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Kinder Morgan To Acquire Copano

The deal will add 2.7 Bcf per day of natural gas throughput capacity

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

January is usually a pretty quiet month when it comes to acquisitions, but Kinder Morgan Energy Partners (KMP) started 2013 with a bang by announcing they had reached an agreement to acquire Copano Energy for approximately $5 billion.

The deal will add about 6,900 miles of pipelines with 2.7 billion cubic feet (Bcf) per day of natural gas throughput capacity and nine natural gas processing plants with more than 1 Bcf per day of processing capacity and 315 million cubic feet per day of treating capacity in Texas, Oklahoma and Wyoming to KMP's asset base.

Upon closing, KMP will own 100% of Eagle Ford Gathering, which is currently a joint venture with Copano. This system provides gathering, transportation and processing services to natural gas producers in the Eagle Ford shale. Eagle Ford Gathering is comprised of about 400 miles of pipelines with capacity to gather and process more than 700 million Btu per day.

"We are delighted to have reached this agreement with Copano, a company that we know very well and have partnered with through the years, as this transaction will enable us to significantly expand our midstream services footprint," KMP chairman and chief executive Richard Kinder said in a release.

"As a result of this acquisition, we will be able to pursue incremental development in the Eagle Ford shale play in south Texas, gain entry into the Barnett shale combo in north Texas and the Mississippi Lime and Woodford shales in Oklahoma. We continue to be bullish on the domestic shale plays and believe they will drive substantial future growth at KMP," he continued.

"Copano's assets are very complementary to ours, as KMP is principally a pipeline transportation and storage company,

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HIGHLIGHTS FROM TODAY'S EDITION

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End of an Era
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Ethane Margins Turn Positive At Both Hubs For The First Time In 2013

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

The week of January 23 saw strong improvements in both natural gas liquid (NGL) and crude oil prices as a result of a series of tailwinds. These prices caused ethane margins to turn positive at both Conway and Mont Belvieu for the first time in 2013.

Conway ethane had the largest improvement of any NGL for the week as it jumped 16% to 26¢ per gallon (/gal), its largest price since it was also 26¢/gal the week of March 21, 2012. Mont Belvieu ethane prices increased 4% to 25¢/gal, which is the first time that Conway ethane has had a greater value than its Mont Belvieu counterpart since the week of July 6, 2006.

This turnaround is not a sign of any real growing strength at Conway as much as a statement on how far Mont Belvieu ethane has fallen in the past year. For the same period last year, Mont Belvieu ethane was worth more than twice Conway ethane. During this same time, Conway ethane was

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CURRENT FRAC SPREAD (CENTS/GAL)

February 5, 2013	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	25.68		24.86	
Shrink	20.62		20.69	
Margin	5.06	436.75%	4.17	735.21%
Propane	81.62		86.04	
Shrink	28.49		28.58	
Margin	53.13	17.57%	57.46	15.79%
Normal Butane	178.30		172.94	
Shrink	32.25		32.35	
Margin	146.05	14.27%	140.59	11.10%
Iso-Butane	179.42		182.94	
Shrink	30.98		31.08	
Margin	148.44	11.59%	151.86	7.96%
Pentane+	230.08		232.43	
Shrink	34.49		34.60	
Margin	195.59	10.32%	197.83	15.28%
NGL $/Bbl	43.69	7.24%	43.80	6.75%
Shrink	11.36		11.40	
Margin	32.32	16.56%	32.41	15.32%
Gas ($/mmBtu)	3.11	-12.64%	3.12	-11.86%
Gross Bbl Margin (in cents/gal)	72.27	17.07%	73.25	15.54%
NGL Value in $/mmBtu				
Ethane	1.41	16.20%	1.37	3.71%
Propane	2.83	4.91%	2.99	4.86%
Normal Butane	1.93	8.24%	1.87	5.94%
Iso-Butane	1.12	6.49%	1.14	3.98%
Pentane+	2.97	6.14%	3.00	10.22%
Total Barrel Valuein $/mmbtu	10.26	7.50%	10.36	6.30%
Margin	7.15	19.50%	7.24	16.66%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Jan. 23 - 29 '13	24.86	86.04	172.94	182.94	232.43	$43.80
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
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. 25 - 31, '12	55.43	128.70	190.94	203.20	227.94	$54.77
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Jan. 23 - 29 '13	25.68	81.62	178.30	179.42	230.08	$43.69
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
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. 25 - 31, '12	27.32	101.88	159.96	180.20	212.60	$44.24

(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

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NGL PRICES & FRAC SPREAD | Week in Review

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largely the same price as this week as it was only 1¢/gal more valuable.

Prices the week of January 23 did improve at a strong enough level while natural gas prices also fell at both hubs for ethane margins to turn positive. Both hubs saw substantial percentage improvements to cross into being theoretically positive as both margins were less than 7¢/gal.

One thing we do want to note about negative margins is that just as thin positive margins are only positive on a theoretical basis once transportation costs are factored in, the inverse is true when margins turn negative. Rejection will take place at various hubs, but some contracts and pipeline specifications make total rejection nearly impossible to take place.

When *Midstream Monitor* reports on widespread rejection taking place across the country this means that there is a greater level of rejection than normal, but even during times of widespread rejection some ethane is still being processed.

Propane prices increased 5% at both hubs due to the continued colder weather that increased heating demand. The Mont Belvieu rose to 86¢/gal, its highest price in five weeks. The Conway price improved to 82¢/gal, which was also its highest price in five weeks.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / February 1, 2013	
Gas Hub Name	**Current Price**
Carthage, TX	3.27
Katy Hub, TX	3.24
Waha Hub, TX	3.21
Henry Hub, LA	3.33
Perryville, LA	3.29
Houston Ship Channel	3.22
Agua Dulce, TX	3.59
Opal Hub, Wyo.	3.31
Blance Hub, NM	3.21
Cheyenne Hub, Wyo.	3.29
Chicago Hub	3.47
Ellisburg NE Hub	3.33
New York Hub	4.60
AECO, Alberta	3.09

Source: Bloomberg

We should see a continued steady improvement in propane prices in the next several weeks. Enterprise Products Partners' expansion project for its Gulf Coast propane export terminal is scheduled to complete in mid-February, which will alleviate the storage overhang in the market. Currently only the Gulf Coast has a storage overhang for propane, which bodes well for prices throughout the country.

Crude oil prices rose above the $97 per barrel (/bbl.) threshold based on increased uncertainty in the Middle East, which has the potential to remove a sizable portion of the world's crude supplies out of the global marketplace.

RESIN PRICES – MARKET UPDATE – FEBRUARY 1, 2013					
TOTAL OFFERS: 20,109,284 lbs		SPOT		CONTRACT	
Resin	**Total lbs**	**Low**	**High**	**Bid**	**Offer**
LDPE - Film	5,384,140	0.65	0.8	0.72	0.76
LDPE - Inj	3,476,876	0.68	0.795	0.71	0.75
HDPE - Blow Mold	2,779,116	0.615	0.72	0.64	0.68
LLDPE - Inj	1,644,092	0.62	0.71	0.68	0.72
PP Copolymer - Inj	1,470,736	0.74	0.89	0.81	0.85
PP Homopolymer - Inj	1,245,012	0.81	0.87	0.79	0.83
HDPE - Inj	1,104,092	0.61	0.72	0.67	0.71
LLDPE - Film	1,048,644	0.67	0.73	0.66	0.7
HMWPE - Film	1,014,116	0.71	0.74	0.67	0.71
GPPS	554,000	0.91	0.98	0.9	0.95
HIPS	388,460	1.04	1.04	1.02	1.07

Source: Plastics Exchange – www.theplasticsexchange.com

Greater crude prices helped push heavy NGL prices upwards at both hubs during the week, which resulted in near price parity in the Midcontinent and Gulf Coast. The most improved price for any heavy NGL was Mont Belvieu C_{5+}, which rose 10% to $2.32/gal. This was the hub's highest price since the week of April 25 when it was $2.35/gal. The Conway price rose 6% to $2.30/gal, its highest price since it was $2.32/gal the week of April 11. This ended the two-week streak in which the Midcontinent price for C_{5+} was greater than its Gulf Coast counterpart.

The theoretical NGL barrel price increased 7% at both hubs with the Conway price rising to $43.69/bbl. with a 17% increase in margin to $32.32/bbl. The Mont Belvieu price was $43.80/bbl. with a 15% increase in margin to $32.41/bbl.

The most profitable NGL to make at both hubs was C_{5+} at $1.96/gal at Conway and $1.98/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.48/gal at Conway and $1.52/gal at Mont Belvieu; butane at $1.46/gal at Conway and $1.41/gal at Mont Belvieu; propane at 53¢/gal at Conway and 58¢/gal at Mont Belvieu; and ethane at 5¢/gal at Conway and 4¢/gal at Mont Belvieu.

The Energy Information Administration reported that natural gas in storage was down 194 billion cubic feet to 2.802 trillion cubic feet (Tcf) from 2.996 Tcf the week of January 25. This was 7% below the figure of 3.004 Tcf posted last year at the same time and 12% above the five-year average of 2.498 Tcf.

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Visionary CEO Aubrey McClendon Out At Chesapeake

BY **DARREN BARBEE** | HART ENERGY

Chesapeake Energy Corp. is parting ways with trailblazing founder, president and chief executive Aubrey K. McClendon when he retires April 1, though he will continue to guide the company until a successor is appointed, the company announced.

Dogged by recent financial inquiries, McClendon, 53, has been chief executive since the company's inception in 1989 and served as chairman of the board until 2012.

McClendon cited differences with the board in his retirement. The company is attempting to stabilize itself with several moves, including committing to a $6 billion drilling and completion budget for 2013. It will continue asset sales to reduce debt.

McClendon said his time with Chesapeake was a privilege and that he thinks the company is on good footing for the future.

"While I have certain philosophical differences with the new board, I look forward to working collaboratively with the company and the board to provide a smooth transition to new leadership for the company," he said in a news release.

END OF AN ERA | Aubrey McClendon, one of the most recognizable players in the natural gas industry for more than 20 years, announced his intention to retire from Chesapeake Energy in 2013.

In the view of many analysts, McClendon's retirement marks the end of an era.

"We believe Mr. McClendon has been a visionary and leader during the great unconventional boom, and he helped raise the public awareness of the industry," said David Tameron, senior analyst for Wells Fargo Securities.

"While not all the publicity was positive and he was often a lightning rod, in our opinion McClendon's contributions to the industry and to communities such as Oklahoma City were profound," Tameron said.

However, McClendon was a source of distraction due to personal financing arrangements and his ability to invest in Chesapeake's Founder Well Participation Program (FWPP). The program gave McClendon the opportunity to invest in individual company wells, said Bob Brackett, senior analyst for Bernstein Research.

The board said it expects to release results of a previously announced review of McClendon's financing arrangements on February 21. The review partly concerns financing between McClendon and any third parties that had or have a relationship with Chesapeake.

"The board's extensive review to date has not revealed improper conduct by McClendon," the company said. The decision to search for a new leader is not related to the pending review of his financing arrangements and other matters.

Brackett said that putting aside any feelings about his strategy and style, McClendon has "the heart of a landman, a leadership style that fit Chesapeake's days of building up an enviable U.S. resource-land position through stealth acquisition" and later joint ventures.

However, Brackett said that the land-grab phase of North American unconventionals appears to be waning.

If Chesapeake is serious about entering a "harvest" mode and living closer within its means, the company is better off with a leader who "embodies that strategy," Brackett said.

Chesapeake Board Chair Archie W. Dunham, said that for 24 years McClendon created one of the most valuable and innovative companies in the energy industry.

"Under Aubrey's strong leadership, Chesapeake has built an unmatched portfolio of natural gas and oil assets," Dunham said. "However, as the company moves toward more fully developing the value of its outstanding assets, Chesapeake is at an important transition in its history."

In April, McClendon and the board ended the FWPP, which was to have run until December 31, 2015. The program, which was approved by shareholders in 2006 in conjunction with McClendon's employment agreement, gave him the contractual right to participate and invest as a working interest owner (with up to a 2.5% working interest) in new wells drilled on the company's leasehold.

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Tameron said the company's stance is that the departure is amicable, but McClendon's differences with the board are also notable.

"Bottom line is we believe Mr. McClendon was forced out by the board," Tameron said.

The $83 million question, Tameron said, is why McClendon retired.

The company's proxy statement says McClendon would receive no cash severance and would be subject to a $30 million clawback. However, if terminated without cause, he would be entitled to $53 million in cash and stock benefits. That adds up to an $83 million swing, Tameron said.

"The press release stated retirement, but we have to believe there is a termination agreement different than the proxy. If not, it raises serious questions as to why McClendon would 'retire' rather than wait to be terminated," Tameron said.

Baird Equity Research analyst Michael Hall also called McClendon a visionary, but said McClendon's exit should strengthen the company's stock in the near term. In early trading, the stock was up about 6%.

"McClendon's departure likely represents a strategic step-change for Chesapeake with corporate focus now squarely on execution and achieving an investment grade credit rating likely hinged on asset sales," Hall said.

Chesapeake's future is likely to be rocky for some time.

The company forged its identity through an aggressive acquisition and development strategy. During the past few years, Chesapeake has built itself into a dominant natural gas producer in the U.S.

But Tameron said "historically low natural gas prices will provide headwinds for CHK shares for the near future."

Brackett agreed the company isn't out of the woods yet.

"While demonstrating a sincere shift in strategy by changing leaders is positive, Chesapeake still faces a $5 billion order-of-magnitude funding gap and crucial strategic decisions in 2013," he said. "In addition, investors still remain in the dark about many CHK issues, including but not limited to long-term midstream commitments following the recent divestitures."

Though some investors have assumed the worst and might be surprised to the upside, there are still many "unknowns to the CHK story that need to be clarified in the coming quarters," Brackett said.

The board has retained Heidrick & Struggles to assist in its search of McClendon's successor and will also consult with McClendon. The search process will include a full review of internal and external candidates.

Pa. Gov. Corbett: State's Best Days Ahead Of It Thanks To Natural Gas

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

REVITALIZATION | The Marcellus and Utica shales are helping Pennsylvania become a new economic force in the nation, Gov. Tom Corbett said at Hart Energy's Marcellus-Utica Midstream Conference. (Courtesy: Hart Energy)

Unfortunately not every state in the U.S. has leadership that is willing to partner and work with the oil and gas industry. Fortunately one of the states that has embraced the industry is Pennsylvania, which is home to large portions of both the Marcellus and Utica shales.

Under the leadership of Gov. Tom Corbett (R), the state passed Act 13, which gives producers and midstream operators in the state a measured level of predictability when it comes to their operations in the plays, impact fees and environmental standards in Pittsburgh.

"Natural gas is changing the economy across the entire state of Pennsylvania. The Marcellus shale has made Pennsylvania an energy exporter, which we haven't been since Titusville [which was the site of the oil rush in Pennsylvania in the 1850s]," Corbett said while speaking at Hart Energy's Marcellus-Utica Midstream Conference in Pittsburgh.

The impact fees raised through Act 13 have allowed the state to provide necessary social services to communities throughout Pennsylvania not directly tied to the Marcellus or Utica shales.

He noted that in the five years since the oil and gas companies made a strong return to Pennsylvania, the state has been revitalized in many ways with more than 25,000 people who are directly employed by the oil and gas industry and another 215,000 who are employed by related industries.

READ THE FULL ARTICLE ONLINE

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Encana Commissions First LNG Facility In Alberta

Encana Corp. announced the commissioning of its Cavalier liquefied natural gas (LNG) facility located approximately 15 kilometers east of the town of Strathmore, Alberta. The Cavalier LNG facility will play a key role in providing an alternative fuel to diesel for heavy-duty transportation including rail and long-haul trucking. It demonstrates Encana's commitment to lead by example and build the necessary infrastructure to support a transportation future driven by natural gas.

"The Cavalier LNG facility represents a milestone as it will be the first ever in Alberta to offer LNG, a more affordable and cleaner fuel option for the transportation industry, "Eric Marsh, executive vice-president, Encana Corporation and senior vice-president, USA Division, said in a release.

"This project further demonstrates how Encana has progressed from the concept of a natural gas-based energy portfolio to a business model of safely and efficiently providing the fuel to new markets. There is a very strong value proposition for natural gas use in the transportation sector given that the fuel is 20 to 40% less expensive than gasoline or diesel in many regions. In addition to helping realize significant savings on fueling costs, the environmental benefits of using natural gas for transportation speak for themselves, with up to 30% less carbon dioxide emissions than oil and 90% less smog-causing particulate matter."

The Cavalier LNG facility receives its feedstock from Encana's neighboring Cavalier gas plant. The natural gas is then treated to remove impurities such as water, carbon dioxide and Mercaptan, and thereafter directed into a cryogenic heat exchanger where liquid nitrogen (-196°C) cools the methane to a liquid state (-160°C). The LNG is stored in cryogenic tanks on-site for truck fueling or bulk tanker loading.

First customers of the Cavalier LNG facility include Calgary-based Ferus Inc., an energy services company specializing in delivering integrated solutions to the energy industry, as well as the Canadian National Railway Company (CN) which last year announced that it is testing two mainline diesel-electric locomotives fueled principally by natural gas. Encana is providing complete LNG fueling solutions to CN for this pilot project including the fuel, transportation and equipment.

The CN project is the first of its kind in Canada. The development of the Cavalier LNG facility allows Encana to continue to work closely with CN and other customers to deliver a more environmentally friendly, reliable and cost-effective fuel for their transportation needs.

"Natural gas is a viable transportation fuel for the rail sector, and CN's pilot project demonstrates the transportation industry's growing awareness of the economic and environmental benefits of natural gas," said David Hill, Encana's vice president, Operations, Natural Gas Economy. "There is significant growth potential for natural gas in the transportation sector when you consider the sheer abundance of this resource that has been unlocked in North America through huge technological advances in unconventional production. Combining the on-road trucking with the rail and oil and gas supply chain segments represents around 30%, or 22 billion cubic feet per day, of total North American transportation fuel consumption."

As part of Encana's ongoing efforts to commercially develop natural gas for transportation, the company owns and operates an LNG fueling station in Louisiana, 10 mobile LNG fueling stations and seven compressed natural gas (CNG) stations. In addition, the company is committed to converting its entire fleet of more than 1,300 trucks and passenger vehicles to natural gas. In 2011 alone, the company saved approximately $11 million in fuel costs by using natural gas instead of diesel in company trucks and has converted close to 40% of its drilling rigs.

Last month, Encana announced plans to build a 190,000 liter per day LNG production facility near Grande Prairie, Alberta to produce high-quality LNG fuel specifically designed to supply the growing high-horsepower (HHP) market used in drilling rigs, pressure pumping services, and heavy-duty highway and off-road trucks.

"Recent announcements by Westport Innovations and Caterpillar Inc. to jointly develop natural gas technology for off-road equipment validates that the HHP segment is gaining momentum and wide market acceptance across North America," added Hill.

Shell, Kinder Morgan Announce Plans To Export LNG From The U.S.

BUSINESS WIRE

Shell US Gas & Power LLC (Shell), a subsidiary of Royal Dutch Shell plc, and Southern Liquefaction Company, LLC, a Kinder Morgan company and unit of El Paso Pipeline Partners LP, (NYSE: EPB) announced their intent to form a limited liability company to develop a natural gas

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liquefaction plant in two phases at Southern LNG Company, LLC's (Southern LNG) existing Elba Island LNG Terminal, near Savannah, Georgia.

Subject to various corporate and regulatory approvals, Shell and Kinder Morgan affiliates have agreed to modify EPB's Elba Express Pipeline and Elba Island LNG Terminal to physically transport natural gas to the terminal and to load the liquefied natural gas (LNG) onto ships for export.

"Kinder Morgan is delighted to be working with Shell at Elba Island on this project, which has already received Free Trade Agreement approval," Kinder Morgan Chairman and Chief Executive Richard D. Kinder, said in a release. "This project will facilitate further development of the abundant natural gas resources in the United States and will be a positive factor in the overall balance of trade between the U.S. and other countries." Kinder added that the facility anticipates receiving non-Free Trade Agreement approval in due course.

"This announcement underscores how the abundance of natural gas in the U.S. is changing the energy landscape," Marvin Odum, president of Shell Oil Company, said in a release. "With a measured, phased approach, exports of cleaner burning natural gas can help meet the world's rising energy needs while also giving a boost to the U.S. economy."

Once finalized, EPB, through its affiliates, will own 51% of the entity and operate the facility. Shell, through its affiliates, will own the remaining 49% and subscribe to 100% of the liquefaction capacity. The project will use Shell's innovative small-scale liquefaction unit, which will be integrated with the existing Elba Island facility and enable rapid construction compared to traditional large-scale plants.

The total project is expected to have liquefaction capacity of approximately 2.5 million tons per year (mtpa) of LNG or 350 million cubic feet (MMcf) of gas per day. In June 2012, the Elba Island terminal received approval from the U.S. Department of Energy (DOE) to export up to 4 mtpa (500 MMcf per day) of LNG to Free Trade Agreement (FTA) countries. In August 2012, the terminal submitted a filing to the DOE seeking approval to export up to 4 mtpa (500 MMcf per day) of LNG to non-FTA countries. Phase I of the project, approximately 1.5 mtpa (210 MMcf per day), requires no additional DOE approval.

Columbia Gas Receives FERC Approval Of Customer Settlement

NiSource's Columbia Gas Transmission received approval from the Federal Energy Regulatory Commission (FERC) for a customer settlement that facilitates Columbia's comprehensive pipeline infrastructure investment plan.

The settlement, filed on September 4, 2012 and widely supported by Columbia's customers, covers the initial five years of Columbia's investment plan and contains provisions for potential extension thereafter. Among other components, key elements of the settlement identify individual infrastructure projects and establish a mechanism for recovery of Columbia's revenue requirement for infrastructure investment under the plan.

"FERC's approval of our customer settlement is a milestone in our efforts to modernize Columbia's interstate pipeline system in a balanced, thoughtful and transparent manner," said Jimmy Staton, Columbia's chief executive, in a release. "We acknowledge FERC for their timely review and approval, and appreciate the collaboration from our customers. We look forward to getting the job done. The work we do will help ensure safer, more reliable pipeline infrastructure for our customers and the communities across our footprint."

Under the settlement, Columbia will invest approximately $300 million per year, in addition to a $100 million investment in ongoing maintenance, over the 2013 through 2017 period on system improvements, which include:

- Replacing Aging Infrastructure – commencing the replacement of approximately 1,000 miles of existing interstate transmission pipelines, primarily bare steel (400 miles in the first five years);
- Upgrading Natural Gas Compression Systems – replacing and modernizing more than 50 critical compressor units along the pipeline system that will enhance system efficiency and improve environmental performance;
- Increasing Pipeline System Reliability – uprating pressures and looping systems where needed to ensure gas is reliably delivered to critical markets; and
- Expanding In-Line Inspection Capabilities – facilitating Columbia's ability to perform state-of-the-art maintenance and inspections without interrupting services.

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Hess Exits Refining, Will Sell Terminal Network To Free Up $1 Billion

BY **DARREN BARBEE** | HART ENERGY

Hess Corp. (HES) is leaving the refining business behind and plans to sell off its terminal network, potentially freeing up $1 billion in working capital for other projects, the company announced.

The announcement comes after an "activist investor," Elliott Associates, filed for regulatory approval to buy an $800 million stake in the company with aspirations for a seat on the board.

In the past several months, Hess has announced divestitures of $2.4 billion in non-strategic assets and has committed to sell its oil and gas assets in the Eagle Ford and in Russia.

"We are completing our exit from refining with the closure of our Port Reading, New Jersey, refinery, and we are pursuing the sale of our U.S. oil storage terminal network," said John Hess, chairman and chief executive officer. "The terminals sale, when complete, should release approximately $1 billion of working capital in addition to the proceeds from the transaction.

"Proceeds from our divestiture program will help fund our future growth opportunities," he added.

Roger D. Read, senior analyst for Wells Fargo Securities, said the decision to exit the company's "final vestiges of refining is a clear positive as it removes a typically negative contributor to earnings and potentially frees up approximately $1 billion of capital for other efforts."

The Port Reading refinery will be closed by the end of February. It is comprised of a fluid catalytic cracking unit and primarily makes gasoline and components for blending heating oil. The refinery has been a money loser in two of the past three years and looks to remain a poor bet due to costs of the required regulatory changes for low sulfur heating oil. The margins for refining gasoline also look to be weak.

The sale falls in line with Hess's strategy to focus the company on exploration and production. The strategy centers on development of lower risk, higher-return assets such the company's interests in the Bakken oil shale of North Dakota.

Hess will continue retail and energy marketing and "take all the necessary steps to ensure supply security, competitive prices and high quality service for its customers," the company said.

The Hess terminal network is located along the U.S. East Coast and has a total of 28 million barrels of storage capacity in 19 terminals, 12 of which have deep-water access.

The terminals previously served as the primary outlet for Hess' share of production from its HOVENSA joint-venture refinery. The HOVENSA refinery closed in 2012. The company's St. Lucia oil storage terminal in the Caribbean with 10 million barrels of capacity will also be included in the package for divestiture.

Hess also announced that Elliott Associates LP and its associated entity, Elliott International Ltd., notified Hess they intend to seek regulatory clearance to acquire additional Hess shares beyond those they may already own.

The correspondence suggests that Elliott may seek to acquire shares valued at more than $800 million. A law firm representing Elliott Associates LP also informed the company that Elliott is considering nominating candidates for election to Hess's board of directors at Hess's upcoming 2013 annual meeting. That would constitute about 4% of outstanding shares.

M&A Volume In U.S. Energy Industry Highest Level In Ten Years

Merger and acquisition (M&A) activity in the U.S. oil and gas industry hit a ten-year high during the fourth quarter of 2012 with 75 deals, according to PwC US. A number of factors drove this activity, including private equity (PE) interest, foreign buyers, shale plays and companies looking to get deals done before the end of the year with the looming fiscal cliff and proposed tax changes. In fact, that flurry of fourth -quarter activity pushed overall deal volume in 2012 to a 10-year high at 204 transactions (for deals valued at over $50 million), representing $146.2 billion – the second highest total deal value in ten years.

During the final three months of 2012, total deal value reached $56.2 billion, marking the second-highest level seen in 10 years (behind the $79.1 billion total deal value seen during the fourth quarter of 2011).

"M&A activity in the U.S. oil and gas sector was extremely robust in 2012, with the vast majority of that activity happening in the final three months of the

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year as many deals got pulled forward due to the uncertainty surrounding the fiscal cliff," said Rick Roberge, principal in PwC's energy M&A practice. "This past year was a watershed moment for the industry, with private equity involvement reaching an all-time high, shale deal volume at a two-year high during the fourth quarter and a jump in asset transactions as companies have shifted their focus to adding more profitable liquid rich shale plays to their portfolios. We expect to see a slight pause in M&A during the first part of 2013 as companies focus on the recent wave of deals announced, but believe 2013 will be another banner year for deals as the U.S. oil and gas industry is ripe for continued consolidation. In fact, our recent PwC Global CEO Survey found that energy CEOs are among the most confident on growth prospects for this year than any other industry. "

Private equity deal activity in the oil and gas industry marked an all-time high in 2012 with 34 transactions (which represented $28.4 billion). In the fourth quarter of 2012, there were 11 financial sponsor-backed deals worth $6.9 billion, a slight drop from the 13 PE deals in the fourth quarter of 2011 that totaled $13.6 billion. Additionally, there were 170 strategic deals in all of 2012 that contributed $117.8 billion, compared to 163 strategic deals in 2011 with a total deal value of $136.5 billion. During the fourth quarter of 2012, there were 64 strategic deals, a 64% increase from the 39 deals during the same time period last year. Total deal value for strategies was $49.2 billion during the last three months of 2012, a decline from the $65.5 billion in the fourth quarter of 2011.

PwC notes that during 2012, master limited partnerships (MLPs) were involved in 42 transactions, representing more than 20% of total 2012 deal activity, continuing the trend of increased MLP involvement over the past two years (MLPs represented 15.6% of total deal activity in 2010 and 18.4% in 2011).

PwC also notes that the volume of upstream and midstream shale deals increased in the fourth quarter of 2012 when compared to the same quarter in 2011. There were 17 total shale deals in the upstream sector, accounting for $9.0 billion, which was one more deal when compared to Q4 2011, although deal value had decreased from $12.3 billion last year. Midstream shale-related deals totaled 10 for the fourth quarter of 2012, representing $7.3 billion, an increase from the six midstream deals worth $4.0 billion during the fourth quarter of 2011.

"Throughout 2012, we continued to see a fair amount of repositioning and realignment with companies around midstream assets in the Marcellus Shale and Utica Shale as they looked to build the infrastructure needed to transport the extracted oil and gas," said Steve Haffner, a Pittsburgh-based partner with PwC's energy practice. "Given the disparity in commodity prices, we expect to see continued movement during the year from the Marcellus to the Utica, as the Utica is a more attractive play due to its higher liquid content."

Eighty-Eight Oil To Build Crude Oil Train Terminal In Wyoming

Eighty-Eight Oil LLC (EEOLLC) announced its plans to construct and operate a unit train facility on BNSF Railway's mainline near the Guernsey crude oil pipeline hub. The facility will be directly connected to EEOLLC's existing Guernsey crude oil terminal which has two million barrels (bbl.) of storage and currently receives crude oil from Butte Pipeline, Belle Fourche Pipeline, Platte Pipeline, and the Rocky Mountain Pipeline System.

The Guernsey terminal also maintains truck unloading facilities. The facility will be the first rail transloading terminal capable of loading multiple crude types including those from the Williston Basin (e.g. Bakken), the Powder River Basin (e.g. Niobrara), Southwest Wyoming, Big Horn Basin and Canada. "Because this terminal is being designed to handle multiple crude types, we are confident of its long term viability," Jerry Herz, superintendent of EEOLLC, said in a release. "Further, by connecting our terminal to BNSF's expansive railway system, we can provide producers of the Rocky Mountains and Canada further flexibility in adding value to their production and transporting it to markets throughout the United States."

With completion expected later this year, the facility will initially include three rail loop tracks and required tankage for unit train loading operations. Each loop track will be capable of holding one unit train. In addition, the automated loading racks will be capable of loading two trains with different crude types simultaneously. Initial rail loading capacity will be approximately 80,000 bbl. per day with expansion capability.

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2013 Should Echo 2012 As Drop In Natural Gas Prices Expected

BY **DARREN BARBEE** | HART ENERGY

For Morgan Stanley, the past is a prologue as 2013 looks to echo 2012: Oil will stay stronger than natural gas with prices lower than forecast and weaker natural gas liquids (NGLs) prices will persist throughout the year.

Still, several independents are poised to do well, said Evan Calio, Morgan Stanley's lead analyst for the Integrated Oil and Refining Industries, wrote in an analysis of upstream for fourth-quarter 2012 and 2013.

Bakken, Wattenberg and Eagle Ford service costs will remain soft, Calio said.

"Operators in the Bakken, Eagle Ford and Wattenberg report continued softness in service costs. The biggest decrease in costs year over year will be in the Bakken, by our estimate, where service costs escalated the most severely" in the first half of 2012, he said.

Oil sands projects, by contrast, are seeing service cost pressure due to labor shortages. Labor shortages in Canada are reportedly driving up capital costs for oil sands projects.

Gas and NGLs look weak again in 2013 due to a mild winter and robust supply growth, Calio said. Swelling propane inventories and high margins on propane derivatives will "crush ethane demand" and reduce gas demand, he said.

"By our estimate, significant ethane is being rejected (effectively masking supply), which will keep a lid on prices even if fundamentals improve," Calio said.

Calio said Morgan Stanley is also modestly lowering oil price forecasts due to greater first quarter production.

Estimates for weaker commodities put 2013 Brent/WTI forecasts of $110/$96 from $115/$102 and natural gas to $3.50 million Btu (MMBtu) from $3.95.

Nevertheless, Calio's earnings per share estimates are 2% above consensus.

Calio's "best ideas" include:

- Noble Energy for levered exposure to the Wattenberg, which "we think will hit full stride in 2013."
- Hess Corp. for value, restructuring/turnaround potential and oil leverage.
- Anadarko Petroleum Corp. for net asset value (NAV) realization through execution and asset sales.

Noble's Niobrara should be investors' focus in 2013 as long laterals prove successful across the Wattenberg, Calio said. Noble's capex is expected to be $3.9 billion in 2013.

Niobrara production of 90,000 barrels of oil equivalent (MBOE) per day was ahead of schedule in early December, leading management to raise its fourth-quarter guidance to 252-256 MBOE per day.

"We expect most Wattenberg operators' production growth to accelerate this year. Noble and other companies will be testing the extended lateral concept, which we think will be the biggest value driver for the Niobrara in 2013," he said.

Noble will also be drilling outside the Wattenberg to prove up additional acreage. New crude-by-rail capacity is expected to be in service in 2013 to ship to the Gulf Coast.

"We estimate 17% production growth, at the high end of guidance," Calio said.

For Hess, Calio expects the company to continue to outperform as it restructures its portfolio to simplify the organization, improve margins and align capex with cash flow. Additionally, Hess is positioned well in the first quarter of 2013 through oil-leverage, value and the return of some operational momentum.

Further, Hess's plan to lower capex year over year is based on 30% Bakken well cost savings it has already achieved. Wells costs peaked at $13.4 million in 2012 and are targeted at $9.5 million. Hess may also make divestitures in the Eagle Ford and Russia.

Anadarko has the potential to outperform as growth continues to gain momentum in its core onshore U.S. plays and brings mega-projects online while monetizing assets, Calio said.

"We believe many investors have remained cautious on APC [Anadarko]," due to concern over litigation with Tronox, which has sued to recover damages, including interest, of more than 18.9 billion from Kerr-McGee and Anadarko, as well as litigation fees and costs. Anadarko told the Securities and Exchange Commission in August it believes the case could result in a potential loss of up to $1.4 billion.

Calio said he thinks the case should have a ruling in the first quarter of 2013.

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while Copano is primarily a fee-based gathering, processing and fractionation player. Broadening our midstream assets will allow us to offer a wider array of services to our customers."

In an analyst day conference call, Kinder noted that the combined companies will have a backlog of more than $1 billion in unidentified growth projects over the next three years while providing substantial long-term, fee-based cash flows.

Raymond James' analysts Darren Horowitz, Kevin Smith and Paul Jacob reacted positively to the announcement. "We believe that the assets are very attractive and expect synergies to be pervasive given Kinder's extensive footprint," they said in a research note.

Strong Asset Base To Drive Growth For Years To Come

While many companies in the midstream have a footprint in a section of the country or a specific play they rely upon to grow their business, Kinder Morgan's footprint covers just about the entire natural gas and natural gas liquids (NGL) production in North America.

The company is the largest midstream in North America with more than 75,000 miles of pipelines that transport a variety of products, along with 180 storage terminals.

The company is planning to expand upon these operations to growth further, according to Kinder. "The future growth looks very good as we've currently identified more than $12 billion in expansion projects and joint ventures across the Kinder Morgan companies," he said while speaking on a conference call to discuss fourth-quarter 2012 earnings.

Kinder added that the company is also actively seeking customer commitments to other projects not included in the $12 billion assessment, but will add further growth. "In short, our enormous footprint of pipelines and terminals is providing us with a tremendous opportunity for sustained profitable growth, which we expect to last for years to come."

The company was very active in terms of divestments and dropdowns in 2012 as a result of its $38 billion merger with El Paso Pipeline Partners in May 2012. Kinder Morgan Inc. (KMI) is still planning several dropdowns to KMP in 2013, including the remaining 50% stake in the El Paso Natural Gas Pipeline and the remaining 50% stake in KMI midstream assets. KMI is expected to dropdown the Ruby Pipeline and its 50% interest in the Florida Gas Transmission Pipeline to KMP in 2014, a year ahead of schedule.

In addition to its traditional stronghold of pipeline assets, Kinder Morgan is also actively involved with Watco Companies LLC on building and operating rail transportation facilities in key markets with limited transportation capacity such as the Bakken and the Eagle Ford shale.

"We're very bullish on [rail transportation] and think we will be able to pick off a number of individual projects on a going-forward basis through our partnership with Watco. They're good partners and we work well together with them. They bring the rail expertise and we bring the terminaling, storage and handling expertise," Kinder said.

While rail transportation is a bit of a different asset holding than Kinder Morgan is used to, it is likely that Kinder Morgan won't venture too far out of its traditional holdings of transportation, storage and terminaling.

"We have a model that we think works very well and has for over 15 years and we're not really interested in stepping too far out from that model," Kinder said because of the lack of predictability involved in different assets, especially considering the growth potential involved in its current asset base and footprint.

"I don't believe there's been this set of assets this good ever assembled in North America. We're seeing more and more opportunities every day and I think we'll be able to make good use of it for many years to come," he continued.

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