HARTENERGY

MIDSTREAM Monitor

VOLUME 30 / ISSUE 17 / May 25, 2012

*Formerly* GAS PROCESSORS REPORT

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# TOP NEWS

## Kinder Morgan Completes El Paso Acquisition

Kinder Morgan Inc. (NYSE: KMI) completed its acquisition of El Paso Corp. (NYSE: EP), which was announced in October of 2011. Combining the two companies makes Kinder Morgan the largest midstream and the fourth largest energy company (based on combined enterprise value) in North America.

"We are delighted to close the El Paso transaction and we are very excited about the natural gas footprint that we now have in the United States with the addition of approximately 44,000 miles of natural gas pipelines from El Paso," Richard D. Kinder, chairman and chief executive of Kinder Morgan stated. "We are bullish on the future of natural gas and believe that it will be the fuel of choice in America for many years to come. It's domestically abundant, clean and cheap. As the largest transporter and storage operator of natural gas in the United States, we have many growth opportunities across the country, and we are eager to get to work to leverage these assets for the benefit of our customers, our shareholders and our employees."

The approximately $7.15 billion sale of El Paso's exploration and production business (EP Energy) to affiliates of Apollo Global Management LLC and others, which was announced in late February, has also closed. As previously announced, El Paso's net operating loss carryforwards will largely offset taxes associated with the sale of the exploration and production business, and thus al-

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# NGL PRICES & FRAC SPREAD

## Margins Tumble As NGL Prices Dip, Natural Gas Prices Increase

There wasn't much good news in either the oil or liquids markets this week, but natural gas prices have continued to rebound on the back of gas-fired power plants displacing coal-fired plants.

Gas prices rose 7% at both Conway and Mont Belvieu this week with the Texas price increasing to $2.51 per million Btu (/MMBtu) and the Kansas price just behind at $2.47/MMBtu. However, these gains could be short-lived as coal displacement opportunities may dwindle as gas prices increase.

"[Gas] prices have moved high enough that coal displacement should be waning. To compete with the most expensive 10% of delivered coal in the WECC power market (ed. this includes the Rockies, Northwest, Arizona, New Mexico, Nevada and California), Henry Hub prices must be $2.42 or lower…Current gas prices are competitive with only a sliver of these coals," according to Barclays Capital's Gas and Power Weekly Kaleidoscope. It is likely that power generation displacements by gas will ebb and flow with prices in this market for the next few months.

For the second straight week light NGL prices had the largest drop at both hubs, although propane showed a great deal of volatility at both hubs as the export market remained active. The bad news is that this volatility saw prices decrease faster. In fact,

*(continued on page 3)*

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the ability of the U.S. petrochemical industry to compete on the global market is causing propane demand to retreat in Europe and Asia as crackers in those parts of the world have been dialing down output.

The Mont Belvieu price fell below the $1.00 per gallon (/gal) threshold following a 7% decrease that left it at 94¢/gal. This was the lowest price at the hub since it was also 94¢/gal the week of Oct. 7, 2009. The Conway price dropped 9% to 71¢/gal, its lowest price since the week of Aug. 26, 2009 when it was 65¢/gal.

The pullback on propane prices, combined with this retreat in demand from international petrochemical manufacturers, continues to be a negative for ethane prices. These decreases came even as ethane crackers continued to come back online this week. The Mont Belvieu price fell 4% to 39¢ per gallon (/gal), the second-lowest price at the hub in nearly three years. This resulted in a 11% drop in margin. The price drop was even greater at Conway, as propane fell 10% to 12¢/gal, which resulted in a 96% drop in margin. This is among the lowest prices at the hub in the past decade.

The lone heavy NGL to experience a decrease at the same rate as ethane and propane was Conway isobutane, which fell 7% from last week due to isomerization unit and refinery turnarounds. The price of $1.53/gal was the lowest at the hub since it was $1.52/gal the week of Oct. 21, 2010. The Mont Belvieu price was stronger as it fell 3% to $1.78/gal, its lowest price since the week of Jan. 5, 2011 when it was $1.75/gal.

Isobutane's sister product, butane, fell at a similar level because of the refinery turnarounds as well as the weaker LPG market. The Mont Belvieu price dipped 4% to $1.61/gal, this was the hub's lowest price since it was $1.60/gal the week of Nov. 3, 2010. The Conway price decreased 5% to $1.35/gal, which was the

**Current Frac Spread (Cents/Gal)**

| May 25, 2012 | Conway | Change from Start of Week | Mont Belvieu | Start of Week |
|---|---|---|---|---|
| Ethane | 11.78 | | 39.00 | |
| Shrink | 16.40 | | 16.67 | |
| Margin | -4.62 | -95.40% | 22.33 | -10.99% |
| Propane | 70.58 | | 93.92 | |
| Shrink | 22.63 | | 22.99 | |
| Margin | 47.95 | -14.81% | 70.93 | -10.27% |
| Normal Butane | 134.45 | | 160.82 | |
| Shrink | 25.61 | | 26.03 | |
| Margin | 108.84 | -6.93% | 134.79 | -5.75% |
| Iso-Butane | 153.40 | | 177.80 | |
| Shrink | 24.60 | | 25.00 | |
| Margin | 128.80 | -9.29% | 152.80 | -3.94% |
| Pentane+ | 197.66 | | 206.30 | |
| Shrink | 27.71 | | 28.16 | |
| Margin | 169.95 | -2.51% | 178.14 | -4.68% |
| NGL $/Bbl | 34.90 | -5.10% | 44.37 | -4.22% |
| Shrink | 9.05 | | 9.19 | |
| Margin | 25.86 | -8.57% | 35.18 | -6.83% |
| Gas ($/mmBtu) | 2.47 | 6.47% | 2.51 | 7.26% |
| Gross Bbl Margin (in cents/gal) | 58.04 | -9.12% | 80.75 | -7.07% |
| **NGL Value in $/mmBtu** | | | | |
| Ethane | 0.65 | -9.66% | 2.14 | -4.01% |
| Propane | 2.45 | -8.98% | 3.26 | -6.53% |
| Normal Butane | 1.45 | -4.65% | 1.74 | -3.86% |
| Iso-Butane | 0.95 | -7.09% | 1.11 | -2.51% |
| Pentane+ | 2.52 | -1.35% | 2.63 | -3.20% |
| Total Barrel Valuein $/mmbtu | 8.02 | -5.74% | 10.88 | -4.42% |
| Margin | 5.55 | -10.32% | 8.37 | -7.44% |

**NGL PRICES**

| Mont Belvieu | Eth | Pro | Norm | Iso | Pen+ | NGL Bbl |
|---|---|---|---|---|---|---|
| May 16 - 22, '12 | 39.00 | 93.92 | 160.82 | 177.80 | 206.30 | $44.37 |
| May 9 - 15, '12 | 40.63 | 100.48 | 167.28 | 182.38 | 213.13 | $46.33 |
| May 2 - 8, '12 | 37.45 | 102.74 | 173.62 | 190.02 | 219.04 | $47.04 |
| April 25 - May 1, '12 | 47.09 | 116.40 | 191.54 | 203.78 | 235.03 | $52.55 |
| April '12 | 45.55 | 119.39 | 189.84 | 203.99 | 237.95 | $52.78 |
| March '12 | 50.09 | 125.86 | 192.84 | 207.42 | 245.13 | $54.99 |
| 1st Qtr '12 | 53.93 | 125.90 | 192.36 | 204.32 | 238.95 | $55.05 |
| 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 |
| May 18 - 24, '11 | 73.18 | 150.16 | 187.47 | 201.32 | 241.48 | $60.74 |
| **Conway, Group 140** | **Eth** | **Pro** | **Norm** | **Iso** | **Pen+** | **NGL Bbl** |
| May 16 - 22, '12 | 11.78 | 70.58 | 134.45 | 153.40 | 197.66 | $34.90 |
| May 9 - 15, '12 | 13.04 | 77.54 | 141.00 | 165.10 | 200.36 | $36.78 |
| May 2 - 8, '12 | 10.44 | 78.36 | 145.44 | 179.22 | 210.24 | $37.73 |
| April 25 - May 1, '12 | 13.70 | 84.96 | 156.76 | 186.96 | 224.84 | $40.84 |
| April '12 | 14.42 | 90.99 | 160.18 | 190.26 | 230.04 | $42.30 |
| March '12 | 29.33 | 107.37 | 172.94 | 193.41 | 241.34 | $48.21 |
| 1st Qtr '12 | 26.93 | 103.34 | 168.65 | 184.75 | 227.16 | $45.92 |
| 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 |
| May 18 - 24, '11 | 50.98 | 140.62 | 171.98 | 188.57 | 230.44 | $54.80 |

(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


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lowest price at the hub since it was $1.34/gal the week of Sept. 1, 2010.

While crude oil prices fell under $90 per barrel earlier in the week, C5+ prices had the smallest decreases of any NGL at either hub this week. The Texas price fell 3% to $2.06/gal, its lowest price since it was $1.99/gal the week of Nov. 24, 2010. The Kansas price largely held firm this week as it dipped 1% to $1.98/gal, the first time it was below the $2.00/gal threshold in 2012.

The theoretical NGL barrel price tumbled 5% to $34.90/bbl at Conway with a 9% drop in margin to $25.86/bbl. The Mont Belvieu price remained stronger as it fell 4% to $44.37/bbl with a 7% drop in margin to $35.18/bbl.

The most valuable NGL to make at both hubs was C5+ at $1.78/gal at Mont Belvieu and $1.70/gal at Conway. This was followed, in order, by isobutane at $1.53/gal at Mont Belvieu and $1.29/gal at Conway; butane at $1.35/gal at Mont Belvieu and $1.09/gal at Conway; propane at 71¢/gal at Mont Belvieu and 48¢/gal at Conway; and ethane at 22¢/gal at Mont Belvieu and a theoretical negative margin at Conway. Once again we remind readers that since Conway trades E-P mix and not purity ethane, the actual margin remains very thin, but positive.

Natural gas in storage increased 77 billion cubic feet to 2.744 trillion cubic feet (Tcf) from 2.667 Tcf, according to the latest data from the Energy Information Administration. This was 38% below the 1.994 Tcf figure reported last year at the same time as well as below the five-year average of 1.991 Tcf.

Next week's storage injection should be higher as Northeast cooling demand is likely drop according to the weather forecast from the National Weather Service, which anticipates cooler than normal temperatures next week. This cooler temperature is expected to extend into the Upper Midwest. The West Coast and Southwest is expected to experience warmer than normal temperatures with the Southeast and Gulf Coast experiencing normal spring temperatures.

– Frank Nieto

## Kinder Morgan Completes El Paso Acquisition ... *Continued from page 1*

most the entire proceeds from this sale will be used to reduce substantially the debt incurred by KMI to fund the cash portion of its purchase of El Paso.

"I'm very pleased with the herculean effort that has occurred over the past several months to combine Kinder Morgan and El Paso," Kinder said. "The integration planning effort was managed and fully staffed by personnel from the two organizations, ensuring that the people who understand best how to operate these assets are establishing how they will be managed moving forward. This has required a tremendous amount of work by a large number of people who are still responsible for their normal jobs. The value of their contributions will be realized by the combined organization for many years to come."

The El Paso acquisition is expected to be nicely accretive to KMI. The company now anticipates cost savings in excess of $400 million per year, significantly higher than the previously announced projection of approximately $350 million per year. These cost savings will benefit KMI, Kinder Morgan Energy Partners L.P. (NYSE: KMP) and El Paso Pipeline Partners L.P. (NYSE: EPB). KMI previously announced that, excluding the impact of the El Paso transaction, it expected to declare dividends of $1.35 per share for 2012. Now, incorporating the impact of the El Paso transaction, KMI expects to declare dividends of at least $1.40 per share for 2012. KMI also intends to recommend to its board of directors a dividend of $0.35 per share for the second quarter of 2012. KMP (and KMR) expects to meet or exceed its previously announced budget to declare distributions of $4.98 per unit (per share for KMR) for 2012.

El Paso Pipeline Partners L.P. (NYSE: EPB) has completed its purchase of the remaining 14% interest in Colorado Interstate Gas and all of Cheyenne Plains Pipeline from El Paso for $635 million and the assumption of approximately $242 million of proportional debt. This transaction is expected to be immediately accretive to EPB's distributable cash flow.

As previously announced, KMI agreed to divest certain KMP assets to obtain Federal Trade Commission approval for the El Paso transaction. KMI has agreed to sell Kinder Morgan Interstate Gas Transmission, Trailblazer Pipeline Co., its Casper-Douglas natural gas processing and West Frenchie Draw treating facilities in Wyoming, and the company's 50% interest in the Rockies Express Pipeline. The company has six months from the commission's May 1, 2012, order to sell the assets.

Also as previously announced, KMI plans to offer assets to KMP to replace the divested assets. The company expects to drop down all of Tennessee Gas Pipeline and a portion of El Paso Natural Gas contemporaneously with the close of KMP's divestitures, which are expected to occur in the third quarter this year. It is expected that the combination of the


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divestitures and the dropdowns will be neutral to KMP's distribution per unit in 2012 and accretive thereafter.

In April, KMP announced an agreement with an investment vehicle affiliated with Kohlberg Kravis Roberts & Co. L.P., whereby KMP will acquire a 50% interest in the joint venture that owns the Altamont gathering, processing and treating assets in the Uinta basin in Utah and the Camino Real gathering system in the Eagle Ford Shale in Texas for $300 million in KMP common units. El Paso owns the other 50% of the joint venture. Upon closing, Kinder Morgan will own 100% of the joint venture, 50% at KMI and 50% at KMP. The transaction is expected to close in early June and to be immediately accretive to KMP's distributable cash flow.

KMI announced today that Anthony W. Hall, Jr., and Robert F. Vagt have been named to the KMI board of directors. As previously announced, two members of El Paso's board were to join the KMI board following completion of the transaction. Hall served as a director at El Paso since 2001 and was a member of the Audit Committee and the Health, Safety & Environmental Committee. Hall has been engaged in the private practice of law since 2010 and previously served as chief administrative officer of the City of Houston. Vagt served as a director at El Paso since 2005 and chaired the Health, Safety & Environmental Committee and was a member of the Compensation Committee. He has served as president of The Heinz Endowments since 2008.

The EPB board of directors will be comprised of the same three outside directors who were serving prior to the Kinder Morgan-El Paso transaction, along with four Kinder Morgan officers who will replace the El Paso officers who had been on the board. Richard D. Kinder will serve as chairman of the EPB board. Additionally, existing Kinder Morgan senior officers will serve in their same roles as officers of all of the publicly traded Kinder Morgan entities, including EPB.

– Business Wire

## INSIDE LOOK AT PROCESSING

### Deloitte Energy Conference: Technology Responsible For Creating Energy Revolution

Though the topics were well-versed on all things energy-related, one of the overwhelming themes at the 2012 Deloitte Energy Conference in Washington this week was how much technology had revolutionized the industry in just a few scant years and will continue to advance at a swift rate.

"Technology is the next frontier of energy demand. We need to control and own this technology," Joseph Stanislaw, independent senior advisor, energy and sustainability, at Deloitte, said.

Indeed, in just three years the United States had gone from being a net importer of oil and natural gas to a net exporter and the number one producer of natural gas in the world thanks to the development of technology that allowed for the production of unconventional oil and gas reserves.

In just more than 10 years, shale gas has grown from representing 2% of the country's natural gas production to more than 30% today.

Ambassador Richard Jones, deputy executive director, International Energy Agency, said that unconventional resources will lead to a 6MM b/d decrease in U.S. oil imports by 2035.

Better vehicle fuel efficiency standards and increased domestic oil production from tight oil sands will result in U.S. oil imports decreasing by approximately 6 million barrels per day by 2035, according to Ambassador Richard Jones, deputy executive director, International Energy Agency (IEA). More impressively, the IEA estimates that there are 250 years worth of domestic natural gas reserves in the United States.

Technology has also been a primary reason for the United States being the focal point of the shale revolution. "The U.S. has been handed a golden ticket unlike any other," said Peter Leveille, manager, unconventional reservoirs technology development, ConocoPhillips. He added that technology not only increases production but drives prices down and will help to lead more price stability.

An interesting aspect of this energy revolution was that experts had felt that shale production required a technological breakthrough along the lines of that found in the renewables sector. However, what led to the shale revolution was the combination of two older


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technologies: horizontal drilling and hydraulic fracturing.

The country's ability to unlock oil and gas reserves are not only leading to greater energy self-sufficiency, but a renaissance in the domestic manufacturing and petrochemical industries.

"Without shale production, we would be witnessing huge import levels from LNG with petrochemical and manufacturing jobs continuing to leave the country," he said.

Leveille noted that what makes the U.S. unique for shale production are not its rocks, but because it provides opportunities for landowners to license their mineral rights, which isn't the case in many other parts of the world. Arguably, more important is the country's data sharing through reporting agencies.

"What we really see as barriers in the rest of the world have nothing to do with rock, but more to do with the political systems and the sharing of data. When ConocoPhillips first started to look at the Eagle Ford, we spent a little under $20 million buying up data on well drillings. Compare this with activity in China, where a man was jailed for stealing such data from the government," he said.

This turnaround is nothing if not remarkable and nothing better summarizes it than the fact that many, if not all, of the LNG regasification terminals that were developed in the hopes of bringing foreign natural gas volumes to the U.S. are instead being turned around to export domestically produced volumes to Europe and Asia.

Although the dramatic turnaround in domestic natural gas production resulted in a serious underutilization of these new regasification terminals, it wasn't expected that production would increase to such a level that the U.S. would become a net exporter.

"When our liquefaction project was first being discussed, people thought we were crazy to discuss exporting gas from the Lower 48 states," Andrew Ware, director, corporate affairs and communications, Cheniere Energy, said. "We believe we have satisfied an unmet need in the market."

There has been a great deal of discussions about whether converting LNG terminals to liquefaction facilities will lead to a dramatic increase in domestic prices, but Charles Ebinger, senior fellow and director, energy security initiative at the Brookings Institution, stated there wouldn't be a significant increase in natural gas prices even if all of the U.S. LNG terminals exported LNG.

In fact, the opposite would hold true as there would be unintended consequences from the capping of export levels, he said. "We believe that capping exports, as some members of Congress have suggested, would distort markets in a way that would not be good for anyone. We believe that this market should be allowed to take its natural course while promoting free trade whenever possible."

All of this new production has been a boon for the midstream sector as new infrastructure has been required throughout the country to process, treat, fractionate and transport oil, gas, and liquids produced from shale plays. Further, the power generation sector is quickly converting coal-fired power plants to gas-fired generation in order to take advantage of the significant savings represented by lower gas prices combined with lesser carbon emissions from gas over coal.

"The question isn't if the electric industry will change [to natural gas], but how soon it will change," Bert Valdman, senior vice president, strategic planning of Edison International, a generator and distributor of electric power.

There has already been a great deal of this infrastructure developed, but there doesn't appear to be any slowdown in sight, especially since much of this new production is coming from regions of the country that have not housed much, if any, production in the recent past.

"The rust belt is now becoming the gas belt," Curt Launer, managing director, natural resources, corporate finance coverage group at Deutsche Bank, said. He anticipates there to be $10 billion to $20 billion of capital spending in the midstream in each of the next five to seven years.

It is important to note that while there will be huge investments in production, midstream infrastructure and technology, it is highly unlikely that the U.S. can ever achieve total energy independence. "There is no such thing as energy independence, but the U.S. can become self sufficient with its energy through the development of unconventional resources," Stanislaw said.

– Frank Nieto


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## NGL Energy Partners To Merge With High Sierra Energy

NGL Energy Partners LP (NYSE: NGL) on May 21 announced the signing of merger agreements with High Sierra Energy LP and High Sierra Energy GP LLC, its general partner.

NGL will exchange common units and contribute cash for the equity interests in the High Sierra entities. The combined consideration for the HSE entities is $693 million less assumed net debt.

Based upon the expected outstanding indebtedness of the HSE entities as of closing, the equity portion is expected to be approximately $433 million and the cash portion will be approximately $150 million.

Closing is anticipated in early June upon satisfaction of certain conditions including approval of the merger by requisite HSE unitholders.

High Sierra Energy is a Denver-based limited partnership with three core business segments: crude oil gathering, transportation and marketing; water treatment, disposal, recycling and transportation; and natural gas liquids transportation and marketing. The crude oil segment handles approximately 50,000 bbls/day of crude and controls 32 pipeline injection facilities, three crude oil terminals (two of which provide barge service) and approximately 90 tractor-trailers.

– Business Wire

## PVR Partners Announces $380 Million Investment In Planned Marcellus Shale Pipeline

Penn Virginia Resource Partners LP on May 21 announced that its midstream subsidiary has entered long-term agreements to extend its natural gas pipeline in Lycoming County, Pa., and provide various gathering, compression and related services to four Marcellus shale natural gas producers in northeast Pennsylvania. The agreements with a Royal Dutch Shell subsidiary, SWEPI LP, affiliates of Southwestern Energy Co., Range Resources Corp. and privately held Inflection Energy LLC are all fee-based with no direct commodity price risk.

In a news release, William H. Shea Jr., Chief Executive Officer of Penn Virginia's general partner, said, "We are extremely pleased to announce these fee-based producer agreements and our plans for the continued build-out of our Lycoming County pipeline system. The further expansion of PVR's Lycoming County system, ultimately with a connection to the Tennessee Gas Pipeline 300, will allow us to realize our long-term vision of providing our Marcellus producers with access to multiple gas markets and further expand our midstream business in the Marcellus Shale. We are gratified that, based on our demonstrated record of responsive and reliable performance, these recognized companies, all with a commitment to the long-term development of the Marcellus Shale, have entrusted us to meet their midstream service requirements."

"We believe that the continued development of our Lycoming County system, together with our Wyoming County system and the recently completed addition of Chief Gathering LLC's midstream assets, position PVR as the midstream service provider of choice in six of the most prolific counties in the Marcellus Shale region in northeast Pennsylvania," added Shea.

Under the agreements with Southwestern, Shell and Range, PVR will extend its existing 30-inch trunkline approximately 19 miles north through Lycoming County and into Tioga County, Pennsylvania. Construction of Phase III of the trunkline is expected to begin within two weeks and be completed in the fourth quarter of 2012. PVR will also construct lateral pipelines for Shell and Range to bring gas from the wellheads to the trunkline for transport to the Transcontinental Pipeline and, by early 2014, to the Tennessee Gas Pipeline 300 ("TGP").

The 15-year agreement with Southwestern provides for a firm take-or-pay capacity commitment in years two through eight, with an option to increase that commitment during this period. The agreement also provides Southwestern with interruptible capacity subject to availability.

Under the 20-year Shell agreement, PVR will build a 24-inch pipeline lateral, which is expected to be completed in the fourth quarter of 2012, that will connect the Lycoming County system to Shell's Texas Creek gathering system in Bradford County, Pennsylvania. PVR will also build a 16-inch pipeline lateral, which is expected to be completed in late 2013 or early 2014, that will connect the Lycoming County system to Shell's Wellsboro Loop gathering system in Tioga County, Pa.

These new laterals will provide operational flexibility for Shell to move gas south to Transco and the capability to move gas between the 24-inch lateral and Shell's proprietary pipeline systems, according to the news release. The Shell agreement provides for a take-or-pay firm


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capacity commitment in months 7-139 of the agreement, with an option during the first two years of the agreement to increase the firm capacity commitment. The agreement also provides for additional interruptible capacity subject to availability, as well as dehydration services.

The Range agreement provides for gathering, compression and related services under terms and conditions substantially similar to those currently being provided under PVR's existing agreements with Range. The agreement also expands the existing Area of Mutual Interest with Range to include Range's acreage in eastern Clinton County where Range anticipates future Marcellus Shale development. Additionally, construction of the Range lateral lines and compression facilities, with a multiyear build-out schedule, will be staged to follow Range's drilling program.

The Inflection agreement dedicates defined acreage in Lycoming County, east of PVR's existing Lycoming County system, to PVR, and provides Inflection with significant firm volume capacity and compression services, and a connection to Transco. The new gathering system is anticipated to be built-out in five phases designed to match Inflection's drilling and production schedule, with construction of each subsequent phase tied to Inflection's achieving certain well completion and production milestones. Assuming all milestones are met, plans are for a total of 10 miles of 16-inch trunkline and 15 miles of lateral gathering lines, together with associated compressor stations, providing an expected total system capacity of 380 MMcfd when completed in 2013.

PVR's capital investment for these projects is expected to total approximately $380 million, and is anticipated to be expended between 2012 and 2018.

The cost for development and construction of the approximately 54-miles of pipeline and related facilities for the Lycoming County trunkline extension and the associated Shell lateral lines is projected to total approximately $160 million and is anticipated to be expended over the next three years, with approximately $110 million expended in 2012.

The cost for development and construction of the Range gathering system is projected to total approximately $140 million, with expenditures staged over five years tentatively scheduled to begin in 2014. Assuming all of the milestones under the Inflection agreement are met, PVR expects to invest total capital of approximately $80 million for the east Lycoming County system during 2012 and 2013, with approximately $44 million planned for 2012.

## SNL Financial: Midstream Debt & Equity Offerings Rose 33%

SNL Financial released a report that found that the midstream industry's debt and equity offerings rose 33% to $19.72 billion from $14.79 billion in the period from May 11, 2011 to May 11, 2012.

The midstream's debt market surpassed those of the gas utility, coal, and, most impressively, the power sector. In 2010-2011, the power sector's debt market was $21.07 billion, but in 2012 it fell 20% to $16.86 billion in 2011-2012.

The coal industry's growth has been greatly affected by the shale gas revolution as was clearly evidenced by the 87% decrease in capital raised by coal in 2011-2012 as compared to 2010-2011. During this time period, coal's capitalization fell from a little over $1 billion to just $130 million.

These changes are clear evidence that not only the midstream has become more active in expansion and construction, but has become a bigger target for investors. SNL Financial reported that as a whole, the energy industry focused on senior debt as its main mechanism to raise capital. In 2011-2012 the energy industry raised $28.55 billion through senior debt. This was down 10% from the previous year's $31.66 billion.

Common equity raised by the energy industry in 2011-2012 rose 12%, or nearly $1 billion, from the prior year. Preferred equity and subordinated debt levels were well off the pace of senior debt and common equity. The majority of companies that raised the most capital through senior debt were companies in the natural gas sector.

To view the charts associated with this article, please visit: http://www.midstreambusiness.com/Finance-Debt-Equity/SNL-Financial-Midstream-Debt-Equity-Offerings-Rose-33_100893

- Frank Nieto


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MIDSTREAM Monitor

VOLUME 30 / ISSUE 17 / May 25, 2012 *Formerly* GAS PROCESSORS REPORT

# PIPELINES & TECHNOLOGY

## Spectra Energy, El Paso Announce Open Season For Proposed Marcellus Ethane Pipeline System

El Paso Corp. (NYSE: EP) and Spectra Energy Corp (NYSE: SE) announced on May 27 that their jointly developed project, Marcellus Ethane Pipeline System (MEPS), is holding a 30-day open season in an effort to secure binding commitments from potential shippers that desire ethane transportation service from West Virginia and Pennsylvania Marcellus shale supply areas to the Gulf Coast area.

The MEPS project is being designed to transport up to 90,000 barrels per day and has an anticipated in-service date of 4th Quarter 2014. The open season will begin at 10 a.m. on June 27 and will close at 5 p.m. on July 27.

In October 2010, El Paso Midstream Group Inc. and Spectra Energy Transmission LLC announced that they had entered into a Memorandum of Understanding (MOU) to pursue joint development of the MEPS project.

Under the terms of the MOU, El Paso Midstream and Spectra Energy will each own a 50-percent interest in MEPS. For more information about the MEPS project visit www.elpaso.com/midstream.

| KEY NORTH AMERICAN HUB PRICES | |
|---|---|
| 2:30 PM CST / May 24, 2012 | |
| Gas Hub Name | Current Price |
| Carthage, TX | 2.61 |
| Katy Hub, TX | 2.63 |
| Waha Hub, TX | 2.61 |
| Henry Hub, LA | 2.66 |
| Perryville, LA | 2.63 |
| Houston Ship Channel | 2.60 |
| Agua Dulce, TX | 1.88 |
| Opal Hub, Wyo. | 2.50 |
| Blance Hub, NM | 2.47 |
| Cheyenne Hub, Wyo. | 2.50 |
| Chicago Hub | 2.68 |
| Ellisburg NE Hub | 2.69 |
| New York Hub | 2.86 |
| AECO, Alberta | 2.24 |

Source: Bloomberg

## Enbridge To Spend $600MM To Expand U.S., Canadian Pipelines

Enbridge Inc. (Toronto: ENB) and Enbridge Energy Partners LP (Toronto: EEP) announced approximately $400 million of projects to expand capacity of the Lakehead System mainline between its origin near Neche, North Dakota, to its growing terminal hub in Flanagan, Illinois, southwest of Chicago. The current scope of the projects includes expansion of the Alberta Clipper pipeline (Line 67) between the border and Superior, Wisconsin from 450,000 barrels per day to 570,000 bpd; and expansion of the Southern Access pipeline (Line 61) between Superior and Flanagan, Illinois from 400,000 bpd to 560,000 bpd. Both projects require only the addition of pumping horsepower, with no line pipe construction. Alberta Clipper and Southern Access are both held in Enbridge Energy, Limited Partnership (EELP) which will be fully funded by EEP for the cost of the expansions. The scope of the expansions remains under discussion with and subject to approval by shippers, which could lead to an upward revision to capacity and cost.

Subject to finalization of scope and shipper approval, the expansions will be undertaken by EELP on a full cost-of-service basis, and are expected to be available for service in mid 2014. The expansions are designed to accommodate increased throughput on the Lakehead System for deliveries to Enbridge's Gulf Coast Access and Eastern Access mainline extension projects, as well as growth in Chicago area refinery requirements.

"The border to Flanagan mainline expansion projects provide another attractive investment opportunity for EEP and complement Enbridge's market access strategic initiatives," said Stephen J. Wuori, President, Liquids Pipelines for Enbridge. "Both Alberta Clipper and Southern Access have substantial low cost expansion potential. The current projects will just tap the first layer of that potential, leaving plenty of scope for further expansions in the future."

Also, Enbridge announced an approximately $200 million expansion of the Canadian portion of the Alberta Clipper pipeline (Line 67). The current scope of the project will involve the addition of pumping horsepower sufficient to raise the capacity of the Canadian mainline by 120,000 barrels per day. The Canadian mainline is held in Enbridge Pipelines Inc. which will undertake the low cost expansion with an expected in service date of mid 2014. The expansion remains subject to National Energy Board approval and to finalization of scope and approval by shippers, which could lead to an upward revision of capacity and cost.


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"The Hardisty to Border mainline expansion complements Enbridge's market access strategic initiatives," said Stephen J. Wuori, President, Liquids Pipelines for Enbridge. "The additional capacity will support increased throughput expected to be drawn through the mainline by the market access initiatives. Plenty of scope still remains for further low cost expansion to accommodate additional throughput in the latter half of the decade."

## Kinder Morgan Finalizes Shipper Commitments For Trans Mountain Pipeline Expansion

Kinder Morgan Energy Partners, L.P. (NYSE: KMP) announced that shippers have signed binding 20-year contracts for approximately 510,000 barrels per day (b/d) of capacity in support of expanding the Trans Mountain pipeline system. Based on these finalized commitments, the proposed expansion will increase capacity on Trans Mountain from approximately 300,000 b/d to about 750,000 b/d at a projected cost of $4.1 billion.

"We are pleased to finalize these binding contracts with our shippers and to refine the preliminary scope of the proposed project," said Ian Anderson, president of Kinder Morgan Canada. "The proposed project will significantly increase market access for Canadian crude and will expand Trans Mountain by completing the twinning of the existing pipeline from Edmonton, Alberta, to Burnaby, British Columbia." The final commitments were about 150,000 b/d less than the company announced on April 12 following the open season due to a few shippers failing to obtain their boards' approvals.

The project will continue with consultations and regulatory application preparation as previously announced.

– Business Wire

## Colorado Court Rules Against Wyoming Petroleum Pipeline

The Colorado Supreme Court has ruled that a Wyoming pipeline company has no right to condemn property in Colorado for a high-pressure petroleum pipeline to a Commerce City refinery that homeowners complained would be too dangerous.

The Colorado Oil and Gas Association said the ruling "puts into question current and future pipeline plans. It inserts tremendous uncertainty and will greatly affect future investment into the state."

In a ruling handed down Monday, the court said the Colorado Legislature did not intend to include oil and gasoline pipelines in laws that allowed railroads and utilities to take the property they needed for their services.

The ruling does not affect natural gas pipelines, which are regulated by the federal government.

## Seaway Crude Oil Pipeline Begins First Flow

Enterprise Products Partners LP (NYSE: EPD) and Enbridge Inc. (NYSE/TSX: ENB) announced that the Seaway Pipeline is accepting crude oil at Cushing, Okla., for delivery to the U.S. Gulf Coast.

Seaway Crude Pipeline Co. LLC is a 50/50 joint venture owned by affiliates of Enterprise Products Partners and Enbridge Inc. In addition to the pipeline that transports crude oil from Cushing to the Gulf Coast, the Seaway system is comprised of a terminal and distribution network originating in Texas City, Texas, which serves refineries locally and in the Houston area. The Seaway system also includes dock facilities at Freeport and Texas City.

Enterprise Products Partners is one of the largest publicly traded partnerships and a leading North American provider of midstream energy services to producers and consumers of natural gas, NGLs, crude oil, refined products and petrochemicals. The partnership's assets include approximately: 50,600 miles of onshore and offshore pipelines; 190 million barrels of storage capacity for NGLs, petrochemicals, refined products and crude oil; and 14 billion cubic feet of natural gas storage capacity.


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Services include: natural gas gathering, treating, processing, transportation and storage; NGL transportation, fractionation, storage, and import and export terminaling; offshore production platform services; crude oil and refined products transportation, storage and terminaling; petrochemical transportation and storage; and a marine transportation business that operates primarily on the United States inland and Intracoastal Waterway systems and in the Gulf of Mexico.

– Business Wire

| RESIN PRICES – MARKET UPDATE – MAY 25, 2012 | | | | | |
|---|---|---|---|---|---|
| TOTAL OFFERS: 20,719,828 lbs | | SPOT | | CONTRACT | |
| Resin | Total lbs | Low | High | Bid | Offer |
| HDPE - Inj | 4,446,900 | 0.605 | 0.655 | 0.575 | 0.615 |
| PP Homopolymer - Inj | 3,760,760 | 0.65 | 0.75 | 0.64 | 0.68 |
| LDPE - Film | 2,774,600 | 0.65 | 0.72 | 0.66 | 0.7 |
| LLDPE - Film | 2,452,324 | 0.66 | 0.75 | 0.62 | 0.66 |
| HDPE - Blow Mold | 2,398,668 | 0.64 | 0.68 | 0.58 | 0.62 |
| HMWPE - Film | 1,292,300 | 0.66 | 0.7 | 0.62 | 0.66 |
| PP Copolymer - Inj | 1,080,184 | 0.625 | 0.8 | 0.66 | 0.7 |
| LLDPE - Inj | 804,092 | 0.66 | 0.69 | 0.635 | 0.675 |
| LDPE - Inj | 760,000 | 0.68 | 0.71 | 0.655 | 0.695 |
| HIPS | 570,000 | 0.97 | 0.97 | 0.97 | 1.02 |
| GPPS | 380,000 | 0.82 | 0.82 | 0.85 | 0.9 |

Source: Plastics Exchange – www.theplasticsexchange.com

# NEWS & TRENDS

## FERC Approves Spectra's New Jersey-New York Expansion Project

Spectra Energy Corp (NYSE: SE) received approval from the Federal Energy Regulatory Commission (FERC) for its New Jersey-New York Expansion Project, which will transport new, critically needed natural gas supplies to high demand markets in northern New Jersey and New York City.

The 20-mile expansion of the company's Texas Eastern Transmission and Algonquin Gas Transmission interstate pipeline systems, the New Jersey-New York Expansion will provide 800 million cubic feet per day (MMcf/d) of additional capacity to the region once completed in the fourth quarter of 2013.

"The Project's FERC certificate is the culmination of a comprehensive, multi-

year review by numerous federal, state and local agencies," said Greg Ebel, president and chief executive of Spectra Energy Corp. "This milestone is a crucial step toward completing this project, which will provide critically needed pipeline infrastructure and numerous environmental and economic benefits to the region."

During the planning and construction phases of the project, more than 5,200 direct and indirect jobs will be created in and around local host communities. Additionally, increasing the region's access to diverse and reliable supplies will alleviate seasonal natural gas volatility, resulting in an estimated $700 million total annual energy savings in New Jersey and New York. The project will also bring in millions in tax revenue and improve the region's air quality by eliminating an estimated 6 million tons per year of carbon dioxide – the equivalent of taking more than 1 million cars off the road.

## Whiting Petroleum Announces Partner In Its Belfield Gas Plant

Whiting Petroleum Corp. (NYSE: WLL) on May 21 announced that its subsidiary, Whiting Oil and Gas Corp., sold to Bitter Creek Pipelines LLC, a subsidiary of MDU Resources Group Inc., a 50% ownership interest in Whiting's Belfield gas processing plant, gas gathering, and related facilities located in Stark County, N. D.

The facilities include a newly constructed, state-of-the-industry natural gas processing plant and a natural gas gathering pipeline system connected to the plant. A natural gas residue line that ties into the Williston Basin Interstate Pipeline Company system (an MDU Resources subsidiary) is also included, along with a crude oil gathering system, a crude oil storage terminal and a crude


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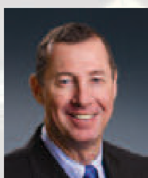

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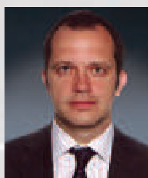

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oil pipeline that connects the terminal to the Bridger Pipeline. Whiting will continue to operate the facilities.

The Belfield natural gas processing plant has an inlet processing capacity of 35 million cubic feet per day. The oil terminal is currently under construction, with completion expected in the third quarter of 2012. It will have a storage capacity of 20,000 barrels of oil.

Under the agreement, Bitter Creek paid 60% of the capital costs of the project to date and will pay 60% of certain future capital costs with respect to its 50% ownership. A $66 million payment was made to Whiting at closing for capital and operating costs to date. Fidelity Exploration & Production Company, also a subsidiary of MDU, will dedicate gas production from its development activity in the area to the Belfield gas plant.

James J. Volker, Whiting's Chairman and CEO, commented, "We are pleased to have MDU Resources Group participate in the Belfield gas plant and the associated facilities and gathering systems. This agreement will free up capital for Whiting's high growth drilling operations, particularly in the Williston Basin, and provide MDU access to processing and gathering capacity for its development in the area."

– Business Wire

## SNAPSHOT

### NAPTP: Diverse Energy MLPs Focus On Unconventional Plays

A group of coal-mining, upstream and midstream oil and gas companies and shipping companies have one thing in common—they formed master limited partnerships (MLPs) with activities now focused on U.S. unconventional resources, according to speakers at the recently held National Association of Publicly Traded Partnerships (NAPTP) MLP Investor Conference in Greenwich, Connecticut.

Houston-based Natural Resource Partners LP generates revenue from its ownership and management of mineral-reserve properties such as coal, aggregate and oil and gas reserves. The partnership does not actively engage in mining, but leases its properties to various operators in exchange for royalty payments, thus allowing it to avoid operating costs and direct exposure to environmental, permitting and labor risks.

In 2011, Natural Resource hired an oil and gas team to focus on acquisitions of additional royalty properties and leasing mineral acreage for development. Since December 2011, the company has spent $64 million to acquire 19,200 net acres in the Mississippian Lime oil play in Oklahoma and leases those properties to several active operators who are engaged in oil and gas development through horizontal drilling.

"Our oil and gas royalties currently represent only 4% of our revenues," said Nick Carter, president and chief operating officer. "But we plan to grow that over the next several years as we further development our properties."

Elsewhere, Houston-based Linn Energy LLC, the ninth largest MLP and eleventh largest domestic independent oil and natural gas company, is focused on unconventionals. Since its initial public offering (IPO) in 2006, Linn has built a large, long-life, diversified reserve base of 4.3 trillion cubic feet equivalent, of which 48% is oil and natural gas liquids (NGLs) and 52% is natural gas.

Its holdings include some 15,000 gross productive oil and natural gas wells in the Salt Creek field in Wyoming (CO2 flood), 600 horizontal locations in the Granite Wash, 400 locations in the Wolfberry, 800 horizontal locations in the Bakken, about 65 horizontal locations in the Cleveland play and 800 locations in the Kansas Hugoton play, among others.

To grow, the company closed four acquisitions totaling $2.3 billion since December 2011, enabled by its $800 million equity raises since December 2011, a $1.8 billion senior-note offering in March 2012 and an increase in its revolving-credit facility commitment from $1.5 billion to $2 billion.

Linn hedged nearly 100% of its expected natural gas production through 2017 and almost 100% of its expected oil production through 2016 at "attractive prices," said Mark Ellis, president and chief executive.

"There is a lot of competition for acquisitions, but our size and scale allow us to acquire assets through what we call 'the Bank of Linn,' so we are not experiencing any slowdown. And while these prolonged weak gas prices are putting pressure on E&P c-corps, we have had an 81% increase in our quarterly distributions since our IPO."

Today, Linn Energy is excited about its Hogshooter development in Hemphill County, Texas, said Ellis. "We've


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successfully drilled three wells there in the primarily oil-producing Hogshooter play, with average 24-hour initial production rates of about 2,500 barrels (bbls) per day of oil, 500 bbls of NGLs, and 3 million cubic feet (MMcf) per day of gas. We plan to shift a portion of capital from our Granite Wash program to focus on the Hogshooter interval."

Linn Energy expects to drill or participate in 81 horizontal wells in 2012, including 65 operated wells and 16 non-operated wells, to focus on liquids-rich zones in the Carr, Britt, A and Hogshooter.

Yet, not all MLPs have been immune to the current economic environment. "It's been a challenging year," said John Sherman, president and chief executive of Inergy LP, a diversified energy infrastructure, distribution and gas storage company that IPO'd Inergy Midstream LP in December 2011.

In addition to its midstream assets, Inergy is the fourth largest U.S. retailer of propane—but not for long. In April 2012, the company announced its agreement to sell its retail propane operations to Suburban Propane Partners LP for about $1.8 billion and expects to close that transaction in fourth-quarter 2012.

Going forward, the company plans to derive at least 30% of its revenue from transportation services. At the conference, it announced plans to expand its Marc I pipeline (with a total capital investment of $240 million, for expected completion in September 2012), Watkins Glen NGL system ($65 million, fourth-quarter 2012), U.S. Salt Gas Storage development ($85 million, 2015), Commonwealth Pipeline ($1 billion, second-quarter 2016), West Coast operations ($21 million, June 2012) and its Tres Palacios Header Extension ($30 million, second-half 2012).

"Our core natural gas infrastructure is in the Northeast and Texas in the heart of the Marcellus shale and adjacent to the Eagle Ford shale," said John Sherman, president and chief executive officer. "And our NGL assets are uniquely positioned for the infrastructure development of the Marcellus, Utica and Eagle Ford shales."

Meanwhile, Western Gas Partners LP was formed by Anadarko Petroleum Corp. to monetize its midstream assets while maintaining control of its crucial take-away options, said Donald Sinclair, president and chief executive, who intends to shift the company's focus from dry-gas plays to wet gas.

"Today, 75% of our assets are in liquids-rich basins and about 26% is in dry-gas basins," he said. Western Gas holds assets in Texas and the Rocky Mountains, including 15 natural gas gathering systems, eight natural gas treating facilities, nine processing facilities, one natural gas pipeline, two NGL pipelines and one crude oil pipeline.

In the shipping industry, Teekay Corp. formed Teekay GP LLC as a general partnership to form Teekay LNG Partners LP. The company's revenues are generated by providing floating crude-production, -storage and -offloading services to major energy companies. Today, it is the world's largest owner and operator of shuttle tankers with a market-leading position in the North Sea and Brazil

"For the liquefied natural gas (LNG) market, the U.S. exports could be a game changer," said Scott Gayton, finance director. "The U.S. domestic gas price of about $2 to $3 per million Btu, versus Asian prices of about $14 to $18, makes a compelling case for LNG arbitrage trade."

A potential export capacity of 70 million tons per year would put the U.S. in the list of the top three LNG exporters by the end of the decade, he said. "U.S. exports could significantly alter the LNG trade landscape in the next decade. However, significant obstacles are still to be overcome."

From coal miners to shippers, the MLP business structure enables low-cost capital, pass-through tax treatment for its unitholders and profitable access to drop-down resources from general partnerships, said the speakers. The big story for these companies is the emerging unconventional plays of North America. For companies with assets appropriate for an MLP structure, it's a winning combination.

– Jeannie Stell


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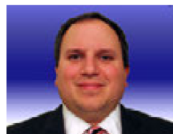

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Midstream Monitor is published weekly by Hart Energy and is included with a premium subscription to midstreambusiness.com. Premium subscriptions are $995 per year.

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