formed a joint venture with Caiman Energy and its private equity investors, including EnCap Flatrock Midstream, EnCap Investments LP and Highstar Capital. This joint venture will develop midstream infrastructure in the Utica shale.

"We like to operate as the front infantry by getting out into the field ahead of everybody and work with producers on midstream development, and one of the keys to this deal was being able to do the same thing in the Utica," Lafield said. Caiman has established an office for this joint venture in Canton, Ohio, as it raises capital to become a major player in the region. In addition, this joint venture will seek to utilize Williams Partners' expertise and experience with NGLs throughout the country.

"We want to keep an entity that can move and respond. Williams Partners has great expertise in engineering and operating and we'll be looking at all of the resources the partners can bring

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together, such as Transco expanding into the Utica, NGL lines and where they need to go. I keep saying that Padd I is getting ready to be bigger than Conway and you're going to need someone that understands all the areas of the country relative to NGLs that can make this thing work correctly and get the ultimate value back to the producer," Lafield added.

According to Billings, the midstream assets in the Marcellus shale may be used by the partners in the Utica. "You have to have speed to market, so having assets on the ground in the Marcellus is helpful to the Utica development. We can bring gas out of Ohio and process it in the facilities we already have," he said.

Transaction Terms And Funding

Williams Partners plans to fund the purchase price of the acquisition with a combination of $1.78 billion in cash and the issuance to Caiman of approximately 11.8 million Williams Partners common units valued at approximately $720 million. The partnership expects to fund the cash portion of the transaction with a combination of equity, debt and available cash.

Williams (NYSE: WMB) intends to make an additional investment in Williams Partners of approximately $1 billion to facilitate the acquisition. Williams intends to purchase approximately 16.3 million Williams Partners limited-partner units at a price equal to the price of the units Williams Partners will issue to Caiman. Williams has also agreed to temporarily waive the general partner incentive distributions through 2013 with respect to the limited-partner units to be issued to Caiman and Williams. Williams estimates the foregone IDRs would have yielded approximately $26 million in 2012 and $42 million in 2013.

– Frank Nieto

PIPELINES & TECHNOLOGY

Obama's Speedy Keystone Review Won't Accelerate Cushing Pipe

President Barack Obama's promise to expedite the review of the southern leg of TransCanada Corp.'s Keystone XL pipeline won't speed up the project, which already is slated to start construction as soon as June.

TransCanada is awaiting permits from the U.S. Army Corps of Engineers, the last it needs to begin construction on the pipeline segment that will carry crude from the oil-storage hub at Cushing, Oklahoma, to Gulf Coast refineries, Terry Cunha, a spokesman for the Calgary-based company, said in an e-mail message on March 21.

TransCanada's president of energy and oil pipelines, Alex Pourbaix, said in an interview March 6 that construction on the Cushing phase of Keystone may begin as soon as June. The company doesn't expect the new review process to change that schedule, Cunha said yesterday. The Army Corps typically approves permits for this type of project within 60 days, according to Meg Gaffney-Smith, chief of the Corps's regulatory program.

Obama appeared in Cushing on March 22 as part of a four-state tour to promote his energy policies as Republicans blame him for surging gasoline prices. He announced that the administration is designating the southern Keystone section an infrastructure priority, which will make the project eligible for accelerated review of permit applications.

"We're making this new pipeline from Cushing to the Gulf a priority," Obama said today in prepared remarks. "We're going to go ahead and get that done."

Keystone XL Rejected

Obama in January denied a permit for the Keystone XL to bring oil-sands crude from Canada to the Texas coast, citing environmental concerns. TransCanada announced plans Feb. 27 to proceed with just the Cushing-to-Gulf segment of the pipeline. The project is expected to ease a supply bottleneck in Oklahoma by eventually bringing as much as 830,000 barrels of oil a day to Texas refineries.

Since the Cushing phase doesn't cross an international border, it doesn't require permission from the U.S. Department of State and president, as the full project did. The Obama administration released a statement in February saying the White House will "take every step possible to expedite the necessary federal permits."

Obama's new designation of the pipeline as an infrastructure priority was dismissed by Republicans as political window dressing on a project that's already well under way to deflect criticism Obama has received for refusing to approve the northern segment of TransCanada's line.

Obama was "trying to take credit for part of the pipeline that doesn't even require his approval," Boehner, on Ohio Republican, told reporters at his weekly news conference in Washington. "This idea that the president is going to expedite this will have no impact on the construction of this pipeline."

- Bloomberg

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Magellan Midstream To Expand Crane-To-Houston Crude Oil Pipeline Capacity

Magellan Midstream Partners LP announced on March 15 that it plans to expand the capacity of its Crane-to-Houston crude oil pipeline to 225,000 barrels per day (b/d). Based on Magellan's recent binding open season, the expanded pipeline capacity is fully committed with long-term agreements, the company noted.

"The market clearly confirmed the attractive fundamentals of our Crane-to-Houston crude oil pipeline, and we are pleased to increase the scope of our project in response to this strong industry demand," said Michael Mears, CEO. "We continue to believe our Crane-to-Houston pipeline will be the most direct and cost-efficient route to deliver growing West Texas crude oil production to the refineries in the Houston and Texas City area, providing an alternative transportation option that will help alleviate the current crude oil oversupply situation in Cushing, Oklahoma."

Magellan had previously announced the initiation of a project to reverse and convert to crude oil service its pipeline from Crane, Texas, to its East Houston, Texas, terminal, with an expected initial capacity of 135,000 b/d and a cost of US$245 million. The project is now estimated to cost $375 million including the cost to expand the system to its maximum capacity of 225,000 b/d, according to the company.

Subject to receiving the necessary permits and regulatory approvals, the partnership expects the reversed pipeline to begin transporting crude oil at partial capacity by early 2013, ramping to its full 225,000-b/d capacity by mid-2013.

Further, Magellan continues to assess the construction of a new pipeline segment or the use of existing third-party infrastructure to transport crude oil from Midland, Texas, to Crane for delivery to the Houston area. If built, the partnership said it currently estimates the new pipeline segment would cost an additional $70 million to construct.

RESIN PRICES – MARKET UPDATE – MARCH 23 2012					
TOTAL OFFERS: 18,160,336 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LDPE - Film	4,312,648	0.74	0.84	0.71	0.75
LLDPE - Film	3,775,084	0.73	0.77	0.66	0.7
HDPE - Inj	2,601,152	0.67	0.76	0.65	0.69
HDPE - Blow Mold	2,426,852	0.64	0.75	0.64	0.68
PP Copolymer - Inj	1,626,196	0.7	0.88	0.78	0.82
LDPE - Inj	881,840	0.76	0.79	0.71	0.75
PP Homopolymer - Inj	832,460	0.78	0.82	0.76	0.8
GPPS	615,000	0.86	0.86	0.87	0.92
HMWPE - Film	529,104	0.74	0.74	0.69	0.73
HIPS	380,000	1.01	1.03	0.98	1.03
LLDPE - Inj	180,000	0.79	0.79	0.69	0.73

Source: Plastics Exchange – www.theplasticsexchange.com

Parnon Gathering Begins Construction Of Great Salt Plains Crude Pipeline

Parnon Gathering Inc. announced that construction on the Great Salt Plains Pipeline commenced in early March and is scheduled for completion in July. The project includes laying approximately 115 miles of new 8-inch pipeline from Cherokee, Okla., to Cushing, Okla., and will be able to move 20,000 barrels per day of crude oil and, with a simple upgrade have the ability to raise the rate to 35,000 barrels per day. It will transport crude oil production from central and western Oklahoma and southern Kansas and will deliver to Parnon's tanks located at Cushing.

"We've made significant progress in the last few months with all of the steel pipe sections manufactured and delivered, rights of way secured and approvals received from the various government agencies. With construction of the pipeline and our new terminal at Cherokee, Okla., now under way, we are looking ahead confidently to operate the facility this summer," said Paul Adams, chief executive of Parnon.

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A construction contract has been signed with Global Pipeline Construction LLC., providing for the construction of the Great Salt Plains Pipeline. In addition, Parnon has signed an EPC contract with IPS Engineering to manage the project. "We are happy to have Global and IPS working with us on this project, we are certain they will implement all the highest standards in the execution of the pipeline and terminal construction," said Adams.

The IPS management team, which consists of experts in construction, engineering, health and safety, security, environmental and community affairs, will maintain oversight of the construction process with audits, inspections and quality control on a daily basis.

Plains Pipeline Launches Montana Pipeline Open Season

Plains Pipeline LP, a subsidiary of Plains All American Pipeline LP, Houston, (NYSE: PAA) announced that it is conducting an open season for committed capacity on a proposed new crude oil pipeline from Baker, Mont., to Billings, Mont. The open season process provides an opportunity for potential shippers to offer long-term volume commitments for service from Baker to Billings, or from Baker to Casper, Wyo., in exchange for a discounted rate.

The proposed pipeline would originate at Plains' Baker station and provide an initial capacity of at least 50,000 barrels per day of light sweet crude oil to Billings. From the Billings station, shippers would have the option to transport volumes on Plains' jointly owned Beartooth/Bighorn system, which provides service to Casper and Guernsey/Ft. Laramie, Wyo. Furthermore, shippers will have the option to transport volumes from Casper to the Salt Lake City market via Plains' jointly owned Frontier and Wahsatch pipelines.

By submitting a binding proposal, bidders are offering to enter into a long-term throughput and deficiency agreement for pipeline capacity. The open season began on March 15 and will end on May 15.

NEWS & TRENDS

Magnum Hunter Resources Announces Partial Monetization Of Midstream Subsidiary

Magnum Hunter Resources Corp. (NYSE: MHR) announced on March 21 a definitive agreement for the placement of $100 million of convertible preferred units in its subsidiary, Eureka Hunter Holdings LLC, to an affiliate of ArcLight Capital Partners LLC. Eureka Hunter is the holding company for Magnum Hunter's midstream operation, including the Eureka Hunter Pipeline located in West Virginia and Ohio. ArcLight, based in Boston, will also have the right to invest up to an additional $100 million of Preferred Units, based on certain terms and conditions that include the ultimate approval of Eureka Hunter, bringing the total potential investment to $200 million.

The initial investment of $100 million will give ArcLight an approximate 28% ownership interest in Eureka Hunter, establishing Eureka Hunter at an enterprise valuation of approximately $400 million. Of the initial $100 million investment, approximately $60 million will be distributed to the parent, Magnum Hunter, and the remaining $40 million will be used to fund a pending acquisition. Additional investments will be used to develop Eureka Hunter's gathering system network currently located in West Virginia; develop the company's expansion plans into the Utica Shale in Ohio; and fund other accretive midstream growth projects and/or acquisitions.

The Preferred Units are entitled to receive an annual dividend distribution of 8%, payable quarterly. A significant portion of the annual dividend distribution may be paid in additional Preferred Units in lieu of cash, at the option of Eureka Hunter. Eureka Hunter will have the right to convert the preferred units into common units of Eureka Hunter upon the consummation of an initial public offering of Eureka Hunter or subsequent to the fifth anniversary of ArcLight's initial investment, subject to minimum internal rates of return objectives.

Ronald D. Ormand, executive vice president and chief financial officer of Magnum Hunter Resources, commented, "We are very pleased to announce the initial investment by ArcLight in Eureka Hunter. This investment provides a clear valuation of our midstream business that management has been seeking for some time. In addition, the capital commitment from a well funded and experienced capital provider like ArcLight will allow Eureka Hunter to more quickly expand our footprint in West Virginia, begin to develop our gathering system in the Utica Shale in Ohio, and accelerate our ability to complete an IPO of Eureka Hunter without any additional required funding from Magnum Hunter. In addition, the initial distribution will immediately increase Magnum Hunter's liquidity by $60 million, which enhances the company's resources for our upstream capital expenditure program."

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EPA Clears Cabot In Fracing Complaint

The water in 11 wells near Dimock, Pa, is safe, the U.S. Environmental Protection Agency said, disappointing residents and health groups who say the federal government should intervene in a dispute with Cabot Oil & Gas Corp. (COG)

In a statement released earlier this week, the EPA said its tests begun early this year found sodium, methane, chromium or bacteria, but at levels "within the safe range." Two wells were found to have elevated levels of arsenic, and the agency will do a second round of tests of those homes.

"If they say it's safe to drink, I want to see them come drink the water from my well," Craig Sautner, a local resident who is part of a lawsuit against Cabot, said in an interview. Sautner said his water is cloudy, and when he draws from his well he can hear gas gurgling in.

Residents in Dimock complained that hydraulic fracturing operations, or fracing, by Cabot near their homes had put methane in their water and endangered their health.

The residents' plight gained wider attention late last year after Cabot cut off water deliveries and activists such as the actor Mark Ruffalo traveled to the town to make their own deliveries.

Cabot said its tests of the water in the area last year turned up no signs of contaminants beyond legal limits.

"We are pleased that data released by EPA on sampling of water in Dimock confirmed earlier findings that Dimock drinking water meets all regulatory standards," the company said in an e-mail.

A boom in gas production using hydraulic fracturing has helped increase gas supplies, cutting prices 32% last year while raising environmental concerns about tainted drinking water. The EPA is studying the effects of fracing on water and weighing a series of nationwide regulations.

Dimock has been a test case for the agency as it interjected itself after state officials had settled with Cabot and allowed water deliveries to cease. The EPA initially pledged to send water to the town, and then reversed itself. A few days later it changed course again and

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said it would give water to a few households, and those deliveries will continue.

Groups such as the Sierra Club said they were disappointed in the EPA's announcement.

"EPA should be increasing the alarm about arsenic showing up at elevated levels near gas drilling," Iris Marie Bloom, the head of Protecting Our Waters, an anti-fracing group in Philadelphia, said in an e-mail. "I would not want to be drinking arsenic, and neither would you."

- Bloomberg

Poll: Americans Still Think Benefits Of Natural Gas Outweigh Risk

In a year of intense media scrutiny on hydraulic fracturing, the manner in which most oil and natural gas companies access natural gas, two-thirds of Americans (66%) say they believe the benefits of natural gas outweigh the risks while 17% say the risks outweigh the benefits.

The results come from a Harris Poll of 2,056 adults surveyed online between Feb. 6 and 13, 2012, by Harris Interactive.

Natural gas has maintained a relatively low price, compared with other fuels with similar uses such as oil and gasoline. Additionally, it is considered a relatively clean source of energy. For Americans, these factors seem to outweigh the risks associated with hydraulic fracturing, the extraction method most associated with gas, according to the Harris Poll.

There are significant generational differences, however. Echo Boomers, ages 18-35, are less likely to believe the benefits outweigh the risks than Matures, those 67 and older. People living in the East are less likely than those in the West to agree that the benefits outweigh the risks (60% vs. 71%).

There is also a political difference when it comes to feelings on natural gas. Three out of four Republicans (74%) think the benefits of natural gas outweigh the risks compared to just over three in five Democrats (62%) and more than two-thirds of Independents (69%), who think the benefits outweigh the risks. Looking at the reverse, the partisan differences are significant, with larger portions of Democrats (21%) and Independents (19%) thinking that the risks outweigh the benefits than Republicans (10%).

Not Much Shift On Views About Coal

In 2009, roughly two in five Americans (42%) said the risks of using coal outweighed the benefits while 36% said the benefits outweighed the risks. In 2011, the view did not change all that much as 38% said benefits outweighed risks, but 43% thought the risks outweighed the benefits. This year, the number of people who say the benefits outweigh the risks continues to inch upward as 42% say that while 40% currently say the risks outweigh the benefits.

There are some clear regional and generational differences for coal. Almost half of those in the Midwest (49%) and South (48%) say the benefits outweigh the risks compared with 35% of those in the East and 33% of those in the West. There is also a clear age divide as Baby Boomers (ages 48-66) and Matures are more likely to say benefits of coal outweigh the risks than both Echo Boomers and Gen Xers (ages 36-47); more than half of Matures (54%) and 47% of Baby Boomers say the benefits of coal outweigh the risks compared to 39% of Gen Xers and 33% of Echo Boomers.

In Conclusion

At the end of the day, what matters most to Americans is how much they are paying to heat their homes and fuel their lifestyles. This may explain why natural gas has maintained a positive position relative to its risks, said Sarah Simmons, Senior Research Executive and Industry Thought Leader for the Harris Poll. Natural gas is inexpensive, clean and accessible. Americans' view of coal suffers, especially when we look at generational breaks due to environmental factors.

SNAPSHOT

EPA Fracing Rule May Cut Gas Drilling

While the economics for natural gas-fired power plants to displace coal-fired power plants remain strong, the actual displacement level is affected by more than simple economics. Barclays Capital estimates that if the decision was merely an economical one, then gas could displace up to 30 billion cubic feet per day (Bcf/d) of coal with a price of $2.50 per million Btu. However, the investment firm estimated that the actual displacement figure is roughly 10 Bcf/d.

Coal displacement is set by the amount of underused gas-fired capacity. While the average gas-fired unit ran about 30% used in 2010, the firm noted that power operators are not capable of switching freely between coal and gas because many coal-fired plants have long-term contracts for coal. Many operators choose to utilize these deliveries when

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it has a higher price than gas because of the lack of a coal spot market that limits resale opportunities. In addition, plant operators must secure steady supplies of natural gas and without the proper transportation systems in place this may necessitate the continued use of coal-fired plants in some locations.

"We believe that the eastern power markets will see an increase in coal displacement, but will be bumping against an effective limit of displacement, at about 5 Bcf/d on an annual average basis. Taking into account the installed base of coal capacity and the amount of gas-fired capacity which can displace it, the Midwest and Texas markets could contribute a little over 3 Bcf/d followed by a little under 2 Bcf/d in the West," according to Barclay's Capital's *Gas and Power Weekly Kaleidoscope* for the week of March 13.

In the future, these figures will increase as plant operators become more familiar with utilizing gas-fired generation as the primary baseload. The advent of shale gas has lowered the price to the point that gas prices have become very competitive with coal prices. Barclays Capital found that the Southeast and Northeast should see the largest drop in coal-fired market share due to the greater cost of coal in those parts of the country.

Since 2009, the Southeast has been the region with the largest amount of displaced coal because of the higher prices in the region compared with other parts of the country along with a large number of both coal- and gas-fired power plants.

– Frank Nieto

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