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MLPs Should Return To Strength In 2013

Wunderlich Securities' Cusick predicts a strong 2013 for MLPs

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

Despite an economic downturn, the master limited partnership (MLP) sector was able to outperform the overall stock market from 2009 through 2011, due to its heavy focus on energy, and, the midstream, in particular. Although this streak ended in 2012, the outlook for 2013 looks strong, according to John Cusick, an MLP analyst at Wunderlich Securities.

"We really like the space on a long-term basis. I think there will be a continued drive for yield and cash flow from investors in 2013. I think the space took a bit of a breather in 2012 after three really strong years following the lows of 2008," he told *Midstream Monitor*.

He noted that the first few weeks of 2013 have seen the market performing well with several initial public offerings (IPOs) to start the year, including USA Compression Partners. The more recent MLP IPOs from 2012 have featured several companies that are involved in businesses outside of the traditional midstream and E&P companies. Cusick said we are likely to see more of these, although the traditional MLPs will dominate the landscape.

"It seems like the definition of qualifying income from the IRS has expanded a bit with approvals being given to companies that we wouldn't normally think of as MLPs. Generally these companies are related to the energy business, but not a typical midstream MLP as we have to come to think of them," he said. These include Hi-Crush Partners, a producer of fracing sand; Susser Petroleum Partners, a wholesale fuel distributor; and Lehigh Gas Partners, a downstream marketing company.

Thus far, there hasn't been much of a presence for liquefied natural gas (LNG) companies in the MLP sector, and Cusick said that for such an operation to be at-

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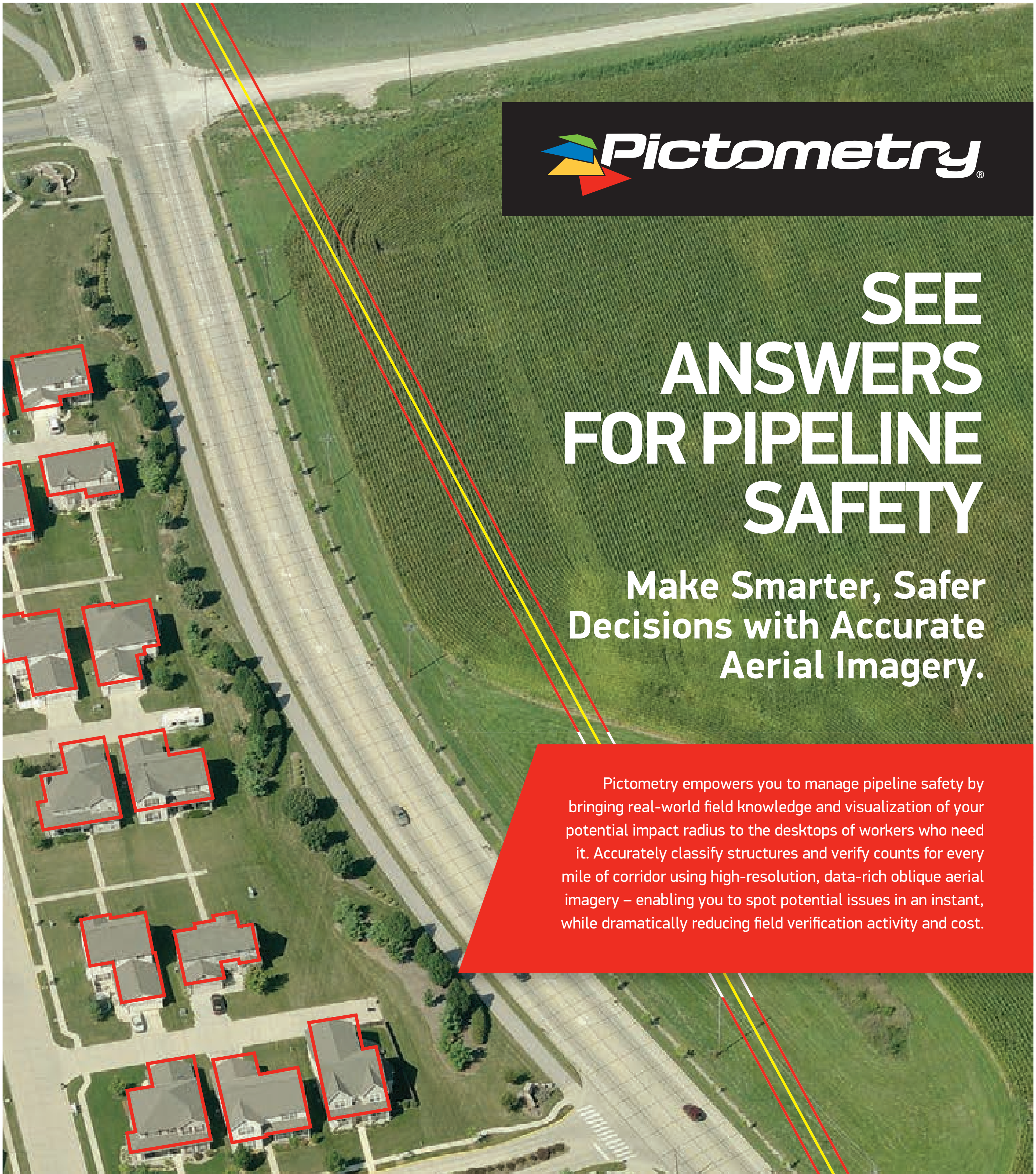
Editor's Note

Due to Hart Energy's Marcellus & Utica Midstream conference taking place in Pittsburgh, Pa. next week, the next issue of *Midstream Monitor* will be published one day later on February 5. We will resume our regular publishing schedule the following week on February 11.



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NGL PRICES & FRAC SPREAD | Week in Review

Extreme Cold Temperatures Result In Heating Demand Surge

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

It's better late than never for winter weather to show up as the Northeast has been hit by extremely cold weather to start 2013, which has caused a large increase in heating demand.

Natural gas rose 5% at both hubs with the Mont Belvieu price increasing to $3.54 per million Btu (/MMBtu) and the Conway price increasing to $3.56/MMBtu. As we went to press, prices in New York had risen to more than $12.50/MMBtu and in Boston they had increased to more than $30.00/MMBtu.

CURRENT FRAC SPREAD (CENTS/GAL)

January 28, 2013	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	22.10		23.97	
Shrink	23.60		23.47	
Margin	-1.50	22.62%	0.50	-187.78%
Propane	77.80		82.05	
Shrink	32.61		32.43	
Margin	45.19	2.86%	49.62	2.32%
Normal Butane	164.73		163.25	
Shrink	36.92		36.71	
Margin	127.81	-0.13%	126.54	-2.85%
Iso-Butane	168.48		175.93	
Shrink	35.46		35.26	
Margin	133.02	2.95%	140.67	-0.69%
Pentane+	216.77		210.87	
Shrink	39.48		39.26	
Margin	177.29	-1.57%	171.61	-3.30%
NGL $/Bbl	40.74	1.80%	41.03	0.66%
Shrink	13.00		12.93	
Margin	27.73	0.49%	28.10	-1.11%
Gas ($/mmBtu)	3.56	4.71%	3.54	4.73%
Gross Bbl Margin (in cents/gal)	61.74	0.60%	63.40	-0.88%
NGL Value in $/mmBtu				
Ethane	1.22	7.28%	1.32	9.75%
Propane	2.70	3.62%	2.85	3.26%
Normal Butane	1.78	0.91%	1.76	-1.24%
Iso-Butane	1.05	3.31%	1.10	0.35%
Pentane+	2.80	-0.49%	2.72	-1.90%
Total Barrel Valuein $/mmbtu	9.54	2.28%	9.75	1.42%
Margin	5.98	0.89%	6.21	-0.38%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Jan. 16 - 22 '13	23.97	82.05	163.25	175.93	210.87	$41.03
Jan. 9 - 15 '13	21.84	79.46	165.30	175.32	214.95	$40.76
Jan. 2 - 8 '13	22.63	84.94	178.28	189.34	221.00	$43.00
Dec. 26, '12 - Jan. 1 '13	24.90	87.98	176.73	181.83	222.60	$43.54
December '12	22.97	79.70	175.77	184.25	214.89	$41.75
November '12	27.15	89.20	164.16	183.49	219.64	$43.22
4th Qtr '12	26.59	88.74	162.76	181.71	215.67	$42.69
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
Jan. 18 - 24, '12	58.36	128.10	190.32	192.66	232.95	$55.17
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Jan. 16 - 22 '13	22.10	77.80	164.73	168.48	216.77	$40.74
Jan. 9 - 15 '13	20.60	75.08	163.24	163.08	217.83	$40.02
Jan. 2 - 8 '13	19.60	78.86	181.13	176.65	219.96	$41.74
Dec. 26, '12 - Jan. 1 '13	20.58	82.23	206.37	182.50	221.00	$43.85
December '12	18.42	73.02	188.65	178.77	211.62	$40.74
November '12	18.22	78.98	159.26	169.60	211.76	$39.65
4th Qtr '12	18.45	79.24	164.46	174.39	209.16	$39.94
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
Jan. 18 - 24, '12	26.58	102.10	168.52	179.75	212.08	$44.55

(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%, Production and transport costs not included. Conway gas based on NGPL Midcontinent, 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

"The temperature-driven swings of prices underscore the vulnerability of balances to winter weather trends. Temperatures are expected to average below normal from the Midwest to the Northeast in the next 10 days. From the start of the winter season, temperatures have averaged 4% warmer than normal, pushing prices down to an average of $3.51/MMBtu from the start of November to date,"

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according to Barclays Capital's Gas and Power Kaleidoscope for January 22.

Though they didn't experience the increases as natural gas, propane prices at both hubs rose the week of January 16 with the Mont Belvieu price rising 3% to 82¢ per gallon (/gal) and the Conway price increasing 4% to 78¢/gal. The expected colder-than-normal temperatures will continue this week and into February, which should help to work off the storage overhang that has been building for much of the past year. This will become increasingly important as it is now expected that Enterprise Products Partners' export terminal expansion will not complete this week, but by the end of February.

Both hubs saw ethane prices increase this week. This was caused by the rise in propane prices, as there wasn't a noticeable increase in petrochemical demand or intake during the week. The Mont Belvieu price rose 10% to 24¢/gal, which was its highest price in a month. The Conway price improvement was smaller at 7%, but the price of 22¢/gal was the largest at the hub since it was 26¢/gal the week of March 21.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / January 24, 2013	
Gas Hub Name	Current Price
Carthage, TX	3.48
Katy Hub, TX	3.48
Waha Hub, TX	3.46
Henry Hub, LA	3.55
Perryville, LA	3.50
Houston Ship Channel	3.42
Agua Dulce, TX	3.59
Opal Hub, Wyo.	3.53
Blance Hub, NM	3.49
Cheyenne Hub, Wyo.	3.53
Chicago Hub	3.77
Ellisburg NE Hub	3.55
New York Hub	12.47
AECO, Alberta	3.26

Source: Bloomberg

Despite improvements in crude prices, heavy natural gas liquids (NGL) prices largely fell at both hubs. However, this appears to be a short-lived anomaly as heavy NGL prices improved dramatically as the week came to a close.

The lone heavy NGL to show improvements at both hubs for the week overall was isobutane, which rose 3% at Conway to $1.69/gal and improved marginally at Mont Belvieu to $1.76/gal. Isobutane's sister product, butane was a mixed bag as it rose 1% to $1.65/gal at Conway, but decreased 1% to $1.63/gal at Mont Belvieu.

Pentanes-plus ($C5_+$) retained its status as the NGL with the highest value, but this value dropped at both hubs. The Mont Belvieu price fell 2% to $2.11/gal, its lowest level since it was $2.08/gal the week of October 10. The Conway price was largely flat at $2.17/gal, its lowest price in six weeks.

RESIN PRICES – MARKET UPDATE – JANUARY 24, 2013					
TOTAL OFFERS: 22,491,148 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
PP Copolymer - Inj	4,093,036	0.75	0.89	0.795	0.835
PP Homopolymer - Inj	3,677,312	0.75	0.87	0.775	0.815
LDPE - Film	3,266,852	0.67	0.8	0.7	0.74
HDPE - Blow Mold	3,192,220	0.64	0.72	0.63	0.67
LDPE - Inj	2,341,036	0.68	0.795	0.715	0.755
LLDPE - Inj	1,890,000	0.62	0.71	0.68	0.72
LLDPE - Film	1,799,128	0.66	0.72	0.65	0.69
HDPE - Inj	704,092	0.66	0.71	0.65	0.69
HMWPE - Film	675,012	0.67	0.74	0.68	0.72
HIPS	472,460	0.97	1.1	1.02	1.07
GPPS	380,000	0.91	0.93	0.9	0.95

Source: Plastics Exchange – www.theplasticsexchange.com

The theoretical NGL barrel improved 2% to $40.74 per barrel (/bbl.) at Conway with a 1% gain in margin to $27.73/bbl. The Mont Belvieu barrel rose 1% to $41.03/bbl., but had a 1% decrease in margin to $28.10/bbl.

The most profitable NGL to make at both hubs remained $C5_+$ at $1.77/gal at Conway and $1.72/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.33/gal at Conway and $1.41/gal at Mont Belvieu; butane at $1.28/gal at Conway and $1.27/gal at Mont Belvieu; propane at 45¢/gal at Conway and 50¢/gal at Mont Belvieu; and ethanenegative 2¢/gal at Conway and 1¢/gal at Mont Belvieu.

Natural gas in storage decreased 172 billion cubic feet to 2.996 trillion cubic feet (Tcf) from 3.168 Tcf the week before, according to the Energy Information Administration. This was 5% less than the 3.153 Tcf posted last year at the same time, but remained 12% greater than the five-year average of 2.676 Tcf.

According to the National Weather Service's forecast for this week, natural gas withdrawals should remain high as it anticipates temperatures to remain colder than normal throughout the Northeast, Mid-Atlantic and much of the Midwest. We do note that the National Weather Service's weekly forecast has been wrong twice to start the year when it failed to predict Arctic blasts that severely affected temperatures in the northern parts of the country. These incorrect forecasts have benefited producers, but this time producers are hoping for accurate forecasts.

Despite Late Surge In 2012, Ethane Struggles To Continue

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

The final month of 2012 saw ethane gain some steam at both Mont Belvieu and Conway, though prices and margins were still depressed from their levels in the prior year.

Mont Belvieu ethane margins improved nearly 200% from the start of the month as it closed the year in a positive state after starting the month with negative margins. However, the margin was only positive in a theoretical sense as it was 3¢ per gallon (/gal), which is actually negative once you factor in transportation costs.

DECEMBER, 2012 MONTHLY FRAC SPREAD (CENTS/GAL)				
December, 2012	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Start of Week**
Ethane	20.73		24.90	
Shrink	22.34		22.01	
Margin	-1.61	43.02%	2.89	192.35%
Propane	82.23		87.98	
Shrink	30.87		30.41	
Margin	51.36	13.70%	57.57	10.80%
Normal Butane	206.37		176.73	
Shrink	34.95		34.43	
Margin	171.42	26.93%	142.30	4.72%
Iso-Butane	182.50		181.83	
Shrink	33.57		33.07	
Margin	148.93	8.14%	148.76	0.15%
Pentane+	221.00		222.60	
Shrink	37.37		36.82	
Margin	183.63	6.84%	185.78	2.87%
NGL $/Bbl	43.88	11.20%	43.54	3.22%
Shrink	12.31		12.13	
Margin	31.56	14.28%	31.41	5.55%
Gas ($/mmBtu)	3.37	4.01%	3.32	-2.35%
Gross Bbl Margin (in cents/gal)	70.44	14.39%	71.09	5.89%
NGL Value in $/mmBtu				
Ethane	1.14	11.15%	1.37	5.82%
Propane	2.85	9.86%	3.05	5.87%
Normal Butane	2.23	22.37%	1.91	3.26%
Iso-Butane	1.14	7.35%	1.13	-0.31%
Pentane+	2.85	6.35%	2.87	1.97%
Total Barrel Valuein $/mmbtu	10.21	11.17%	10.34	3.58%
Margin	6.84	15.08%	7.02	6.64%

Conway margins remained negative, but improved 43% to negative 2¢/gal. This improvement in margin is the result of sustained rejection in the region combined with transportation capacity out of the Midcontinent to both Mont Belvieu and Sarnia, Canada, in the past six months, that has helped to rebalance the market.

The same cannot be said of Mont Belvieu, which has been driven to near parity with Conway prices for the first time in more than three years as ethane rejection has begun to take hold at the hub. It is expected that this will be the case, at least off and on, for the next five months.

Conway propane margins improved 14% as prices finished the month at 82¢/gal, which is 7¢/gal less than the margin was last December when the price was $1.15/gal. The Mont Belvieu increased 11% as the price rose to 88¢/gal, 24¢/gal less than last December's margin of $1.12/gal when the price was $1.39/gal.

There was a short squeeze on butane in the Midcontinent as December came to a close, which caused the average price for the month at Conway to increase above the hub's isobutane price. The Conway butane margin improved 27% to $1.71/gal compared to isobutane, which saw an 8% increase to $1.49/gal. Mont Belvieu butane rose 5% to $1.42/gal while isobutane margins were largely flat at $1.49/gal.

Pentanes-plus ($C5_+$) prices traded at a very close level between the two hubs the final two weeks of 2012 as crude oil prices gained strength. Although natural gas liquid (NGL) prices have been diverging from crude prices, $C5_+$ continues to have a closer relationship with crude. This caused the Mont Belvieu margin to increase 3% to $1.86/gal and the Conway margin to increase 7% to $1.84/gal.

These prices combined to increase the theoretical NGL barrel by 11% at Conway to $43.88 per barrel (/bbl.) with a 14% improvement in margin to $31.56/bbl. The Mont Belvieu barrel price rose 3% to $43.54/bbl. with a 6% gain in margin to $41.31/bbl.

(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%, Production and transport costs not included. Conway gas based on NGPL Midcontinent, 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

Nebraska Governor Approves Revised Keystone XL Route

BY **PAUL HART** | HART ENERGY

The long-debated Keystone XL crude pipeline cleared another hurdle January 22 when Nebraska Gov. Dave Heineman notified President Barack Obama and Secretary of State Hillary Clinton that he has approved a re-routing of the project across his state.

The Republican governor's decision leaves the issue with the President, who had cited environmental concerns about the project's original route through Nebraska in a denial issued in January 2012. Gov. Heineman outlined the state-level reviews and public hearings conducted by the Nebraska Department of Environmental Quality (NDEQ) since then and concluded the project "would have minimal environmental impacts in Nebraska. The letter added, "Throughout the NDEQ's evaluation process, the concerns of Nebraskans have had a major influence on the pipeline route, the mitigation commitments and this evaluation."

The state's decision makes several stipulations in addition to re-routing the line away from the Sand Hills and areas of northern Nebraska with soils considered environmentally sensitive. For example, landowners may request baseline water well testing before construction for all wells within 300 feet of the right-of-way's center line.

TransCanada Corp., the project sponsor, said in a release it welcomed the decision. Russ Girling, president and chief executive, added that TransCanada has worked closely with the state to re-route the pipeline and address environmental and safety concerns.

"Over the past year, we have been listening to Nebraskans as we worked to identify a new route for the Keystone XL Pipeline that avoided the Sand Hills, protected sensitive areas and addressed as many concerns as possible," he said. "The NDEQ process has clearly taken into account the input from Nebraskans and today's approval of the Nebraska re-route by Gov. Heineman moves us one step closer to Americans receiving the benefits of Keystone XL – the enhanced energy security it will provide and the thousands of jobs it will create."

RE-ROUTE OKAYED | The Keystone XL's revised route was approved by Nebraksa Gov. Dave Heineman, which moves the ultimate decision to the State Department and President Obama. (Courtesy: TransCanada).

This proposed 1,179-mile, $5.3 billion pipeline requires presidential approval since it crosses an international border. It could enter service in late 2014 or early 2015, depending on when final approval comes. The project will transport up to 830,000 barrels per day of volumes produced from the oil sands in Hardisty, Alberta and Baker, Montana to terminals in Steele City, Nebraska.

The Keystone XL will connect to the original Keystone Pipeline, which has been delivering crude oil to Midwest refineries since 2010.

Nuevo Midstream Expands Services In Delaware Basin

Nuevo Midstream LLC announced that the company has completed the Phase II expansion of the company's natural gas gathering, processing and treating system in the Delaware Basin near Orla, Texas. Headquartered in Houston, Nuevo is a full service midstream company serving crude oil and natural gas producers in the Delaware Basin. Operations are focused on production from the Bone Springs and Wolfcamp formations and the Avalon shale trend in southeast New Mexico and West Texas.

Known as Ramsey II, Nuevo's new cryogenic processing plant is now online at the company's Ramsey processing site in Reeves County, Texas. The plant has the capacity to process 100 million cubic feet (MMcf) per day, bringing current processing capacity at the Ramsey site to 110 MMcf per day. Drilling projections from numerous existing and potential customers, the strong performance of wells in the basin and additional acreage dedications have prompted Nuevo to plan construction of a third cryogenic processing plant, which is currently being manufactured by Cameron using Randall Gas NGL-Max Technology. Nuevo expects to bring the Ramsey III plant online in early 2014, bringing total cryogenic processing capacity to 310 MMcf per day. In addition to the processing expansion, Nuevo has increased amine treating capacity at the Ramsey plant to 625 gallons per minute (gpm) and will make significant additions to the plant's treating capacity within the year to meet customer requirements.

In addition to the natural gas produced from the shallow Delaware sands, Nuevo also processes natural gas produced from five other distinct resource plays located in the Delaware basin. As producers in the Ramsey area continue to define the extent of each play and as drilling programs evolve, Nuevo will explore a fourth expansion to the Ramsey site, which could add an additional 200 MMcf per day in processing capacity as early as 2015.

In connection with the expansion of the Ramsey natural gas processing site, Nuevo has completed numerous natural gas gathering projects bringing its Ramsey Gas Gathering System to 210 miles of high and low pressure lines. Nuevo has also completed a second interconnect to the El Paso Natural Gas pipeline system.

The company further announced that it will offer crude oil gathering services to producers in the Delaware basin. Nuevo is planning an aggressive build-out of a crude oil gathering system that will complement the company's expanding gas gathering system and will provide deliveries into several long-haul crude pipelines. Nuevo's expansion into crude gathering reflects the company's commitment to customer service and should provide its gas producers with an attractive alternative to their current practice of trucking crude from tank batteries to injection points. The company expects to begin construction on the first phase of its crude system in the second quarter of 2013 with this system coming on line in the third quarter of 2013.

Nuevo has secured additional private equity commitments from EnCap Flatrock Midstream of San Antonio, management and others, bringing total equity financing support for the company to $308 million. Nuevo was formed in 2011 with a $65 million commitment from EnCap Flatrock Midstream's first fund, management and others. Nuevo has increased its capital commitments three times since its formation, with the most recent increase totaling $167 million. EnCap Flatrock Midstream Fund II was the largest participant in Nuevo's most recent capital increase.

Berthelot Forms Azure Midstream

Natural gas industry veteran Chip Berthelot announced the launch of Azure Midstream Company LLC, a natural gas gathering and processing company based in Houston. Azure Midstream will work with producers to gather and/or process natural gas for their customers throughout North America.

"We are excited to work with our customers to provide consumers with one of the cleanest forms of energy," Berthelot, president of Azure Midstream, said in a release. "Azure Midstream believes in working with clean, natural gas to produce efficient and environmentally-friendly energy for homes and businesses across the United States."

Azure enjoys strong initial capitalization from investors who have seen significant success in previous Berthelot companies. Azure has an aggressive growth plan based on a combination of new development and acquisition of gathering pipeline projects.

Berthelot successfully developed Laser Northeast, the first gathering system to traverse Pennsylvania and New York state in the

Marcellus shale region, as well as a number of other projects. Azure's core management team has over 110 years of natural gas experience coupled with a strong track record of successfully working together in challenging environments.

The company assembled a handpicked management team to launch this new venture. Natural gas veteran David Garrett heads up Azure's business development. Dennie Dixon brings four decades of operations and engineering experience to Azure operations. Christy Morgan oversees finance and accounting. The firm has also partnered again with strategic consulting firm Power Communications after a successful first venture together launching Laser Northeast.

Berthelot said the company name "Azure" was selected because Azure is the color of blue skies and natural gas combustion, both central to the company's corporate mission of delivering "Clean Energy out of the Blue."

"We are just a group of regular people who work hard, enjoy our work, and care about our communities. Building a company that does a better job of utilizing the clean energy with which we are blessed, while earning a living for our families is what we are all about," said Berthelot. "With Azure, we'd like to show that the good guys can still win."

Hersh: Downside Price Risk Rises With Abundant Energy Supplies

BY **CHRIS SHEEHAN** | HART ENERGY

World-oil fundamentals are in the early stages of a realignment to reflect the new reality of abundant energy supplies, NGP Energy Capital Management chief executive Ken Hersh told participants at the IPAA Private Capital Conference in Houston. This new outlook is replacing prior notions of resource scarcity.

In transitioning through what could be a 15-year period of resource abundance, "we're in year two or maybe year three" of the process, said Hersh. His role with private-equity sponsor NGP Energy involves forecasting conditions out 10 years or more.

Recalling how the Club of Rome drumbeat of resource scarcity in the 1970s set in motion efforts to expand and diversify supplies, such as developing deepwater supplies and liquefied natural gas (LNG), "all this wonderful activity and pushing of boundaries absolutely revolutionized the supply picture," said Hersh. "Now, as a result, we have massive supply."

In the new world energy order, the necessary attributes resemble those of real estate—"location, location, location"—and include producers making sure that they have a customer for their output if they are not at the low end of the marginal cost curve.

"In a resource-abundant world, low-cost assets matter. The cost curve matters," said Hersh. "Just like with any other commodity, we have to wake up and say, 'Can we make a product better than our competition, and is it deemed desirable by the market at such and such a price?'"

Hersh used Russia as an example of how "the definition of a strategic asset will change." Before, relative prominence was accorded to Gazprom while it had a "stranglehold" over European gas supplies, but more recently that status has passed to oil producer Rosneft. Whereas Russia's gas previously offered a power base, now its gas is just "okay—if it's cheap enough, and you can get it to market."

Geopolitics also matter in the new order. The U.S. has lost its balance-sheet strength and is "militarily fatigued." Sovereign risk is increasing, regime change "is going to be the norm," and "if you are a resource investor, you're also a political speculator." With the U.S. more challenged in world affairs, outcomes may be more a case of "jump ball," Hersh said.

Safeguarding open traffic through the Strait of Hormuz—even if vitally important for the world economy—could become more difficult for the U.S. alone to justify as its dependence on Organization of the Petroleum Exporting Countries' (OPEC) oil dwindles. For example, what would happen in, say, two years, if growing U.S. energy independence meant the U.S. still depended on some OPEC oil, but little of it passed through the Strait of Hormuz?

Hersh sees downside risk for commodity prices. In addition to advances in horizontal drilling and hydraulic fracturing, price-risk factors include the overhang of legacy projects based on earlier, more optimistic price decks, such as the Shtokman LNG project in the Barents Sea, being mothballed.

"It's happened more quickly on the natural gas side, and now it's going to happen on the oil side," he said.

ONEOK To Invest $500 Million For Additional Growth Projects

ONEOK Partners LP announced plans to invest approximately $465 million to $500 million between now and 2015 to:

- Build a new 100 million cubic feet (MMcf) per day natural gas processing facility – the Garden Creek III plant and related infrastructure – in eastern McKenzie County, North Dakota, in the Williston basin, which includes the prolific Bakken shale and Three Forks formations;
- Construct a new 95-mile natural gas liquids (NGL) pipeline between existing NGL fractionation infrastructure at Hutchinson, Kansas, and Medford, Oklahoma; and
- Modify the partnership's NGL fractionation infrastructure at Hutchinson, Kansas, to accommodate lighter, unfractionated NGLs produced in the Williston Basin.

"The new Garden Creek III plant increases our natural gas processing capacity to meet producers' needs in the Williston Basin, and the expansion of our downstream NGL infrastructure will offer additional fractionation and transportation capacity for NGLs coming from the region," Pierce H. Norton II, executive vice president, ONEOK Partners commercial, said in a release. "These projects further demonstrate the value of ONEOK Partners' integrated operations and the increased flexibility they give us to better serve Williston Basin producers and downstream customers."

The Garden Creek III natural gas processing plant and related infrastructure, including expansions and upgrades to the partnership's existing natural gas gathering systems and compression, are expected to cost approximately $325 million to $360 million and be in service during the first quarter of 2015. This new natural gas processing facility will be built near the partnership's existing Garden Creek I natural gas processing plant and the announced Garden Creek II natural gas processing plant, which is expected to be in service during the third quarter of 2014.

The partnership's previously announced Stateline II natural gas processing plant is expected to be in service during the first quarter of 2013. When completed, the natural gas processing capacities of the Garden Creek II and III plants, and the Stateline II plant combined with the existing Garden Creek, Stateline I and Grasslands natural gas processing facilities will be 590 MMcf per day in the Williston Basin.

The partnership will also invest approximately $140 million to construct a new 95-mile NGL pipeline that will connect its existing NGL fractionation and storage facilities in Hutchinson, Kansas, to similar facilities in Medford, Oklahoma. These investments also include related modifications to existing NGL fractionation infrastructure at Hutchinson, Kansas, to accommodate additional unfractionated NGLs produced in the Williston basin. The pipeline and related modifications are expected to be in service during the first quarter of 2015.

"The new NGL pipeline and fractionator modifications will tie our existing Midcontinent fractionators together, allowing us to optimize NGL fractionation capacity and accommodate growing natural gas liquids volumes from the Williston basin," said Norton.

The partnership now has also announced total investments of approximately $4.7 billion to $5.3 billion through 2015 for infrastructure growth projects related to natural gas gathering and processing, and natural gas liquids, which includes the projects described above. Approximately $2.4 billion to $2.7 billion are for growth projects related to resource development in the Williston basin.

These investments consist of approximately $2.1 billion to $2.3 billion for natural gas gathering and processing projects, and approximately $2.6 billion to $3.0 billion for natural gas liquids projects. In aggregate, these projects are expected to generate EBITDA multiples of five to seven times. The incremental earnings from these projects are expected to increase distributable cash flow and value to unitholders in the form of higher distributions.

The partnership has a $2 billion-plus backlog of unannounced growth projects that it continues to evaluate. Additional projects included in this backlog will be announced when sufficient supply commitments are completed.

Douglas Channel LNG Project Delayed

The BC LNG Export Co-Operative LLC announced that the Douglas Channel liquefied natural gas (LNG) project, the country's first LNG export terminal, will experience increased costs and a delayed opening. BC LNG's managing director Tom Tatham told the Calgary Herald that the facility will cost "millions more" than its initial CA$400 million (US$403 million) with an expected in-service date in the second-quarter of 2015 rather than the first-half of 2014.

The facility is expected to have a capacity to convert up to 125 million cubic feet per day of natural gas into 900,000 tons per year of LNG.

The increased costs are a result of the addition of a 45-megawatt gas-powered electrical generation plant as British Columbia passed new legislation requiring the project to be self-sufficient, which disallows the terminal from tapping into the BC power grid to liquefy the natural gas.

Tatham added that producers will receive less than anticipated for their LNG supplies as potential Japanese customers have taken longer than expected to sign onto the project, while also expressing a desire to utilize a North American price index for North American LNG rather than the much higher Japanese price index. The difference in these prices is approximately CA$12 (US$12).

Veolia Awarded Contract For Shell Floating LNG plant

VWS MPP Systems, subsidiary of Veolia Water Solutions & Technologies, has been awarded a contract by Samsung, as part of the Technip Samsung Consortium (TSC), to supply a Macro Porous Polymer Extraction (MPPE) water purification unit for a Floating Liquefied Natural Gas (FLNG) facility.

The MPPE unit will be used for Shell's Prelude FLNG project in Australia, the largest offshore floating facility ever built in the world.

During the production of natural gas, formation and dehydration water is co-produced containing dissolved and dispersed aromatic, aliphatic and polyaromatic hydrocarbons. Veolia's MPPE water treatment technology helps to achieve Shell's environmental objectives.

Samsung Heavy Industries is one of the largest shipbuilders in the world and has the world's largest dry dock which makes the production of the Shell FLNG possible. Samsung Heavy Industries has successfully completed diverse projects with the aim of securing global leadership in various sectors including shipbuilding, offshore, engineering and construction, wind power, power and control systems. Most notably, it has achieved unbeatable leadership in the high-tech high-value shipbuilding sector by maintaining the world's No. 1 share in the drill ship, ultra-large container ship, liquefied natural gas carrier and FSPO markets.

VWS MPP Systems has extensive worldwide expertise in the development, marketing and servicing of separation systems for waste water, offshore produced water, process water and groundwater streams. With its robust and flexible operation and growing range of applications, the MPPE system has been proven to be the ideal solution to aim at zero harmful discharge by removing toxic dissolved and dispersed hydrocarbons.

Steptoe & Johnson Expands Utica Shale Presence

Steptoe & Johnson has expanded its presence in the Utica shale with the opening of a new office in Canton, Ohio. The Canton office is the firm's second Ohio location – along with an office in Columbus – and its twelfth overall.

The Canton office will serve the growing number of energy clients conducting operations in the Utica shale. Eventually, it will become a full service location with additional resources in the business, labor and litigation practices.

Steptoe & Johnson attorney Daniel Kostrub will transfer from the firm's Wheeling, West Virginia, office to serve as the Canton Managing Member and will oversee activities at the new location.

Steptoe & Johnson has offices in Kentucky, Ohio, Pennsylvania, Texas and West Virginia.

Wildcat Midstream Announces Investment From Highstar Capital

Wildcat Midstream Holdings LLC has entered into an agreement with Highstar Capital IV LP whereby Highstar has acquired a 50% interest in the company from Liberty Energy Holdings LLC and Wildcat's management team. Together, this group will dedicate significant capital towards the continued development and expansion of their midstream infrastructure in North Louisiana and West Texas.

Commenting on the investment, Wildcat Co-Founder Chris D. Rozzell, stated in a release, "My partners and I are excited to have the continued support of Liberty Energy and the new involvement of Highstar Capital, both of whom share our producer-first philosophy. With their combined backing we look forward to the aggressive build-out of our North Louisiana rich-gas processing and West Texas crude gathering infrastructure to provide producers with access to higher-value markets."

API State of America Energy: Game-Changing Opportunity

BY **EMILY MOSER** | HART ENERGY

American energy is facing a new reality as it enters into 2013 – a reality of vast and domestic resources of oil and natural gas through investments made in jobs and technologies. With this reality comes the need for a new way of thinking, API president and chief executive Jack Gerard said.

Gerard suggested it was time for the country to approach domestic energy resources in a new way during his annual State of American Energy address in Washington, D.C., earlier this month.

"The reality is that our energy supply is no longer limited, no longer foreign and no longer finite – but is now American and abundant, greatly enhancing our national security," he said. "We have a game-changing opportunity to make the U.S. the global leader in energy. If we seize the opportunity now, we will be in position to lead for decades and realize the economic and energy security benefits of that leadership."

An increase in domestic energy activity will bring more economic growth, job creation, government revenue and energy security, Gerard said, adding that the Congress, administration and industry need to work together to find a positive way to foster the growth.

Gerard said the industry received encouragement from President Obama's 2012 campaign comments supporting an all-of-the-above agenda on energy, along with his statements outlining specific support for oil and natural gas production.

However, geopolitical turmoil in Washington can cause Americans to question whether leaders can work together in a bipartisan manner. For Gerard, there is no other way but to work together.

"We can offer solutions to some of the most pressing issues that will impact our economic future: tax reform, infrastructure improvements, leasing permitted on federal lands and regulations that don't add unnecessary layers of compliance burdens on top of existing protections and ensuring that regulations won't compromise our ability to grow the economy and create jobs to domestic energy," he said.

During the last few years the oil and natural gas industry has been a bright spot in an otherwise sluggish economy, Gerard said, referring to a Wood Mackenzie report that indicated the industry has:

- Supported 9.2 million American jobs and could easily support an additional 1.4 million jobs by 2030 through the industry's investments in energy production and refining.
- Contributed $545 billion in capital investment, wages and dividends yearly.
- Contributed $86 million a day to the federal government. With access to areas that are now off-limits and the implementation of other pro-development policies, more than $800 billion additional government revenues could be generated through 2030.

Industry growth has been partly because of geology and resources in the U.S., but also because of private investment and investors who have taken risks. These risks, Gerard said, have been the catalyst for economic growth and jobs in the energy industry and manufacturing and other industrial sectors.

The key for continued growth is a well-handled energy policy. The industry needs to be able to access and develop resources, find extraction technologies and potentially export products.

While Gerard thinks that federal policies have been a hindrance to oil and gas development, he said the solution lies in how states have handled permitting and leasing to state and private lands.

"If federal policy mirrored the example and the model of what our governors are doing, it would be a game-changing opportunity," he said.

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tractive to investors, they would require long-term contracts to lock in a base level of cash flow and provide additional security against price movements, both domestically and internationally.

The sector's ability to remain strong is a result of the continued development of shale plays and the need to build infrastructure throughout the country to both transport and process this production. In order to meet these infrastructure demands, most MLPs will be focused on organic growth projects, according to Cusick.

"The larger MLP names always seem to be spending billions of dollars in Capex each year and that seems likely to continue in the next couple of years. We still need new infrastructure in the emerging plays such as the Bakken and Utica and bottlenecks remain in the Permian and Eagle Ford," he said.

Despite increased competition from private equity firms involved in the midstream, MLPs are still able to develop projects in a manner that is attractive to investors, Cusick said. He added that the cost of capital is still reasonable and accessible to MLPs as there is a large demand for yield combined with low interest rates.

This low cost of capital has been helpful to the sector given the increased costs for both materials and labor, as they haven't caused a noticeable decrease in distributable cash flow. "I think costs would really have to spike exponentially for there to be impacts on the distribution and payout ratio," he said.

Cusick noted that the need to raise capital while also increasing distributions can be a real juggling act for management at MLPs. "You need to reward your investors with solid distribution growth year-over-year, but at the same time, there's an argument to be made for companies retaining capital so that they wouldn't have to go to the capital markets as often, which would help the unit price."

However, in his opinion, it is more important to retain distribution growth over unit growth as investors are more concerned with cash flow. It also helps to protect against the ups and downs involved in the marketplace. "I think most investors would be happy with unit prices that go sideways with solid distribution growth and yields," he said.

While greenfield development will be the biggest tool for growth for MLPs, the A&D market will remain active in 2013. Cusick anticipates this space to primarily consist of major oil companies selling off some midstream assets or midstream companies selling non-core assets.

Cusick didn't rule out any mergers, but he doesn't anticipate such actions to be part of the A&D mix in 2013 due to their complexity. "Mergers are always tough with MLPs because you have to satisfy four groups of unitholders: the limited partnership (LP) and general partnership (GP) holders on the acquiring side and the LP and GP holders on the side being acquired. It's really hard because it's almost like you have four companies trying to merge into one."

The industry isn't too concerned about the possibility of the federal government opening them up to taxes. "It doesn't seem as though MLPs will be targeted," he said.

The reasoning for this pull back is the efforts of the industry in educating legislators about the benefits of the MLP structure combined with the cautionary tale of what happened to the Canadian energy industry following that government's decision to start taxing energy trusts, which were similar in structure to MLPs.

Since 2011, when the energy trusts began to be taxed in Canada, there has been a noticeable backlog in infrastructure projects as companies have slowed down their investment strategies. This has resulted in decreased jobs for Canadians and taxes for the Canadian government.

For the most part, Cusick anticipates that the MLP sector won't face many headwinds in 2013, aside from those of the macro variety. "I don't think there's anything specific to the sector that will have a negative effect, but people will be concerned about the possibility of commodity prices remaining low along with the debt ceiling crisis and the global economy," he said.

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