HARTENERGY

MIDSTREAM Monitor

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# Natural Gas Ready To Turn The Corner

## The natural gas market could be poised for a long-term recovery

BY **FRANK NIETO** | EDITOR, MIDSTREAM MONITOR, MIDSTREAMBUSINESS.COM

Natural gas markets have experienced a particularly rough 2012 as a warm winter reduced heating demand in much of North America. Prices faced further headwinds as shale gas production remained high, which increased storage levels.

While challenges will continue in the coming year, Raymond James Equity Capital Markets' Andrew Coleman anticipates natural gas prices are poised for a long-term recovery, beginning in 2013.

"The news for natural gas is slowly improving. We're following a very warm winter that caused natural gas prices to collapse," he said while speaking at Hart Energy's recent DUG East conference in Pittsburgh.

The winter of 2012 featured such limited heating demand that it resulted in the market being oversupplied by 6.5 billion cubic feet (Bcf) per day, even factoring in well shut-ins and an increase of 4 Bcf per day of increased demand from power generators switching from coal to gas.

**ON THE REBOUND |** Natural gas prices will improve in 2013 according to Raymond James' Andrew Coleman. (Photo: Hart Energy)

A normalized heating season in North America will have a dramatic effect on gas prices and heating demand, which has resulted in Raymond James reaching a consensus on natural gas prices for the first time in five years. The investment firm is forecasting prices to improve to $3.75 per million cubic feet (/MMcf) from $3.25/MMcf with long-term pricing set at $4.25/MMcf.

"Our 2013 forecast is a lot better than the 6.5 Bcf per day oversupply this year, but it still isn't perfect. We'll see a

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## HIGHLIGHTS FROM TODAY'S EDITION

**FRANK NIETO**
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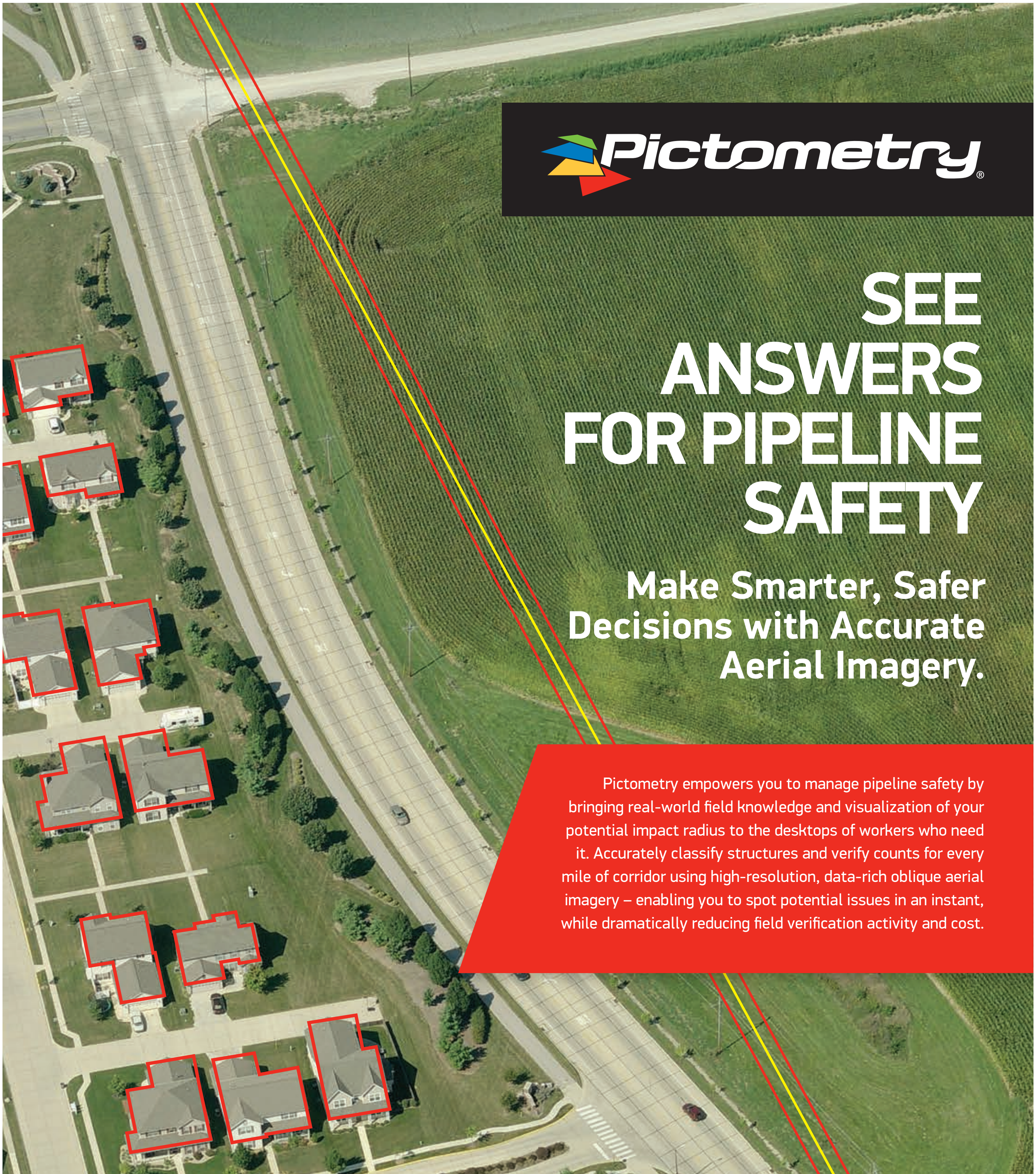

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**NGL PRICES & FRAC SPREAD** | Week in Review

# Heavy NGL Prices Remain Solid, But Light NGL Prices Plunge

BY **FRANK NIETO** | EDITOR, MIDSTREAM MONITOR, MIDSTREAMBUSINESS.COM

Macro-economic woes, including the looming "fiscal cliff" in the U.S. and concerns over the security of Middle Eastern oil supplies, are keeping U.S. energy prices at a stagnant level as 2012 draws to a close.

This is especially true for crude oil and heavy natural gas liquids (NGLs), which are closely related to crude. For much of the past month, crude prices have hovered around $85 per barrel (bbl.). While this isn't an outstanding price, its stability is supporting prices for heavy NGLs.

Prices for heavy NGLs rose across the board at Mont Belvieu and were largely stable at Conway the week of November 21. Pentanes-plus ($C_{5+}$) rose 2% to $2.23 per gallon (/gal) at Mont Belvieu, its highest price in a month. Mont Belvieu isobutane prices also improved 2%,

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**CURRENT FRAC SPREAD (CENTS/GAL)**

| December 3, 2012 | Conway | Change from Start of Week | Mont Belvieu | Start of Week |
|---|---|---|---|---|
| Ethane | 20.17 | | 26.68 | |
| Shrink | 24.46 | | 24.27 | |
| Margin | -4.29 | -2.80% | 2.41 | -33.64% |
| Propane | 76.50 | | 84.57 | |
| Shrink | 33.80 | | 33.53 | |
| Margin | 42.70 | -5.69% | 51.04 | -7.08% |
| Normal Butane | 160.20 | | 165.93 | |
| Shrink | 38.27 | | 37.95 | |
| Margin | 121.93 | -0.31% | 127.98 | 0.79% |
| Iso-Butane | 163.50 | | 183.43 | |
| Shrink | 36.75 | | 36.45 | |
| Margin | 126.75 | -3.56% | 146.98 | 1.92% |
| Pentane+ | 212.25 | | 223.17 | |
| Shrink | 40.92 | | 40.59 | |
| Margin | 171.33 | -2.06% | 182.58 | 2.24% |
| NGL $/Bbl | 39.59 | -0.20% | 42.93 | 0.01% |
| Shrink | 13.48 | | 13.37 | |
| Margin | 26.11 | -2.62% | 29.56 | -0.84% |
| Gas ($/mmBtu) | 3.69 | 4.83% | 3.66 | 1.95% |
| Gross Bbl Margin (in cents/gal) | 58.03 | -2.86% | 66.67 | -1.23% |
| **NGL Value in $/mmBtu** | | | | |
| Ethane | 1.11 | 5.27% | 1.47 | -2.77% |
| Propane | 2.66 | -1.32% | 2.94 | -3.70% |
| Normal Butane | 1.73 | 0.87% | 1.79 | 1.05% |
| Iso-Butane | 1.02 | -1.79% | 1.14 | 1.93% |
| Pentane+ | 2.74 | -0.80% | 2.88 | 2.18% |
| Total Barrel Valuein $/mmbtu | 9.25 | -0.06% | 10.22 | -0.51% |
| Margin | 5.56 | -3.06% | 6.56 | -1.84% |

**NGL PRICES**

| Mont Belvieu | Eth | Pro | Norm | Iso | Pen+ | NGL Bbl |
|---|---|---|---|---|---|---|
| Nov. 21 - 27 '12 | 26.68 | 84.57 | 165.93 | 183.43 | 223.17 | $42.93 |
| Nov. 14 - 20 '12 | 27.44 | 87.82 | 164.20 | 179.96 | 218.40 | $42.92 |
| Nov. 7 - 13 '12 | 28.27 | 91.10 | 162.12 | 181.48 | 215.60 | $43.18 |
| Oct. 31 - Nov. 6 '12 | 28.86 | 97.30 | 162.30 | 189.72 | 224.58 | $44.85 |
| October '12 | 29.78 | 96.21 | 151.37 | 178.28 | 212.57 | $43.17 |
| September '12 | 30.06 | 90.96 | 151.48 | 173.05 | 208.33 | $42.17 |
| 3rd Qtr '12 | 32.34 | 89.27 | 142.76 | 161.88 | 200.54 | $41.03 |
| 2nd Qtr '12 | 37.00 | 97.80 | 160.76 | 175.08 | 207.57 | $44.54 |
| 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 |
| Nov. 23 - 29, '11 | 80.95 | 145.30 | 183.35 | 222.80 | 217.35 | $60.08 |
| **Conway, Group 140** | **Eth** | **Pro** | **Norm** | **Iso** | **Pen+** | **NGL Bbl** |
| Nov. 21 - 27 '12 | 20.17 | 76.50 | 160.20 | 163.50 | 212.25 | $39.59 |
| Nov. 14 - 20 '12 | 19.16 | 77.52 | 158.82 | 166.48 | 213.96 | $39.67 |
| Nov. 7 - 13 '12 | 15.68 | 80.24 | 156.06 | 169.50 | 208.15 | $38.96 |
| Oct. 31 - Nov. 6 '12 | 17.92 | 84.30 | 159.60 | 175.83 | 213.60 | $40.54 |
| October '12 | 18.69 | 84.88 | 148.31 | 175.28 | 205.30 | $39.57 |
| August '12 | 18.77 | 74.27 | 130.46 | 169.74 | 201.94 | $37.01 |
| 3rd Qtr '12 | 14.60 | 70.25 | 124.35 | 165.61 | 195.68 | $34.99 |
| 2nd Qtr '12 | 11.18 | 72.63 | 135.80 | 161.38 | 203.31 | $35.72 |
| 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 |
| Nov. 23 - 29, '11 | 34.00 | 128.85 | 156.63 | 212.45 | 195.33 | $48.06 |

(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

## NGL PRICES & FRAC SPREAD | Week in Review

Continued from Page 3

as they increased to $1.83/gal. The price of Mont Belvieu butane only improved 1%, but the price of $1.66/gal was the highest at the hub since it was $1.67/gal the week of May 9.

"The NGL market at Mont Belvieu is bifurcated in the sense that the heavy NGLs are doing very well on an absolute basis price as well as a valuation basis relative to crude oil. The situation is just the opposite for ethane and propane, where there has been considerable downward pressure on prices for both NGL components for the past couple of weeks," according to En*Vantage's *Weekly Energy Report* for the week of November 29.

Indeed, both ethane and propane prices have dropped for three consecutive weeks at the hub. The ethane price was down 3% to 27¢/gal with a frac spread margin of only 2¢/gal. While this margin is theoretically positive, once transportation and other costs are factored in, the true margin is, in reality, negative. Mont Belvieu propane decreased 4% to 85¢/gal, its lowest price since the week of August 22 when it was 84¢/gal.

| KEY NORTH AMERICAN HUB PRICES | |
|---|---|
| 2:30 PM CST / November 29, 2012 | |
| Gas Hub Name | Current Price |
| Carthage, TX | 3.42 |
| Katy Hub, TX | 3.44 |
| Waha Hub, TX | 3.43 |
| Henry Hub, LA | 3.46 |
| Perryville, LA | 3.43 |
| Houston Ship Channel | 3.45 |
| Agua Dulce, TX | 3.59 |
| Opal Hub, Wyo. | 3.40 |
| Blance Hub, NM | 3.29 |
| Cheyenne Hub, Wyo. | 3.33 |
| Chicago Hub | 3.57 |
| Ellisburg NE Hub | 3.75 |
| New York Hub | 3.69 |
| AECO, Alberta | 3.41 |

Source: Bloomberg

Conway ethane has shown slight signs of life the past two weeks with the price improving 5% to 20¢/gal, its highest price in six week. However, the margin is still negative at the hub at negative 4¢/gal. En*Vantage reported that U.S. ethane rejection is at least 150,000 barrels (bbl.) per day and could hit 200,000 bbl. per day.

"It will take time for the ethane storage overhang to be worked off. We believe that ethane extraction economics will improve once inventories drop below 27 million bbl., which will not occur until March 2013," according to En*Vantage.

| RESIN PRICES – MARKET UPDATE – NOVEMBER 29, 2012 | | | | | |
|---|---|---|---|---|---|
| TOTAL OFFERS: 15,021,940 lbs | | SPOT | | CONTRACT | |
| Resin | Total lbs | Low | High | Bid | Offer |
| HDPE - Blow Mold | 4,708,280 | 0.585 | 0.66 | 0.59 | 0.63 |
| LLDPE - Film | 2,610,852 | 0.62 | 0.69 | 0.62 | 0.66 |
| HDPE - Inj | 1,610,184 | 0.595 | 0.665 | 0.61 | 0.65 |
| PP Homopolymer - Inj | 1,398,392 | 0.625 | 0.7 | 0.63 | 0.67 |
| PP Copolymer - Inj | 1,211,472 | 0.62 | 0.74 | 0.645 | 0.685 |
| LLDPE - Inj | 1,006,184 | 0.62 | 0.71 | 0.63 | 0.67 |
| LDPE - Film | 697,104 | 0.62 | 0.685 | 0.64 | 0.68 |
| HIPS | 694,000 | 0.98 | 1.03 | 0.97 | 1.02 |
| GPPS | 380,000 | 0.89 | 0.91 | 0.86 | 0.91 |
| LDPE - Inj | 352,736 | 0.615 | 0.68 | 0.63 | 0.67 |
| HMWPE - Film | 352,736 | 0.615 | 0.625 | 0.66 | 0.7 |

Source: Plastics Exchange – www.theplasticsexchange.com

Midcontinent propane prices fell to their lowest level in 10 weeks as they fell another 1% to 77¢/gal. While ethane is suffering from a very high oversupply situation, the demand for propane is down due to a mild winter thus far, though December is expected to be colder-than-normal.

It is this expectation that is causing the forward curve for natural gas prices to improve, which pushed prices up at both hubs last week. The Conway price rose 5% to $3.69 per million Btu (/MMBtu) while the Mont Belvieu price rose 2% to $3.66/MMBtu.

These prices caused frac spread margins to fall across the board at Conway, though heavy NGL margins were up at Mont Belvieu. The most profitable NGL to make at both hubs the week of November 21 remained $C_{5+}$ at $1.71/gal at Conway and $1.83/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.27/gal at Conway and $1.47/gal at Mont Belvieu; butane at $1.22/gal at Conway and $1.28/gal at Mont Belvieu; propane at 43¢/gal at Conway and 51¢/gal at Mont Belvieu; and ethane at negative 4¢/gal at Conway and 2¢/gal at Mont Belvieu.

The theoretical NGL barrel was down very slightly to $39.59/bbl. at Conway with a 3% drop in margin to $26.11/bbl while the price was up very slightly to $42.93/bbl. at Mont Belvieu with a 1% drop in margin to $29.56/bbl.

Natural gas in storage for the week of November 23 increased 4 billion cubic feet to 3.877 trillion cubic feet (Tcf)

## NGL PRICES & FRAC SPREAD | Week in Review

from 3.873 Tcf the prior week according to the Energy Information Administration. This increase was unusual for this time of year, but was a result of the unusually warm Thanksgiving weekend temperatures experienced in much of the Northeast. The storage figure was 1% greater than the 3.851 Tcf figure reported last year at the same time and 5% greater than the five-year average of 3.687 Tcf.

While temperatures are expected to be colder in December, which will not be the case as the month starts this week, according to the National Weather Service. The service's forecast for the week anticipates warmer-than-normal temperatures throughout the country. Only the Southeast is expected to experience normal December temperatures with Florida experiencing colder-than-normal temperatures.

**CURRENT FRAC SPREAD (CENTS/GAL)**

| November 26, 2012 | Conway | Change from Start of Week | Mont Belvieu | Start of Week |
|---|---|---|---|---|
| Ethane | 19.16 | | 27.44 | |
| Shrink | 23.34 | | 23.80 | |
| Margin | -4.18 | 50.58% | 3.64 | -23.14% |
| Propane | 77.52 | | 87.82 | |
| Shrink | 32.24 | | 32.88 | |
| Margin | 45.28 | -3.46% | 54.94 | -6.22% |
| Normal Butane | 158.82 | | 164.20 | |
| Shrink | 36.50 | | 37.23 | |
| Margin | 122.32 | 3.38% | 126.97 | 1.33% |
| Iso-Butane | 166.48 | | 179.96 | |
| Shrink | 35.06 | | 35.76 | |
| Margin | 131.42 | -1.37% | 144.20 | -1.31% |
| Pentane+ | 213.96 | | 218.40 | |
| Shrink | 39.04 | | 39.81 | |
| Margin | 174.92 | 4.26% | 178.59 | 1.34% |
| NGL $/Bbl | 39.67 | 1.81% | 42.92 | -0.60% |
| Shrink | 12.86 | | 13.11 | |
| Margin | 26.81 | 4.45% | 29.81 | -1.34% |
| Gas ($/mmBtu) | 3.52 | -3.30% | 3.59 | 1.13% |
| Gross Bbl Margin (in cents/gal) | 59.73 | 4.19% | 67.50 | -1.68% |
| **NGL Value in $/mmBtu** | | | | |
| Ethane | 1.05 | 22.19% | 1.51 | -2.94% |
| Propane | 2.69 | -3.39% | 3.05 | -3.60% |
| Normal Butane | 1.72 | 1.77% | 1.77 | 1.28% |
| Iso-Butane | 1.04 | -1.78% | 1.12 | -0.84% |
| Pentane+ | 2.76 | 2.79% | 2.82 | 1.30% |
| Total Barrel Valuein $/mmbtu | 9.26 | 2.02% | 10.27 | -1.06% |
| Margin | 5.74 | 5.58% | 6.68 | -2.20% |

**NGL PRICES**

| Mont Belvieu | Eth | Pro | Norm | Iso | Pen+ | NGL Bbl |
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(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

# Ethane Expected To Be 'Plentiful' In The Northeast

BY **CHRIS SHEEHAN** | HART ENERGY

Accelerating investment in Utica processing capacity, coupled with a catch-up in midstream capacity in the Marcellus, may result in such an abundance of natural gas liquids (NGLs) in Northeast markets that ethane may become a "waste product" through 2020, according to Brad Olsen, Tudor, Pickering, Holt & Co. vice president, midstream research.

Olsen spoke at Hart Energy's recent DUG East conference in Pittsburgh.

However, those planning investments dependent on ethane are welcoming the abundance of supply.

"We're counting on ethane being plentiful," said Steve Adelkoff, chief financial officer of Aither Chemicals. The Appalachian economy is expected to benefit from "a substantial competitive advantage in manufacturing over the next several decades as a result of low energy prices created by the abundant natural resources in our region."

Against a backdrop of largely stagnant near-term demand, Olsen projects "explosive liquids growth" from 2013 to 2014 as a result of "simultaneous debottlenecking" of both Marcellus and Utica midstream capacity. This is expected to weaken Northeast NGL prices in 2013-2014 before export capacity grows in late 2014 and beyond.

Olsen noted that processing capacity in the Marcellus continues its efforts to catch up with production as many as four years after the emergence of the play. The current backlog of midstream projects calls for processing capacity to reach 4.8 billion cubic feet (Bcf) per day in 2015, with fractionation capacity of 400,000 barrels (bbl.) per day.

Olsen compared projected Utica infrastructure build-out, which stood at 1.8 Bcf per day of processing capacity as of November of this year; with what was 600 million cubic feet (MMcf) per day of projected capacity at a comparable stage in the Marcellus in June 2009. Data for both are based on drilling activity reaching 20 horizontals rigs.

Hurt by the 2009 financial crisis, initial planned capacity in the Marcellus ended up being "woefully inadequate." In the wake of the Marcellus success, "you saw midstream operators vow to not make the same mistake twice," said Olsen. "As a result, we've seen a huge capacity announced to handle Utica volumes starting in late-2012 and ramping up through 2013."

The question remains whether midstream moves are being "proactive or overbuilding" in terms of plans for Utica NGL takeaway.

Taking Marcellus and Utica together, overall processing capacity is projected to hit 6.5 Bcf per day by 2014. Production of NGLs from the combined plays could be well over 400,000 bbl. per day as soon as 2015. By 2018, the Marcellus alone could reach 400,000 bbl. per day of NGL production, with 150,000 bbl. per day also coming from the Utica. This compares to a total U.S. market for NGLs of currently about 2.5 million bbl. per day.

With ethane often making up 60% of total liquids content in the Marcellus and Utica—and no natural market for ethane currently in the Northeast—Olsen thinks "ethane in the Northeast remains a waste product through 2020." Even with planned pipeline changes to enhance takeaway, "the netbacks to producers in the Northeast will be roughly the same as if they had just produced the ethane and sold it as dry gas or methane."

READ THE FULL ARTICLE ONLINE

# Private Equity Drawn To Marcellus

BY **KEEFE BORDEN** | HART ENERGY

The location of the Marcellus and Utica shales, along with their liquids-rich reserves base, has made these two plays among the most profitable in the U.S. and has attracted the attention of a whole slate of potential investors, including private equity and foreign operators.

A panel of operators and analysts speaking at a recent finance workshop held before Hart Energy's DUG East conference in Pittsburgh said the size and location of the two plays have drawn attention from private capital in the U.S. and elsewhere.

Mike McCown, vice president, Northeast, for Gastar Exploration Ltd., said the firm was drawn to a liquids-rich area in the Marcellus in the West Virginia panhandle for several years.

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RICH IN MORE THAN ONE WAY | The financial advantages found in the development of liquids-rich assets in the Marcellus and Utica shales is drawing investors to the play.

Continued from Page 6

Gastar currently has 29 wells capable of producing. In 2011, the company drilled 19 wells and completed 13 wells. So far in 2012, Gastar has drilled 20 wells and completed 17 with another eight to drill and nine to complete for the rest of the year. "For a small company, the activity has been pretty brisk," McCown said.

To fund the development of the region, Gastar formed a joint venture with South Korea's Atinum Partners to develop acreage in the area in 2010. As part of the joint venture, Atinum provided $70 million to implement a continuous drilling operation. "We've had two or three rigs working continuously since the beginning of 2011," McCown said.

A partner the size of Atinum has allowed Houston-based Gastar the opportunity to develop economies of scale that have held down costs and boosted overall returns.

At the time, McCown said, Gastar was looking for frac equipment for its first well and found that it had trouble finding a service provider that would take it seriously. "No service company was interested in hearing our story," he said.

Eventually, Gastar came to an agreement with Baker Hughes Inc. to provide an integrated series of services to develop the region. McCown said a single-source service provider is an important component of the company's cost strategies.

The agreement Gastar has with Baker Hughes is relatively simple, reaching all of two written pages. In essence, Gastar commits to Baker Hughes for all of its oilfield services and Baker Hughes agrees to provide those services in a timely and efficient manner that is at a competitive price. A few details are negotiated in the process, but the agreement has worked for both companies, McCown said.

Gastar has spent $140 million during the last two years and is happy with the relationship. "They view that as a successful endeavor and Gastar certainly does, too," McCown said.

Another technique for containing costs in the region is pad drilling. Gastar quickly found that multiple wells from a single pad was the most efficient way to develop the region. "We found that drilling as many wells as possible from a single pad, and drilling all those wells at once, rather than drilling a few wells and then coming back is more efficient," he said.

Gastar's pads have between three and 10 wells each. "More is generally better," McCown said.

## Update: Copano Added To Top 10 NGL Producers For 2011

In our continuing effort to provide our readers with the most accurate data possible, we are updating *Midstream Monitor's* 2011 rankings of the top NGL producers to reflect the addition of Copano as the 10th-largest producer.

The addition of Copano is due to a 33% increase in NGL production in 2011 to 46,645 barrels (bbl.) per day from 34,969 bbl. per day in 2010. This increase was by far the largest gain of any company ranked in our listings for the year with much of it attributed to developments out of the Eagle Ford shale.

These volumes have continued to grow in 2012, as company officials informed *Midstream Monitor* that they are producing more than 62,000 bbl. per day through the third quarter of 2012.

Hart Energy 2011 Midstream Rankings ran in the October 15, 2012 issue of *Midstream Monitor*, which can be viewed here.

# ONEOK Elects Not To Proceed With Bakken Crude Express Pipeline

ONEOK Partners LP announced that it did not receive sufficient long-term transportation commitments during its recently concluded open season for the Bakken Crude Express Pipeline. As a result, the partnership has elected not to proceed with plans to construct the pipeline.

"Despite the robust outlook for crude-oil supply growth in the Williston Basin in the Bakken Shale, we did not receive sufficient long-term commitments under the terms we needed to construct the Bakken Crude Express Pipeline," Terry K. Spencer, ONEOK Partners president, said in a release.

"While we are disappointed with the results of the open season, we remain committed to serving Williston Basin producers for their natural gas, natural gas liquids and crude-oil infrastructure needs. We still believe the Bakken Crude Express has a competitive advantage over other competing projects due to its proximity to the route of our Bakken NGL Pipeline currently under construction and other ONEOK Partners natural gas liquids pipeline corridors," Spencer added.

"Although we have decided not to proceed with this project, we still have $4.2 billion to $4.8 billion of announced natural gas and natural gas liquids projects under way, many of which are in the Bakken Shale. Additionally, the partnership has a $2 billion-plus backlog of unannounced growth projects," Spencer concluded.

Despite its decision not to proceed with this project, ONEOK Partners still expects to increase its EBITDA by an average of 17% to 21% annually between 2012 and 2015, compared with 2012 earnings guidance. The partnership also expects to increase its estimated average annual distributions to unitholders by 10% to 15% between 2012 and 2015, which includes the planned 2-cent-per-unit-per-quarter increase in unitholder distributions declared in 2013, subject to approval by the board of directors of the general partner.

ONEOK Partners decreased its 2013 capital expenditures estimate to $2.2 billion from $2.6 billion.

The Bakken Crude Express Pipeline would have been a 1,300-mile, crude-oil pipeline with the capacity to transport 200,000 barrels per day of light-sweet crude oil from multiple points in the Williston Basin in the Bakken Shale in North Dakota and Montana to the crude-oil market hub in Cushing, Oklahoma.

# North American Energy Partners Announces Divestiture Of Assets

North American Energy Partners Inc. announced the sale of certain pipeline related equipment, inventory and contracts for total cash consideration of approximately $16.25 million, subject to normal closing adjustments.

"After a thorough review, we have determined that the pipeline business is not consistent with our strategy and desired risk profile going forward," NAEP's President and Chief Executive, Martin Ferron, said in a release. "The proceeds from this transaction will help to further reduce debt and improve our balance sheet."

The sale has an anticipated closing date of November 21, 2012, and is expected to result in net proceeds of approximately $15.4 million. The net proceeds will be used to pay down the $25.7 million balance outstanding under the company's Term B facility. The company expects the transaction to result in a modest gain on sale of assets during the period ended December 31, 2012.

# Enbridge To Undertake Edmonton To Hardisty Mainline Expansion

Enbridge Inc. announced that its wholly owned subsidiary, Enbridge Pipelines Inc., has reached agreement with shippers on the terms of a $1.8 billion expansion of its mainline system between Edmonton and Hardisty, Alberta. The expansion will include a new 36-inch line, plus additional tankage and terminal facilities at Edmonton and Hardisty. Initial capacity of the new line will be 570,000 barrels (bbl.) per day with expansion potential to 800,000 bbl. per day, and a target in service date in mid-2015.

The new line and facilities will be included within Enbridge Pipelines Inc.'s Mainline Competitive Toll Settlement (CTS) agreement with the addition of a 25¢

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surcharge on all Edmonton to Hardisty shipments. The agreement also provides for an adjustment to receipt tankage fees if the utilization of the new facilities falls below the planned level. Construction of the facilities will require regulatory approval.

Enbridge anticipates filing an application with the National Energy Board by the end of the year. Subject to the receipt of required regulatory approvals, Enbridge expects to begin construction activities as early as the first quarter of 2014. The route of the proposed 179-kilometre pipeline between Edmonton and Hardisty is expected to generally follow the same route as Enbridge's existing Line 4 Pipeline which will minimize impacts on stakeholders and the environment.

## Magellan, Occidental Proceed With BridgeTex Crude Pipeline

Magellan Midstream Partners LP and Occidental Petroleum Corp. announced that they are proceeding with the construction of the previously announced BridgeTex Pipeline to transport Permian Basin crude oil from Colorado City, Texas, to the Houston Gulf Coast area.

The BridgeTex Pipeline is supported by long-term transportation commitments received during its recent successful open season and has received a favorable order from the Federal Energy Regulatory Commission approving the tariff structure for the pipeline.

The BridgeTex Pipeline will be capable of transporting up to 300,000 barrels (bbl.) per day of crude oil, with access to Houston Ship Channel refineries, Texas City refineries and other refineries throughout the Gulf Coast via third-party pipelines. The BridgeTex Pipeline project includes construction of approximately 400 miles of 20-inch pipeline from Colorado City to Magellan's terminal in East Houston; approximately 1.2 million bbl. of crude oil storage at Colorado City; 1.4 million bbl. of crude oil storage at East Houston to facilitate pipeline movements; and nearly 50 miles of 24-inch pipeline between East Houston and Texas City.

The BridgeTex Pipeline is expected to begin service by mid-2014, subject to necessary permitting.

A joint project team will oversee the BridgeTex Pipeline project, with Magellan serving as the construction manager and operator of the BridgeTex Pipeline.

## Enbridge To Deliver Bakken Crude By Rail To Philadelphia Refineries

Enbridge Inc. announced its U.S. subsidiary, Enbridge Rail (Philadelphia) LLC, has entered into an agreement with Canopy Prospecting Inc. to create the Eddystone Rail Co. to jointly develop a unit-train facility and related local pipeline infrastructure near Philadelphia, Pennsylvania to deliver Bakken and other light sweet crude oil to Philadelphia-area refineries. The project is expected to handle 80,000 barrels (bbl.) per day in the third quarter 2013 and can ultimately be expanded to receive up to 160,000 bbl. per day for subsequent transport by barge or pipeline to nearby refineries as early as mid-2014.

Enbridge will own 75% of the joint venture and serve as operator during construction and operation of the facility. The total estimated capital cost of the project is approximately $68 million, including interest during construction. Project scope includes leasing portions of Exelon Generation's Eddystone power-generation facility and reconfiguring existing track to accommodate 120 car unit-trains, installing crude offloading equipment, refurbishing an existing 200,000 barrel tank and upgrading an existing barge loading facility. Additional storage and pipelines connecting Eddystone to Philadelphia area refineries are under development.

In early 2013, Enbridge's Bakken Expansion Program will add 200,000 bbl. per day of increased export pipeline capacity from the Bakken—80,000 bbl. per day into Berthold and 120,000 bbl. per day into Cromer, Manitoba—taking Enbridge's total capacity from North Dakota to 475,000 bbl. per day. —

Enbridge will proceed with customary environmental, local and regulatory approvals to facilitate in-service in the third quarter of 2013. The company expects to begin stakeholder consultation for the Eddystone project in November 2012 and will share information and seek input from the community surrounding the rail facility. Enbridge is committed to safety and protecting the environment during each phase of project construction and operation.

## EmKey Energy Announces Acquisition Of Norse Energy Assets

**BUSINESS WIRE**

EmKey Energy LLC, an Erie, Pennsylvania-based company focused on natural gas infrastructure, natural gas production and natural gas marketing, has successfully completed the $37 million acquisition of certain midstream and natural gas production assets of Norse Energy Corp ASA.

EmKey has acquired 23,000 held by production or owned acres, approximately 6,000 million cubic feet (Mcf) per day of dry natural gas production, 65-mile gathering system and 75 miles of pipeline rights-of-way in Central New York. EmKey also received a three year warrant to purchase 81 million shares of Norse Energy stock at a strike price of NOK 0.40 (US$0.70).

In addition, EmKey has committed to construct a new pipeline system in Central New York capable of transporting at least 90,000 Mcf per day for 15 years once Norse so nominates.

## GBI: Australia To Surpass Qatar As Top Global LNG Exporter

The liquefied natural gas (LNG) industry of Australia is currently the most promising market in the world, and is expected to attain market dominance in the next five years, according to GBI Research. Recent offshore discoveries have found a huge abundance of reserves in the country, and the Australian government is providing strong support to the industry, in the form of encouraging regulatory structure and initiatives. Asia-Pacific acts as a big customer for LNG imports, fuelled by the region's growing economies, and neighboring Australia is ideally positioned to become an LNG export hub meeting this need.

In contrast, Qatar is currently the world's largest LNG exporter, but risks stagnation, as the country shows no plans for capacity additions in the near future. Qatar boasted a liquefaction capacity of 77.5 million tons in 2011, but this doesn't look to change significantly, whereas Australia's modest liquefaction capacity of 20 million tons in 2011 is expected to reach 124 million tons by 2017.

Floating liquefied natural gas (FLNG) terminals are expected to be a technology game-changer in the future LNG industry, due to enormous advantages, despite the technology still being in development stages and yet to commence commercial operation. In the near future it is expected that 10% of LNG produced globally will be a product of natural gas extracted from offshore basins, which is around 40% less expensive than that from onshore natural gas projects, according to the report.

Australia has shown its ambitions as a LNG hub through its FLNG activity. After spending many years in R&D and investing over US$500 million, Dutch major Shell announced its Final Investment Decision (FID) to construct a floating LNG project at Australia's Prelude field in May 2011. The project is expected to start by 2017, with a processing capacity of 3.6 million tons.

## Crestwood Midstream Acquires Marcellus Compression Assets

Crestwood Midstream Partners LP, as operator and 35% owner of Crestwood Marcellus Midstream LLC, announced an agreement by CMM to acquire natural gas compression and dehydration assets from Enerven Compression, LLC for approximately $95 million.

The assets, located on CMM's gathering systems in Harrison and Doddridge Counties, West Virginia, serve the Marcellus Shale development of Antero Resources Appalachian Corp. The assets are currently operating under a five-year compression services agreement with Antero and are expected to contribute approximately $11-12 million of contracted EBITDA to CMM in 2013. The acquisition is expected to close before December 31, 2012, and will be financed through CMM's existing $200 million credit facility.

The Enerven assets, constructed in 2010-2012, include four compression and dehydration stations comprised of 31 two- and three-stage, reciprocating natural gas compressor units and 10 glycol-dehydration units. The compressor stations receive Antero's gas production from CMM's low-pressure gathering facilities for redelivery to downstream high-pressure pipelines and processing plants. CMM is acquiring 43,100 horsepower of compression designed to provide aggregate capacity of 295 million cubic feet (MMcf) per day to Antero. Currently, all of the Enerven compressor stations are being fully utilized with ongoing projects to expand two of the four stations by approximately 25 MMcf per day. Antero's gas is also being compressed by third-party compression not currently owned by Enerven or CMM.

**SNAPSHOT** | Industry Insight

# Feds Should Leave Fracing Regs To States, Pa. Official Says

BY **SCOTT WEEDEN** | HART ENERGY

No federal administration, Congress or federal agency has ever expressed interest in regulating hydraulic fracturing until now, said Michael Krancer, secretary, Pennsylvania Department of Environment Protection (DEP) at Hart Energy's 2012 DUG East Conference in Pittsburgh recently.

"The federal government has never regulated hydraulic fracturing, and that is a fact that is missing in the story that's being told," he emphasized. "We've got not fewer than 10 federal agencies wanting to do what's never been done before. The [U.S.} president had to issue an executive order—I call it the 'herd-the-cats' executive order—last April to try to coordinate this patchwork that's gone on in the federal government.

"I've seen what the federal government can and can't do in relation to hydraulic fracturing regulations. Right here in my state with respect to Dimock, Pennsylvania, we saw the EPA [Environmental Protection Agency] step back after eight to 10 months and 'X' millions of dollars and show us in Pennsylvania what we already knew. The water was safe to drink," he continued.

Krancer pointed out that the EPA has made similar missteps in Pavilion, Wyoming, and Parker County, Texas. "The states can do this regulation safely and have done it for many years," he noted. "Pennsylvania is not the only state that has done it."

In looking at what is happening in Washington, D.C., he pointed out that he doesn't see "anything that's a real energy policy. What I see is an energy policy driven by the EPA and environmental policy. I think that's wrong. I think there should be an energy policy. States are doing a good job with their energy policies. The federal government really should have an energy policy or at least one that is not driven solely by the EPA."

There are other problems with the EPA as well, Krancer says. What the EPA is doing in regulations, not just about hydraulic fracturing, is producing unprecedented volumes of pages of regulations being created every day and certainly into the future, he said.

"What's going on in the permitting side of the EPA? I mean you could hear a pin drop on the permitting side of the EPA. It is glacial. I don't know if anybody's home," he added.


ADDITIONAL REGULATIONS NOT NEEDED | While speaking at the recent DUG East conference, Michael Krancer, secretary of the Pennsylvania Department of Environment Protection, said that federal regulations on fracing are not necessary. (Photo: Hart Energy)

A more troublesome aspect of the EPA is that it has completely lost the concept of the rule of law, he emphasized. "You don't have to take what I say about that. The Supreme Court of the U.S. said that in an 8-0 decision about wetlands. Three circuit courts and appeals courts have said this.

"These judges are seeing a rampage over the rights of citizens and the role of states in the federal scheme of things under the constitution," he continued. "I wish that the EPA would find its way, find its rule of law in the next administration. I will remain vigilant and call the EPA when it does not do that."

Krancer noted that the U.S. is on the verge of becoming an energy superpower, an energy juggernaut. "Pennsylvania is at the crossroads both in space and time of a tremendous energy future. Our governor has said before that 'E = J'—energy equals jobs. Frankly, it is that simple. Domestic energy also means domestic security, tranquility and competitiveness with our foreign competitors. We're going to have to compete on the world stage."

Pennsylvania, the Keystone State, has a major role the making of an American energy superpower. "We have the energy resources and the markets in the same location. That's not the way it usually works. That is what is producing this unbelievable, off-the-charts opportunity. The technologically recoverable resources are huge enough to power this country for hundreds of years. It is enough to make us the Saudi Arabia of natural gas."

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**LEAD STORY** | From The Front

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reverse of some coal switching and have a small oversupply for the year," he said.

Improved natural gas prices will result in some power generators switching back to more economically attractive coal-fired generation. Coleman said that at $3.75 gas prices, this could result in as much as 5 Bcf per day of gas being switched back to coal in 2013, following a 10 Bcf per day increase in demand in 2012.

Although improved gas prices will push some power plants to switch from gas-fired power generation back to coal-fired generation, gas prices will be supported by lower oil prices.

Raymond James has been bearish on oil prices for much of the past year, and this outlook extends into its 2013 forecast for oil as the firm anticipates prices to fall to $65 per barrel for the year.

Coleman said that the problem for oil has been supply and demand. While supplies have been increasing, global demand has not kept pace due to poor macro-economic issues in the U.S., China and Europe. Low oil prices will likely reduce liquids-rich drilling, along with its associated dry-gas production. He added that the rig count for both liquids and dry gas is expected to remain at the current low levels through next June.

Lower oil prices and a return to normal winter temperatures will help improve gas prices on a short-term basis, but it is the additional demand coming online that supports Raymond James' assertion of a long-term gas rally.

"Ultimately the proof in the pudding will be found in the long-term natural gas demand increase and that comes from the infrastructure expansions with more gas-to-liquids, LNG exports, as well as coal retirements," Coleman said.

## LNG To The Rescue

In many ways, LNG exports represent the best chance to support North American prices on a long-term basis.

"The opportunity to export natural gas is very real and very tangible," Don Raikes, vice president of transmission marketing and customer service at Dominion Transmission Inc., said.

For more than a year and a half, Dominion has been working on the Cove Point LNG project to export up to 1 Bcf per day of natural gas from its LNG terminal in Lusby, Maryland.

The location of the facility is ideal due to its proximity to the Marcellus shale, which, Raikes said, has transformed the Northeast from a market for natural gas into a dual market and supply center. In the future, this region will be the cheapest area to buy natural gas.

"It's a true win-win across all sectors of the United States. We have the resources to meet domestic demand while also exporting natural gas, which will provide some very big economic benefits. Not only do we get more jobs in a very stale economy, we also get an increase in the tax base and the ability to reduce the trade deficit," he said.

The project is set to take advantage of the growing supplies of natural gas throughout North America that far exceed domestic demand and its expected increases in the coming years, while meeting increased demand for natural gas around the globe.

Demand is quickly growing on a worldwide basis with Asian markets seeking to meet increased demand from Japan in the wake of the Fukushima nuclear disaster and the rise of India and China as economic powers. In addition, Western Europe is experiencing increased demand as it seeks to diversify its supplies currently delivered from Eastern European pipelines.

"There is a worldwide market that is open for us, but we have to compete for that market. We really need some help from the federal government for a clear path forward for the approval process to export natural gas. We're at a critical juncture today with these LNG export projects as we await government approval. The bottom line is we're in a competition with other exporting countries, and we need to make sure we don't miss this window of opportunity," Raikes said.

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