MIDSTREAM Monitor

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Midstream Leaders Taking Cautious Approach To Downturn

By Frank Nieto, Hart Energy

The midstream industry is set to take a more cautious approach in 2015 in response to the downturn in crude and liquids prices, but that doesn't mean there won't be steady activity in the sector. The two largest natural gas processors and NGL producers in *Midstream Business'* most recent Midstream Rankings, DCP Midstream Partners LP (NYSE: DPM) and Enterprise Products Partners LP (NYSE: EPD), both expect to keep an eye on the bottom line while also preparing for the future through growth projects.

“In response to the industry downturn, we’ve shifted our focus to being prudent in the near-term, with a strategic focus on capital efficiency, operational reliability, contract reformation and expense management,” Wouter van Kempen, chairman and CEO of DCP Midstream Partners, said during a recent conference call to discuss fiscal year (FY) 2014 earnings.

This prudence includes closer management of its distributions, capital spending and dropdowns in the coming months. DCP Midstream Partners will be moving forward with more than $300 million in new, mainly fee-based, projects this year.

“Due to uncertainty around our producers’ capital budgets, we plan to prudently manage our capital spend while watching their drilling programs, so that we do not get ahead of them,” Bill Waldheim, president of DCP Midstream Partners, said during the call. “We’ll remain flexible, preparing for future opportunities around our footprint, like securing new plant permits and ordering long lead time equipment so we can quickly ramp up, if and when needed.”

One of the projects that DCP Midstream Partners will be going forward with will be the Panola NGL Pipeline, which they are joint venture partners on along with Enterprise, Anadarko Petroleum Corp. (NYSE: APC) and MarkWest Energy Partners LP (NYSE: MWE). Enterprise will operate and own a 55% interest in the system, which will run 181 miles from Carthage, Texas, to Mont Belvieu, Texas.

“We are very focused on controlling costs, while at the same time working to develop new projects to add value for our investors,” Mike Creel, CEO of Enterprise Products Partners, said during a recent conference call to discuss FY 2014 earnings.

Both Enterprise and DCP Midstream Partners anticipate that their current assets will help them steer clear of danger while prices remain challenged.

“We believe our fee-based, integrated and diversified business model positions us to succeed in a challenging commodity price environment such as we have now and our financial flexibility and healthy distribution coverage provides the ability for us to continue distribution growth while pursuing our growth plans,” Creel said while adding the company has $6.1 billion of organic growth projects under construction that will be completed in 2015 and 2016.

The more judicious approach of both companies makes sense, since there isn’t much clarity on where prices are headed.

“Global energy markets are somewhere between turmoil and chaos,” Jim Teague, Enterprise Products Partners’ COO, said during the conference call. “We have no clue how low prices may go or how long they will stay depressed, nor does anyone else.”

The company has a marketing function in each of its business units that is designed to take advantage of opportunities that arise from market fluctuations. “The Enterprise business model thrives on dislocation and adding value by capturing opportunities when there is chaos,” Teague added.

The regions that Teague expects to be the most active during the downturn are the Eagle Ford and Permian due to the higher netbacks they have thanks to their proximity to the Gulf Coast and its end-use markets and large array of midstream infrastructure.

These should help Enterprise manage the downturn since the company is a key midstream provider in each region with connections to other systems the company owns that will help to provide flow assurances and market choices.

"If you have to go through a downturn, the Eagle Ford and Permian are not a bad place to have in your backyard. There's no doubt that 2015 will present significant challenges across the entire upstream and therefore related midstream value chain," Teague said. "Margins will be thinner and landing new projects will be competitive. However, all of the assets we have recently constructed or have under construction are backed by long-term commitments."

The bulk of these new projects also have volume commitments that are set to ramp up over the next few years, which will help to provide stable and increasing revenues.

Waldheim also stated that DCP Midstream Partners' assets in the Eagle Ford will help the company weather the downturn. "The Eagle Ford continues to see strong production due to its economic cost of drilling and location relative to the Mont Belvieu market. [We] are in the core area of the Eagle Ford. We are very pleased with the Eagle Ford's current and future projected earnings growth, even in the current environment," he said.

Teague noted that Enterprise stands to benefit from its crude assets being connected to the Cushing hub, which is more active due to the dislocation of waterborne barrels caused by the price downturn.

"These kind of market cycles are just the way it's always been ... We've picked up a few prizes in past downturns, as people found themselves unprepared or in denial about downcycles," Teague said. Such past deals include the Mid America (MAPL) Pipeline and GulfTerra Energy Partners LP.

Though Enterprise has been active in the M&A market in past downturns, Creel stated the company would not chase deals. "If opportunities present themselves [with] assets that fit our system, we will take a look at them. M&A has to compete with our organic projects as well. I don't think our philosophy has changed over time; I think the markets change over time and we act when it makes sense," he said.

The positive to take from this is that Enterprise has performed well during past downturns and thrives on change, Teague added. In addition, he said that the U.S. oil and gas industry will continue to produce as it remains a focal point on the global stage.

"Global markets understand that we have more hydrocarbon resources that we're going to need and much of the world's production comes from some very unstable places in the Middle East, Venezuela, and North Africa. They also understand that [low] oil prices aren't going to help many of these countries' geopolitical dynamics. As demand grows, weak economies won't be here forever and the U.S. continues to move forward from a position of shortage to one of surplus. Rebalancing of global markets is going to continue to take place and the U.S. oil and gas industry will not be denied," Teague said.

This is a similar viewpoint to the one held by van Kempen, who noted that the oil and gas industry was a "must run business" that may slow down, but won't stop.

Both Teague and van Kempen highlighted the integrated nature of their company assets as a prime reason they expect to be able to weather any downturn as they are designed to open new opportunities and revenue streams.

"It would be nice if prices were higher and the environment was such that money was falling from the sky. Those days are over for now. Today, we are in an environment where you have to be relentless about managing your costs and where you have to look for and earn every penny. Looking for and picking up pennies is a lot harder than catching money falling from the sky. Some have never done it," Teague said.

Like Enterprise, DCP Midstream has a track record of managing the cyclical nature of the industry. "The DCP enterprise has a long history, approximately 90 years, of prudently managing through the low commodity environments. We're well underway on tightening our belts with a strategic focus on prudently managing the DCP enterprise to be an even fitter and stronger company," van Kempen said.

ANGA: With Production Up, LNG Exports Should Follow

By Caryn Livingston, Hart Energy

Storage tanks at Cheniere Inc.'s Sabine Pass, La., LNG plant. Cheniere is on track to be the first company to export natural gas produced from the shale boom. ***Source: Hart Energy***

At a March 9 joint hearing of the Texas House International Trade and Intergovernmental Affairs and Energy Resources committees, Erica Bowman of America's Natural Gas Alliance (ANGA) highlighted the potential benefits of expediting LNG exports from the U.S.

Bowman, ANGA's vice president for research and policy analysis, spoke in support of a resolution to urge the U.S. Congress and President Barack Obama to expedite natural gas exports. The resolution was proposed by Texas State Rep. Gene Wu of Houston.

Bowman told members of the committees that "the reserves of the United States' natural gas have grown over the years due to technological advances." In 2000 it was estimated that the U.S. had more than 1,200 trillion cubic feet (Tcf) of natural gas available, but that estimate is now at more than 2,700 Tcf, she said.

This expansive growth in potential U.S. shale gas reserves has driven natural gas prices down to the very bottom of the range predicted by the Energy Information Administration's (EIA's) 2009 Annual Energy Outlook (AEO), Bowman said. In the most recent AEO, prices are projected to remain at those low levels through 2035.

The dramatic increase in production has occurred even as rig counts have fallen significantly, Bowman explained, causing earlier expected natural gas import levels to drop to a nearly negligible level, and paving the way for a substantial increase in exports.

According to a summary of the testimony released by ANGA, the increase in available natural gas resources means that the incremental demand from LNG exports would likely result in only small price impacts, with overall prices remaining at the low end of the historical spectrum. An EIA study released in October found that increasing export levels to between 12 billion cubic feet per day (Bcf/d) and 20 Bcf/d would only lead to price increases of between 10 cents and 80 cents per million Btu. At lower export volumes, the related price increase would be even smaller, the ANGA statement said.

Bowman also discussed how expedited LNG exports could drive investment in the petrochemical industry and domestic manufacturing. Allowing more exports would encourage producers to continue to maintain high production levels by increasing demand for dry gas. Continued high production levels would keep NGL prices low, benefitting the domestic chemical, fertilizer and plastics industries, she said. An ICF International examination of the impacts of LNG exports found that NGL volumes would increase between 138,000 barrels per day (bbl/d) and 555,000 bbl/d by 2035 due to LNG exports, ANGA reported.

There is substantial demand for LNG currently, but time is of the essence when it comes to who will benefit from the opportunity to meet that demand, Bowman said.

"Global demand for LNG is expected to double by 2025," she said in an email to Hart Energy. "There are many proposed LNG export facilities announced throughout the world, and the U.S. is one supplier among many competing to fill that demand. The faster the U.S. permits export facilities, the better

chance the U.S. facilities will have to secure contracts and start supplying LNG to those who want and need it."

Midstream And Methane

By Deon Daugherty, Hart Energy

Gas plant equipment and pipeline flanges create routes for methane emissions. Engineers and midstream operators are working to lessen the problem. ***Source: Hart Energy***

Whether the U.S. Environmental Protection Agency (EPA) ultimately stacks more layers of regulations on the midstream sector remains foggy but one thing is clear: The energy industry's voluntary efforts to reduce methane emissions are working.

Methane (CH_4) is the primary component of natural gas, and gas and petroleum systems are the most significant source of methane emissions from any industry in the U.S., according to the EPA. Some is released into the atmosphere during production, processing, storage, transmission and the distribution of natural gas.

Between 1990 and 2012, methane emissions increased in the U.S. by 11%. But that marked a tipping point, and according to research from EnergyInDepth.org, 2013 showed that operators in all major U.S. oil and gas basins began to show reductions in the greenhouse gases (GHG) released into the atmosphere.

All of which could benefit the midstream side of the industry if the EPA decides to press harder on the sector, industry insiders say.

"The environmental groups are putting tremendous pressure on EPA to insist on further controls related to methane," Jim Smith, a partner in the environmental practice of Porter Hedges LLP in Houston, told *Midstream Business*. "[They] have acknowledged that burning methane is a substantially better way to produce electricity than burning coal. They also acknowledge that their favored 'renewable' sources cannot compete with natural gas at the current pricing structure."

As Smith explained, the federal environmental agency is under significant pressure to further minimize GHG emissions and will be making announcements that it's going to look a lot harder at trying to minimize methane emissions at the drill site. More importantly, he said, downstream of the drill site—but before hydrocarbons get to the refineries, which are already under strict regulations—there is room for additional reductions of emissions.

"There is this notion, but the science isn't all that clear, that EPA can significantly reduce net GHGs if they would significantly lower methane emissions by new controls on the intermediate—the midstream—area," Smith said. "Exactly what's going to come out of that, we don't know."

The EPA has suggested that midstream facilities—pipelines, gathering and processing, storage and transmission facilities—may be much more important and much more damaging in the area of GHGs than originally thought, Smith said.

On one side of the debate are natural gas advocates who point to the GHG declines through moving toward more use of gas instead of coal. However, methane emissions, which may have up to 20 times the heat-retaining impact of CO_2, remain a concern. And second only to CO_2, methane is the most prolific GHG emitted from human activity, according to the EPA.

"Some enviros have really latched on to this methane problem and said we're really not helping our greenhouse gas situation with all this natural gas because the methane is escaping at much greater quantities than the industry is telling us," Smith said. The EPA's science isn't clear, but Smith said the current regulations on the midstream aren't too onerous.

"But there are people within EPA, as a result of the environmentalist community, who have really got their eyes on midstream and saying, 'Ah—that's the problem!' and there are some folks in the environmentalist community who will do anything and say anything to increase the cost of fossil fuels so that their favored alternatives, the 'renewables,' won't be quite so economically bad in comparison."

Celina Romero, an Austin, Texas, lawyer who represents several pipeline companies on environmental issues, said most companies are hopeful the EPA will continue to allow voluntary efforts currently used to augment the EPA's 2012 New Source Performance Standards to remain in place, allowing voluntary efforts to be utilized to control methane emissions from the midstream industry.

"We already have seen significant emission reductions through voluntary measures, driven by economic incentives, that were taken even before the new [standards] were put in place," Romero said.

As part of the Natural Gas STAR Program, part of the EPA's Global Methane Initiative, companies representing more than 50% of the U.S. natural gas industry have voluntarily found ways to reduce their emissions. Since its inception in the 1990s, those partners with the EPA have cut almost 471 billion cubic feet of methane emissions using dozens of cost-effective technologies.

Given the success of the voluntary efforts, the industry is hoping the EPA will permit the system to remain in place.

"We have heard there may be a mandatory program put in place, which would be expensive and unnecessary because of the results that we're already seeing through the voluntary measures," Romero said.

Much of that cost would include personnel costs and equipment downtime.

"Under a mandatory leak detection program, you may have to repair a leak within a fixed period of time after discovery. In some instances, repairing a leak can result in more emissions than the leak itself. For example, in order to perform maintenance on an engine you have to blow down the engine, which in some instances, will cause emissions that will far exceed the leak rate of a flange or a valve."

In fact, one Texas Commission on Environmental Quality provision provides that when a repair of a leak would generate more emissions than the leak at issue, the repair may be delayed until the next scheduled shutdown.

"That would make a lot more sense than being required by a federal rule to have to perform unscheduled maintenance activities that could double or triple the emissions than if industry were able to hold tag the leaks and repair them all at one time," she said.

Flaring up

When it's burned or flared, methane breaks down in such a way that it's a plus for lowering GHG, Smith said. Whenever people drill for hydrocarbons, there's always a good chance that natural gas will be all, most or part of the product.

"We, of course, have a lot of natural gas because of the ability to fracture these shale formations and because we have a lot more gas coming into the system, we have many opportunities for methane to escape. The industry doesn't want the methane to escape because they are in the business of selling the stuff," Smith said.

"Flaring is a way to stop methane from leaving as methane and instead leaving as carbon dioxide and water by burning the stuff. But flaring has its own problems, including it's never 100% effective and there are other things that come out in flaring. And finally, separate from a direct environmental issue, flaring just strikes most people as something wrong because that gas should be valuable."

In fact, a new industry group has organized to address shale-related gas flaring, stranded gas and emissions reduction with the goal of monetizing gas at the wellhead.

The group—Flaring Issues, Solutions and Technologies (FIST)—was officially launched at the recent Unconventional Resources Technology Conference in Denver.

“A major goal of FIST will be to use novel technology to monetize gas at the wellhead,” said Richard Haut, program manager for Environmentally Friendly-Drilling Systems Program, a research arm of the Houston Advanced Research Center and one of the members of FIST. Other FIST members are the Petroleum Technology Transfer Council and Environmentally Friendly Drilling.

Politics at play

Whether the EPA decides to lean on the midstream to appease Democrats and their environmentalist allies remains uncertain. Smith noted Congress could file legislation or cut the EPA’s budget to discourage or retaliate against such action.

“I think, given the realities, if I were advising midstream folks, I would say, ‘Yes, you have to pay attention to the political side.’ But it’s so broken, it’s not going anywhere, and I’m not even sure the Republicans’ threat to significantly cut EPA’s budget is going to get much political traction.

“If you’re going to do the best you can for your industry, I think it’s to concentrate on the science,” he added. “Get really good, effective scientific evidence to support the controls that are appropriate, reasonable and cost-effective and get that evidence into the [legislative] rule-making record.”

In Addition To LNG, Cheniere Aims To Export US Condensate

By Nissa Darbonne, Editor-At-Large

Chad Zamarin, president, Cheniere Pipeline Co.

OKLAHOMA CITY – Cheniere Energy Inc. is planning an export facility for growing U.S. condensate supply now, along with its $30 billion of natural-gas-export facilities underway on the Gulf Coast.

"The predominant issue we see is a high degree of light barrels being produced in the Eagle Ford and Midcontinent," Chad Zamarin, president, Cheniere Pipeline Co., told attendees at Hart Energy's DUG Midcontinent conference.

Exporting unrefined, U.S. oil remains prohibited by federal law, in most cases; however, the Commerce Department's Bureau of Industry & Security (BIS) allows the export of condensate that has been, at least, lightly processed. The recipe has not been disclosed. However, the BIS approval last year is expected to open overseas markets for more than 1 million barrels of daily, domestic, condensate production, which has grown primarily from the Eagle Ford and, increasingly, from new Midcontinent plays.

Using its BIS-approved recipe, Enterprise Products Partners LP exported 3.7 million barrels of condensate in the second half of 2014 from the Gulf Coast. Other producers have begun exporting as well, according to news reports.

Plains All American Pipeline LP disclosed in its annual report filed in February that it received a BIS letter last year that how it processes condensate at its Eagle Ford plant in Gardendale, Texas, does create an

exportable product. Among Plains' projects under way this year is the addition of 40,000 barrels of daily, condensate-processing capacity at Gardendale, where capacity is already 80,000 a day.

At a dock at Corpus Christi, Texas, near its LNG-plant construction, Cheniere aims to build a condensate splitter, Zamarin told DUG Midcontinent attendees.

Of the roughly 9.3 million barrels of daily U.S. oil production currently, most of the 4 million barrels of growth in the past few years has been of light oil from shale plays. From the Eagle Ford, in particular, and increasingly from the Midcontinent, oil production is ultra-light of more than 45 degrees in gravity by API standards.

Meanwhile, most U.S. oil-refining capacity is on the Gulf Coast, which converted to primarily processing heavy oil beginning in the 1990s. East Coast refiners can process light oil, but access is by Brent-priced tanker or by rail, rather than WTI-priced and low-cost pipeline.

The gridlock is severely affecting the domestic value of WTI, which is a light oil, Zamarin noted. WTI for April delivery closed at about $50 on Feb. 27; meanwhile, seaborne Brent closed at about $63.

WTI storage at Cushing—at which Nymex oil is priced—was about 49 million barrels on Feb. 27, according to a weekly EIA analysis, having doubled in three months. Working capacity is estimated at between 65- and 70-million barrels.

Instead of adding to Cushing this past week, most oil owners put it on the Gulf Coast—for a 5.4-million-barrel add to total 219.9 million barrels. Gulf Coast capacity is estimated to be between 250- and 260 million barrels.

Contributing to the growth in oil in storage is that many refiners shut down in the spring for maintenance. This year, however, the storage build is additionally due to continued growth in U.S. oil production without an overseas market for the excess and due to that some traders are storing $50 oil today in the hopes of selling it for $70 or more later.

Even Louisiana Light Sweet is getting a relatively harsh discount, Zamarin noted; LLS closed Wednesday at $57 compared; Brent, $61.

Zamarin said, "The shift in price dislocation has, effectively, moved all the way to the Gulf Coast … Access to Gulf Coast markets is no longer enough. Refineries are saturated … so we see that the best way to get value for the domestic producer is to provide access to the international market."

Enterprise Products reported in its annual report filed Tuesday that it received a subpoena for documents relating to its Feb. 13 acquisition of Oiltanking Partners LP. In the deal, it gained 12 ship and barge docks at the Houston Ship Channel and Port of Beaumont and some 26 million barrels of oil- and products-storage capacity. The Oiltanking system was already connected to Enterprise's Echo storage facility.

The Wall Street Journal reported last week that producers, including BP Plc, have complained to the FTC that Enterprise is hoarding dock space it gained from Oiltanking for its own product exports. Enterprise replied to *WSJ* that oil-storage customers wanting dock time can buy it at the market rate.

Zamarin told Midcontinent conference attendees that the ship channel at Corpus Christi is not congested. Plans are for 200,000 barrels a day of initial throughput of both oil and condensate. “That could expand to up to 1 million barrels in the right market conditions, but we think that, initially, 200,000 is a nice facility for producers.”

Getting Eagle Ford, Midcontinent and other U.S. condensate “into a more premium, international market just makes good sense. So, we want your natural gas; we want to turn it into LNG and export it. And we want your crude condensate; we want to … export it.”

Frac Spread: Demand Leveling Off

By Frank Nieto, Hart Energy

As temperatures rose across the U.S. the week of March 9, hydrocarbon prices began to level off. While prices seemed to have plateaued in February, it is possible that prices will continue to decrease as the spring shoulder season begins over the next few weeks.

Natural gas prices experienced fairly large decreases at both Conway and Mont Belvieu. The price in the Midcontinent fell 6% to $2.50 per million Btu (MMBtu) while the Gulf Coast price was down 12% to $2.71/MMBtu.

Since gas prices remained challenged even in the midst of a frigid winter, there is feeling that a greater downturn can be expected in the second and third quarters of this year in an effort to encourage demand. Barclays Capital lowered its 2015 forecast from $4.01/MMBtu to $2.75/MMBtu due to the prospect of less coal-fired power plants being retired along with an expected increase in gas production.

"Excess supply continues to steer the market lower. We expect natural gas prices to fall below $2.50 in Q2 2015, ensuring that almost 6 billion cubic feet per day (Bcf/d) of natural gas is used for power that storage levels do not overshoot. Gas should thus be a more competitive alternative to cheap coal," the investment firm said in its March 10 *Natural Gas Kaleidoscope.*

Deteriorating gas prices are helping frac spread margins improve, but gains were limited by NGL price downturns related to West Texas Intermediate (WTI) crude prices falling below $50 per barrel (bbl). Prices should begin to improve as the summer driving season begins, which would lessen fears of WTI prices falling below $40/bbl. Producers have been delaying well completions while they continue to drill wells, which should slow the storage buildup and balance the market.

Heavy NGL prices faced several other headwinds, most notably in the case of butane. Not only is butane demand decreasing with the end of the winter gasoline-blending season, but the LPG export market also dried up for several days the last few weeks. The Houston Ship Channel was closed last week as a result of fog and this week due to a collision involving two ships. The seaport reopened on March 12.

Butane prices fell 6% at Conway to 54 cents per gallon (gal) and 4% at Mont Belvieu to 58 cents/gal, their lowest prices in five weeks. Butane's sister product, isobutane also fell in value at both hubs with a 4% drop to 84 cents/gal at Conway and a 5% drop to 70 cents/gal at Mont Belvieu, both of which were also the lowest at the hub in five weeks.

Propane prices were also impacted by the Houston Ship Channel closures as export shipments were reduced along the Gulf Coast. Additionally, exports are constrained in the Atlantic Basin as several contracted cargoes were cancelled for April liftings because of a lack of VLGC (very large gas carrier) ships in the region, according to En*Vantage. This scarcity is tied to increased trading to the Far East, which is lengthening the return time for vessels, the company said in its *Weekly Energy Report* for March 12. These headwinds caused prices to fall 4% to 58 cents/gal at Mont Belvieu and 6% to 54 cents/gal at Conway.

Mont Belvieu and Conway prices were just about on par with each other at 18 cents/gal as demand faltered with the start of a full week of trading in March. Ethane prices have been supported the last week of January and February by traders caught short at the end of the month. The one positive to take from ethane is that with the decrease in gas prices, margins were hypothetically positive at both hubs.

Overall the theoretical bbl price was down 5% at Conway to $22.52/bbl with a 4% decrease in margin to $13.38/bbl. The Mont Belvieu bbl price fell 4% to $23.28/bbl with a 2% gain in margin to $13.38/bbl.

The most profitable NGL to make at both hubs was C_{5+} at 83 cents/gal at Conway and 88 cents/gal at Mont Belvieu. This was followed, in order, by isobutane at 59 cents/gal at Conway and 43 cents/gal at

Mont Belvieu; butane at 39 cents/gal at Conway and 41 cents/gal at Mont Belvieu; propane at 31 cents/gal at Conway and 34 cents/gal at Mont Belvieu; and ethane at 2 cents/gal at Conway and 1 cent/gal at Mont Belvieu.

The U.S. Energy Information Administration reported that natural gas storage levels were down 198 Bcf to 1.512 trillion cubic feet (Tcf) the week of March 6, which included the several days of very cold temperatures in the Midwest and along the East Coast. This was 47% greater than the 1.029 Tcf level reported last year at the same time and 13% lower than the five-year average of 1.737 Tcf.

Colder-than-normal temperatures are forecast in much of the country by the National Weather Service for the start of spring, which should increase heating demand. However, temperatures won't approach the levels of even just a week ago so demand won't be quite as high.

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
March 4 - 10, '15	18.43	58.38	68.66	70.00	118.16	**$23.28**
Feb. 25 - March 3, '15	19.46	61.02	71.78	73.72	122.14	**$24.29**
Feb. 18 - 24, '15	18.97	59.58	68.58	70.46	118.44	**$23.53**
Feb. 11 - 17, '15	17.83	58.20	68.03	70.20	116.80	**$23.05**
February '15	18.19	57.06	68.02	69.98	116.61	**$22.95**
January '15	18.79	47.27	67.03	68.30	94.52	**$20.28**
4th Qtr '14	20.22	76.90	96.73	98.28	149.25	**$30.10**
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	**$40.27**
2nd Qtr '14	29.26	106.55	124.12	130.23	222.81	**$42.31**
1st Qtr '14	34.50	129.51	137.62	141.49	212.60	**$46.16**
March 5 - 11, '14	32.93	107.84	125.42	130.26	212.68	**$42.40**
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
March 4 - 10, '15	18.03	53.56	65.16	83.46	110.96	**$22.52**
Feb. 25 - March 3, '15	18.38	57.06	69.38	87.00	115.42	**$23.61**
Feb. 18 - 24, '15	18.82	56.60	67.00	87.06	114.06	**$23.41**
Feb. 11 - 17, '15	17.00	54.40	66.60	84.48	116.03	**$22.89**
February '15	17.56	53.62	67.06	82.14	113.63	**$22.69**
January '15	18.06	43.51	70.80	76.05	94.99	**$20.33**
4th Qtr '14	18.69	78.64	102.72	113.19	146.37	**$30.77**
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	**$40.18**
2nd Qtr '14	26.26	105.44	121.26	163.00	221.62	**$42.62**
1st Qtr '14	25.46	169.48	132.08	147.10	216.86	**$49.93**
March 5 - 11, '14	33.50	112.42	118.58	134.12	226.90	**$44.09**

CURRENT FRAC SPREAD (CENTS/GAL)				
March 13, 2015	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	18.03		18.43	
Shrink	16.58		17.97	
Margin	1.46	79.52%	0.46	151.75%
Propane	53.56		58.38	
Shrink	22.90		24.82	
Margin	30.66	-6.48%	33.56	2.00%
Normal Butane	65.16		68.66	
Shrink	25.93		28.10	
Margin	39.24	-6.36%	40.56	1.54%
Isobutane	83.46		70.00	
Shrink	24.90		26.99	
Margin	58.56	-3.38%	43.01	-0.31%
Pentane+	110.96		118.16	
Shrink	27.73		30.05	
Margin	83.24	-3.25%	88.11	0.01%
NGL $/Bbl	22.52	-4.63%	23.28	-4.14%
Shrink	9.13		9.90	
Margin	13.38	-3.91%	13.38	2.36%
Gas ($/mmBtu)	2.50	-5.66%	2.71	-11.73%
Gross Bbl Margin (in cents/gal)	30.21	-4.02%	30.65	2.57%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.99	-1.90%	1.01	-5.29%
Propane	1.86	-6.13%	2.03	-4.33%
Normal Butane	0.70	-6.08%	0.74	-4.35%
Isobutane	0.52	-4.07%	0.44	-5.05%
Pentane+	1.43	-3.86%	1.52	-3.26%
Total Barrel Value in $/mmbtu	5.51	-4.61%	5.74	-4.28%
Margin	3.01	-3.71%	3.03	3.53%

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.

RESIN PRICES – MARKET UPDATE – MARCH 13, 2015					
TOTAL OFFERS: 15,165,220 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Blow Mold	2,910,980	0.555	0.63	0.55	0.59
LDPE - Film	2,550,944	0.58	0.67	0.6	0.64
HDPE - Inj	2,421,864	0.56	0.615	0.58	0.62
LLDPE - Film	2,364,140	0.59	0.72	0.57	0.61
LLDPE - Inj	1,526,392	0.56	0.64	0.62	0.66
PP Homopolymer - Inj	1,366,852	0.67	0.76	0.67	0.71
HMWPE - Film	1,014,116	0.565	0.61	0.59	0.63
LDPE - Inj	705,472	0.575	0.635	0.64	0.68
PP Copolymer - Inj	304,460	0.735	0.78	0.69	0.73

Source: Plastics Exchange – www.theplasticsexchange.com

Oil Execs Press Government To Lift Export Ban

Bloomberg

About a dozen U.S. drilling executives, including ConocoPhillips Chief Executive Officer Ryan Lance, were in Washington this week trying to persuade White House officials and lawmakers to lift the 40-year ban on U.S. oil exports, according to two people familiar with the meetings.

Chief executives from the lobbying group Producers for American Crude Oil Exports, or PACE, met with White House senior energy policy adviser Brian Deese March 11 to ask the Obama administration to roll back a prohibition on most U.S. oil exports imposed after the 1973 Arab oil embargo, according to two people, who asked not to be identified because the discussions weren't public.

Producers are eager to lift the ban because oil in the U.S. is selling for about $10 less than the global benchmark. An end to the ban would allow U.S. producers to sell for higher prices.

CEOs from eleven of PACE's 16 member companies flew to Washington for meetings with administration officials and lawmakers, including Marathon Oil Corp. CEO Lee Tillman, Chesapeake Energy Corp. CEO Doug Lawler and Occidental Petroleum Corp. CEO Steve Chazen, according to the

group. They also briefed federal officials and lawmakers on market conditions, including industry job cuts, oil-production levels and the idling of oil rigs, said one of the people who was briefed on the discussions.

“We’ve had a series of very productive meetings with senators from both parties and the administration and look forward to continuing those conversations in the months ahead,” PACE Executive Director George Baker said in a statement.

Frank Benenati, a White House spokesman, didn’t respond to a request for comment.

Administration officials, including Energy Secretary Ernest Moniz, have called the restrictions antiquated, and they are being reviewed in a years-long study in the department.

U.S. energy policies severely restrict crude exports while applying no such limits to products processed in refineries. U.S. refiners are exporting record amounts of gasoline while producers contend with depressed oil prices. The U.S. has surpassed Russia and Saudi Arabia as the world’s largest producer of oil and natural gas, according to the U.S. Energy Information Administration.

Exxon Mobil Corp. CEO Rex Tillerson urged the government and Congress to allow U.S. exports of oil and natural gas.

“With free trade in energy and common-sense regulatory reforms, the U.S. energy industry can strengthen U.S. energy security and continue to pioneer the innovations that make possible the safe and responsible development of energy,” Tillerson said in remarks Thursday to the Economic Club of Washington, D.C., according to an Exxon statement.

Executives also met on Capitol Hill with aides to Senator Lisa Murkowski, chairwoman of the Senate Energy and Natural Resources Committee. Murkowski, a Republican from Alaska, has publicly backed lifting the ban on U.S. oil exports and is working on a broad rewrite of U.S. energy laws.

“We’ve been holding a series of listening sessions and PACE has been part of that,” said committee spokesman Robert Dillon. Oil executives met with Republican and Democratic committee staff this week. “As we start to draft legislation, we want to make sure we gather all the ideas. We want to hear from everybody.”

Producers calling for an end to the ban have been beset by the biggest oil-market crash since 2009, which has made it harder to turn a profit by drilling in shale, a technological achievement that helped unlock a boom in North American supply.

Last year, the Department of Commerce began to clarify some rules relating to a kind of ultra-light crude called condensate. That review allowed companies including Pioneer Natural Resources Co. to export condensate after a minimal amount of processing, akin to existing regulations that allow refined products such as gasoline and diesel to be exported.

It isn’t clear how much exports have increased because of those allowances, since government data doesn’t release a separate tally of how much condensate has been shipped abroad. U.S. crude exports rose 11 percent in January from December, to 491,000 barrels a day, according to *Bloomberg* calculations from U.S. Census Bureau data. Of that total, 400,000 barrels a day went to Canada, where U.S. producers and traders are allowed to export under federal rules.

Canada Toughens Oil Tank Car Standards

Reuters

Canada proposed tough new oil tank car standards on Wednesday and said even improved tank cars coming into service now would have to be off the rails by 2025 at the latest.

The announcement comes after a rash of fiery derailments in Canada and the United States, including some that involved the newer, improved rail cars, and as more oil increasingly travels by rail due to higher output and a shortage of pipelines.

The proposed standards call for a hull thickness of 9/16 inch, up from the current 7/16 inch or half inch, depending on car type. It also makes thermal protection jackets and increased shields at each end of the cars mandatory.

Older DOT-111 cars are being replaced in Canada by CPC-1232 cars, but even these will have to be phased out by 2023 or 2025, depending on whether they are jacketed or not, under the proposed standards.

The proposed rules were welcomed by the Canadian Association of Petroleum Producers, which represents the country's largest oil companies. The group supports retrofitting the older model tankers and the phase in of more robust cars.

"Rail is anticipated to remain an important mode of transportation to transport Canadian crude to market," saidChelsie Klassen, a spokeswoman for the lobby group.

"Given the integrated nature of the North American rail network, there's a need to harmonize Canadian and U.S. standards on rail car standards."

Canada, which moved ahead of the United States in ruling DOT-111 cars cannot carry crude as of May 2017, signaled it was prepared to move faster than its neighbor on the latest standards.

Canada said the U.S. is following its own regulatory process and will make its own decision on this standard. Nonetheless, Canada said the new car will be called TC/DOT-117. TC stands for Transport Canada and DOT for U.S. Department of Transportation.

Transport Minister Lisa Raitt told Reuters earlier that, while the Washington and Ottawa are near agreement on a tougher standard for oil tanker cars, they might diverge on the phase-in period.

"Time is of the essence for us," she said.

Derailments in the U.S. and Canada have added to pressure to make tankers less vulnerable to rupture and explosion in the event of a mishap.

In July 2013, an oil train derailed in Lac-Megantic, Quebec, killing 47 people. Long oil trains regularly pass through larger metropolitan areas.

Although they are deemed somewhat safer than the older DOT-111s, nine CPC-1232s ruptured in a fiery Canadian National Railway Co accident in Ontario on Saturday.

Reuters previously reported that advanced braking systems - electronically controlled pneumatic or ECP brakes - could be part of the standard.

Transport Canada said on Wednesday it planned to include braking requirements, including ECP, in separate regulations rather than the tank car standards.

The U.S. rail industry has been pushing the White House to drop the braking requirements, arguing that U.S. Transportation Department estimates overstate the benefits and understate the costs of such systems.

A senior executive from Canadian Pacific Railway Ltd was part of a delegation of more than a dozen rail executives who attended a meeting with the White House Office of Management and Budget on March 6, where the industry urged the Obama administration to scrap the proposed requirements for ECP brakes.

"CP welcomes any progress towards the full implementation of safer tank car standards," Martin Cej, a spokesman for the railway, said in an email, though he declined comment on the possible braking standard.

Canadian National spokesman Mark Hallman said the rules calling for thicker tank walls were a "clear advance in tank car safety."

The Railway Association of Canada, representing most of Canada 's railway companies, welcomed the new tank car standard, saying it had wanted something more robust than CPC-1232s.

EQT Midstream Will Buy Gas Gathering Assets From EQT Corp.

Reuters

EQT Midstream Partners LP said it would buy parent EQT Corp.'s Northern West Virginia Marcellus Gathering System and a preferred interest in an EQT subsidiary for about $1.05 billion.

EQT shares were down 1.5 percent in after-hours trading on Tuesday, while EQT Midstream shares were flat at $80.46.

EQT formed EQT Midstream in 2012 to own, operate, acquire and develop midstream assets in the Appalachian Basin. EQT has a 34.4 percent limited partner interest and a 2 percent general partner interest in EQT Midstream, according to the company's website.

EQT Midstream said it would pay $997.5 million in cash and $52.5 million in common and general partner units for the assets, which are expected to immediately add to the partnership's distributable cash flow per unit.

The company said separately that it would offer nearly 8.3 million common units representing limited partner interests to help fund the deal.

The system includes about 70 miles of natural gas gathering pipeline and nine compressor units with 25,000 horsepower of compression.

EQT Midstream said it expected to invest about $370 million over the next several years to install about 100 miles of gathering pipeline and five compressor units.

The partnership forecast ongoing maintenance capital expenditure of less than $5 million per year for the system.

Evercore Group LLC is EQT Midstream's financial adviser on the deal, while its legal adviser is Richards, Layton & Finger P.A.

Kinder Morgan Sells First Euro Bonds

Bloomberg

Kinder Morgan Inc. (NYSE: KMI) sold bonds in euros for the first time, the latest U.S. company to take advantage of record-low euro-area borrowing costs, Bloomberg said March 9.

The world's largest builder of oil and gas pipelines by market value sold 750 million euros (US$814 million) of seven-year notes and 500 million euros of 12-year bonds, according to data compiled by Bloomberg. The proceeds will help to repay existing debt, the data show.

Kinder Morgan joins Coca-Cola Co. (NYSE: KO) and Berkshire Hathaway Inc. (NYSE: BRK-B) in a surge of U.S. companies that have raised 34 billion euros from bonds this year, the most for the period since 2007, data compiled by Bloomberg show. Borrowing costs have fallen to records in anticipation of the European Central Bank's 1.1 trillion-euro bond-buying plan, which began March 9, while Federal Reserve policymakers are withdrawing economic support.

"Cost is the main driver," said James Athey, a London-based investment manager at Aberdeen Asset Management Plc, which manages about US$504 billion of assets. "The benefit in Europe should persist with the likelihood of a Fed exit."

Billionaire Richard Kinder's company issued the notes following a record week of bond sales from U.S. energy companies as oil prices stabilize from last year's 48% drop, reigniting investor interest in the sector. Exxon Mobil Corp. (NYSE: XOM), the world's largest oil company by market value, and Laredo Petroleum Inc. (NYSE: LPI), the Tulsa, Okla.-based oil exploration and production company, were among borrowers that raised $14.5 billion last week.

Houston-based Kinder Morgan's seven-year notes were priced with a 1.5% coupon and will pay a premium of 1.08 percentage points more than benchmark rates, according to Bloomberg. The 12-year bonds priced with a coupon of 2.25% and will pay a premium of 1.43 percentage points.

The company is "pleased to access the European market for the first time and expects to return to this market in the future," Kinder Morgan spokesman Richard Wheatley said by email.

The average yield on investment-grade corporate bonds in euros dropped to an all-time low of 0.88 percent on Feb. 26 and is now 0.91%, according to Bank of America Merrill Lynch index data. That compares with an average of 3.14% for U.S. dollar-denominated notes, the data show.

The average yield difference investors get to hold euro-denominated investment-grade debt is 56 basis points, or 0.56 percentage point, more than the mid-swap rate, the index shows. Kinder Morgan is given the lowest investment-grade rating by Moody's Investors Service and Standard & Poor's.

El Paso Corp., which Kinder Morgan acquired in 2012, sold 500 million euros of 7.125 percent seven-year notes in 2002, according to data compiled by *Bloomberg*.

IRS Lifts 'Pause' On Energy Partnership Rulings

Reuters

The Internal Revenue Service has lifted its temporary "pause" on rulings about what businesses qualify for tax-free inclusion in energy master limited partnerships (MLPs), after about a year of study that held up some transactions.

The suspension of the so-called private letter rulings was part a review by the IRS and the U.S. Department of Treasury, driven in part by how widely and often the partnerships were being used in an evolving industry.

MLPs have soared in popularity with energy companies in recent years. The partnerships pay no taxes, offering companies a means to lower their cost of capital. Investors also like them for the fat dividends they pay. There are about 130 publicly traded partnerships, mostly related to energy and pipelines or other infrastructure.

"We know taxpayers have been patiently waiting for private letter rulings before proceeding with their transactions," the IRS said in a statement late on Friday. "During the pause, we have spent significant time studying the issues and have worked with engineers in (Large Business and International) to develop workable standards to guide our ruling practice."

The pause snared companies' plans to form MLPs with their assets. In one example, U.S. exploration and production company SandRidge Energy Inc. said last April that its letter asking the IRS whether its water disposal business would qualify as tax-free for inclusion in an MLP was snared in the pause.

The ruling process resumed on Friday, and the IRS will issue proposed regulations in the near futures, it said.

The National Association of Publicly Traded Partnerships said on Friday that its members are "very pleased that the long wait for rulings to resume is over."

Tax payers ask the IRS for private letter rulings to see how tax laws apply to them.

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