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Arkansas Oil Spill May Influence Ongoing Keystone Debate

An oil spill in Mayflower, Arkansas may have wide-ranging effects outside its own region

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

On the afternoon of March 29, ExxonMobil's 848-mile, 20-inch Pegasus pipeline that transports up to 90,000 barrels (bbl.) of crude oil per day from Patoka, Illinois, to the Gulf Coast experienced a leak and caused the evacuation of 22 homes in the town of Mayflower, Arkansas. Officials stated that emergency response workers reached the site of the incident within 30 minutes of its detection and have recovered an estimated combined 12,000 bbls. of oil and water. Company officials stated that "a few thousand bbls. of oil were observed in the area. The pipeline has been shutdown and no timetable has been given for when it will be brought back online.

According to ExxonMobil officials, the company is working to determine the cause of the incident and has a clean-up plan in place for the North Woods subdivision that was impacted. The company, along with representatives from the Environmental Protection Agency, Arkansas Department of Environmental Quality, Arkansas Department of Health, Faulkner County have set up a Unified Command that is overseeing these clean-up efforts.

Thus far, the company deployed 640 workers, 14 vacuum trucks and 60 storage tanks to the site as part of this clean-up. Lake Conway, located nearby, was not impacted and the company has placed a containment system into service to ensure that volumes do not reach the lake. The town's drinking water supply was not affected by the

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HIGHLIGHTS FROM TODAY'S EDITION

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Natural Gas Storage Levels Fall Below Five-Year Average

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

Although heavy natural gas liquid (NGL) prices gained strength the final week of March, this recovery wasn't a sign of increased demand as much as the fact that traders were caught short on positions. Once April hit, heavy NGL prices regressed from their end-of- March positions.

The decrease in heavy NGL prices has occurred at the same time as a downturn in West Texas Intermediate crude prices and reduced refining demand as refiners have switched from manufacturing winter-grade gasoline to summer-grade gasoline.

The largest gain posted in value for any heavy NGL during the week was 2% for both Conway butane and Mont Belvieu isobutane. The Conway butane price of $1.34 per gallon (/gal) was the largest at the hub in a month while the Mont Belvieu isobutane price of $1.47/gal was the largest in five weeks.

CURRENT FRAC SPREAD (CENTS/GAL)

April 08, 2013	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	26.58		29.90	
Shrink	26.12		26.92	
Margin	0.46	140.69%	2.98	28.54%
Propane	89.30		94.90	
Shrink	36.09		37.19	
Margin	53.21	2.89%	57.71	2.69%
Normal Butane	134.22		141.30	
Shrink	40.86		42.10	
Margin	93.36	4.08%	99.20	0.95%
Iso-Butane	143.57		147.00	
Shrink	39.24		40.44	
Margin	104.33	1.35%	106.56	2.11%
Pentane+	221.00		215.55	
Shrink	43.69		45.03	
Margin	177.31	2.08%	170.52	1.20%
NGL $/Bbl	40.87	1.33%	41.87	1.82%
Shrink	14.39		14.83	
Margin	26.48	3.53%	27.04	1.99%
Gas ($/mmBtu)	3.94	-2.48%	4.06	1.50%
Gross Bbl Margin (in cents/gal)	59.37	3.60%	61.54	2.08%
NGL Value in $/mmBtu				
Ethane	1.46	3.59%	1.65	3.68%
Propane	3.10	0.65%	3.29	2.22%
Normal Butane	1.45	1.99%	1.53	1.12%
Iso-Butane	0.89	0.27%	0.92	1.94%
Pentane+	2.85	1.14%	2.78	1.26%
Total Barrel Valuein $/mmbtu	9.76	1.39%	10.16	2.00%
Margin	5.82	4.19%	6.10	2.33%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
March 27 - April 2, '13	29.90	94.90	141.30	147.00	215.55	$41.87
March 20 - 26, '13	28.84	92.84	139.74	144.20	212.86	$41.12
March 13 - 19 '13	27.33	89.66	139.88	142.55	213.52	$40.52
March 6 - 12 '13	26.74	85.78	141.08	146.18	210.26	$39.91
March '13	27.95	89.66	141.09	145.14	212.62	$40.69
February '13	25.64	86.16	162.10	168.05	234.15	$43.09
1st Qtr '13	25.68	86.42	157.72	166.41	222.63	$42.07
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
March 28 - April 3, '12	47.77	123.56	189.00	205.56	240.74	$53.81
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
March 27 - April 2, '13	26.58	89.30	134.22	143.57	221.00	$40.87
March 20 - 26, '13	25.66	88.72	131.60	143.18	218.50	$40.33
March 13 - 19 '13	24.50	85.22	133.52	139.68	218.74	$39.75
March 6 - 12 '13	24.62	81.58	134.76	142.78	213.48	$39.12
March '13	25.29	85.20	134.11	143.21	217.48	$39.91
February '13	24.13	81.76	156.45	167.85	230.84	$42.05
1st Qtr '13	23.94	81.81	153.43	160.39	222.63	$41.11
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
March 28 - April 3, '12	19.66	99.38	164.84	189.50	236.12	$44.79

(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

NGL PRICES & FRAC SPREAD | Week in Review

Mont Belvieu butane experienced a 1% gain to $1.41/gal, its highest price since it was $1.48/gal the week of February 27. Conway isobutane improved slightly to $1.44/gal, its highest price since it was $1.54/gal the week of February 27.

Pentanes-plus (C_{5+}) gained 1% at both hubs during the week, which left the Conway price having more value than its Mont Belvieu counterpart for the fifth-straight week. The Conway price of $2.21/gal was the highest since it was $2.30/gal the week of February 20. The Mont Belvieu price of $2.16/gal was the largest at the hub since the week of February 27 when it was the same price.

The turnaround in light NGL prices remains a positive for the NGL story as improved heating and export demand continues to have noticeable effects on both price and storage levels, which bodes well for prices the rest of the year.

Propane prices trended at the same percentage gains as heavy NGLs, but are at their highest levels since last fall or longer. The Mont Belvieu price improved by 2% to 95¢/gal, its highest level since it was 97¢/gal the week of October 31. The Conway price rose 1% to 89¢/gal, but this was the hub's highest level since it was the same price nearly one year ago: the week of April 18.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / April 4, 2013	
Gas Hub Name	Current Price
Carthage, TX	3.90
Katy Hub, TX	3.89
Waha Hub, TX	3.78
Henry Hub, LA	3.94
Perryville, LA	3.93
Houston Ship Channel	3.88
Agua Dulce, TX	3.59
Opal Hub, Wyo.	3.68
Blance Hub, NM	3.69
Cheyenne Hub, Wyo.	3.69
Chicago Hub	4.06
Ellisburg NE Hub	3.96
New York Hub	4.19
AECO, Alberta	3.46

Source: Bloomberg

Ethane experienced 4% price improvements at both hubs, although propane posted slower gains of 2% at Mont Belvieu and 1% at Conway. Mont Belvieu ethane's price of 30¢/gal was the highest it has been since the week of October 24 when it was 31¢/gal. The Conway price of 27¢/gal was the hub's highest price since it was 27¢/gal the week of January 30.

Despite these gains, ethane margins remain depressed at both hubs due to stronger natural gas prices, which have experienced increases due to the extended cold weather throughout the Northeast and Midwest. It should be noted that several forecasts for the week were incorrect, as there was warmer-than-expected temperatures in several Northeast markets.

RESIN PRICES – MARKET UPDATE – APRIL 4, 2013					
TOTAL OFFERS: 15,577,688 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Blow Mold	2,950,968	0.67	0.72	0.65	0.69
PP Homopolymer - Inj	2,670,692	0.68	0.775	0.7	0.74
LLDPE - Film	2,462,760	0.685	0.775	0.67	0.71
LDPE - Film	2,185,680	0.65	0.8	0.74	0.78
PP Copolymer - Inj	1,490,368	0.68	0.82	0.72	0.76
HMWPE - Film	881,840	0.74	0.75	0.68	0.72
GPPS	760,000	0.91	0.94	0.85	0.9
HIPS	760,000	1.02	1.04	0.97	1.02
LLDPE - Inj	538,000	0.72	0.74	0.67	0.71
LDPE - Inj	438,828	0.67	0.77	0.71	0.75
HDPE - Inj	438,552	0.66	0.73	0.65	0.69

Source: Plastics Exchange – www.theplasticsexchange.com

Natural gas prices rose 2% to $4.06 per million Btu (/MMBtu) at Mont Belvieu. While the Conway price decreased 3% to $3.94/MMBtu, this remained one of its highest prices during the past several years at the hub. The forward price gained 1% during the week as well.

Overall, the theoretical NGL barrel (bbl.) price and frac spread margin gained ground at both hubs during the week. The Mont Belvieu price rose 2% to $41.87/bbl. with a 2% gain in margin to $27.04/bbl while the Conway price increased 1% to $40.87/bbl. with a 4% gain in margin to $26.48/bbl.

The most profitable NGL to make at both hubs was C_{5+} at $1.77/gal at Conway and $1.71/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.04/gal at Conway and $1.07/gal at Mont Belvieu; butane at 93¢/gal at Conway and 99¢/gal at Mont Belvieu; propane at 53¢/gal at Conway and 58¢/gal at Mont Belvieu; and ethane at 1¢/gal at Conway and 3¢/gal at Mont Belvieu.

Natural gas storage levels finally fell below the five-year average for the first time in several years, according to the Energy Information Administration's latest data from the week of March 29. Stocks for this week were down 94 billion cubic feet to 1.687 trillion cubic feet (Tcf) from 1.781 Tcf. This was 32% below the storage level of 2.466 Tcf posted last year at the same time and 2% below the five-year average of 1.724 Tcf.

READ THE FULL ARTICLE ONLINE

Vopak's Besch: EPA To Push Further On Energy Regulations

After all the debates, commercials, and op-ed pieces written during the 2012 U.S. presidential election, there remains a real sense of mystery over where federal energy legislation and regulations are headed in President Obama's second term.

The president made it clear that he wants to reduce the amount of carbon emissions and reduce global warming, but it's not clear how the administration will seek to achieve these goals.

Thus far, much of the administration's actions on energy and climate change have been through the Environmental Protection Agency (EPA) and the Department of Transportation (DOT). While it is likely that the administration will continue to work through regulatory arms rather than try to pass legislation through a divided Congress, it remains to be seen what types of actions the administration will take and which agencies might take them on.

According to Jane Besch, manager, operational excellence at Vopak Terminals North America, an independent storage and handler of chemicals, liquid oil and gas products, air quality will be a specific focal point of Obama's second term. While speaking at the recent National Institute for Storage Tank Management's International Above Ground Storage Tank Conference, she noted that while President Obama has political capital to spend coming off reelection, climate and energy initiatives will be tested by budget battles.

While climate legislation is likely a bridge too far for the second Obama term due to its inability to pass the House as well as its complexity, a carbon tax could be in the works at some point during a second term. Besch cited the fact that California started a cap-and-trade program that has generated $138 million in two months of operation, as it has a requirement to return greenhouse gas (GHG) emission levels to 1990 levels by 2020.

A national carbon tax would be less complex and more evenly passed to companies and citizens and could help reduce the deficit as it has been estimated it would raise $90 billion or more in revenue per year. "Companies have a more positive view of this only because it's simpler than a cap-and-trade program and it's fairly uniform since it affects everyone that uses carbon fuels," she said.

"The environmental and business communities, especially the refiners, are quite at odds over how the California program is going. The

ADDITIONAL OVERSIGHT | The EPA is expected to continue to expand its rule as an energy regulator in President Obama's second term.

program is such that refiners have had to go out and purchase their allocations, which is viewed as a good thing by the state, but the industry is finding these fees to be an onerous burden on their operations and are calling it a job killer," she continued.

The administration has already worked to reduce GHG emission levels through new fuel mileage standards for automobiles through the DOT as well as limiting new coal-fired power plants to 1,000 pounds of CO_2 per megawatt-hour "Essentially what that means is that any new power plant is not likely to be powered by coal as it just wouldn't be able to meet this strict limit. This means that natural gas-fired plants will be the way to go," Besch said.

One of the architects of this EPA rule was Gina McCarthy, who was nominated by Obama to replace Lisa Jackson as head of the EPA earlier this year. McCarthy is not favored by the industry and was not expected to be the nominee. Bob Perciasepe, who is serving in the post on an acting basis since Jackson's resignation, was expected to receive the nomination.

While both McCarthy and Perciasepe have experience working with energy industry officials, the industry perspective is that Perciasepe views the EPA as more of a regulator, while McCarthy sees the agency's role as being more policymaker and reformer.

McCarthy's nomination implies that the administration holds the same perspective, and it can be ascertained that the EPA will seek to further expand current laws and regulations to expand its power base when it comes to oil and gas.

Already the EPA is using the Clean Water Act to expand control over virtually any U.S. waterway or body, based on new guidance from the U.S. Supreme Court, Besch said. She added that the EPA is also one of 14 federal agencies seeking to regulate fracing. "What we expect is the EPA will issue guidance on the use of diesel fuels as it pertains to fracing fuels. In short, you can expect the EPA under McCarthy to pick up the ball from where Lisa Jackson left it at the end of President Obama's first term and run with it," Besch said.

Phillips 66 To Develop New NGL Fractionator

BY **ZAHRA AHMED** | HART ENERGY

Energy manufacturer Phillips 66 announced that it plans to develop a 100,000 barrel-per-day, natural-gas-liquids (NGL) fractionator in Old Ocean, Texas, adjacent to the company's Sweeny refinery.

The project is currently in the engineering-design phase, and Phillips 66 said it's is in the process of filing applicable permits. If approved, construction would begin in the first half of 2014, and startup would follow in the second half of 2014, according to the announcement.

The project would create more than 25 full-time jobs and hundreds of temporary construction jobs, the company said.

Phillips 66 owns fractionation capacity at the Gulf Coast Fractionators (GCF) and Enterprise fractionators in Mont Belvieu, Texas, and is the operator of the GCF facility for the joint venture, the announcement noted.

To avoid the Mont Belvieu congestion, NGL feedstock for the Old Ocean fractionator project would be supplied by several nearby pipelines, and purified products produced by the fractionator would be marketed primarily to petrochemical customers in the region with access to Mont Belvieu, the company said. Phillips 66 recently sent notices seeking interest from potential Y-grade NGL suppliers.

Phillips 66 chairman and chief executive Greg Garland commented: "This project would enable us to take advantage of strong existing midstream transportation and storage infrastructure along with demonstrated operations excellence. We see excellent market-facing opportunities to grow the natural-gas-liquids business, and the chance to supply purity NGLs and liquefied petroleum gas to the petrochemical industry and heating markets."

Japan Working On LNG Futures Contract

Liquefied natural gas (LNG) is becoming a more important part of Japan's energy mix in the wake of the Fukushima nuclear disaster in March 2011. The country, which is already the largest importer of LNG in the world having spent $64 billion on 87.3 million tons in 2012seeks to secure additional volumes but at a more economic rate.

Earlier this year, Japanese energy officials expressed an interest in securing LNG contracts based on the North American price index in order to garner savings. Obviously this proposal has been met with resistance from LNG producers, but Japanese officials are now planning to develop the world's first futures contract for LNG on the Tokyo Commodity Exchange.

The contract, called the Exchange Futures for Physical (EFP), is aiming to be in operation in the next two years, will be based on index price on volumes delivered to Japan, have a cash settlement in U.S. dollars and will authorize holders to exchange their futures positions for actual cargoes.

While the contracts won't be for physical delivery, they will allow EFP transactions that enable traders to swap their futures positions for a physical holding.

"We always seek opportunities to list new futures contracts, although it takes time to develop," Tadashi Ezaki, the president of Japan's Tocom commodity exchange, told *Reuters*.

Tallgrass Energy Plans MLP IPO

Tallgrass Development filed an initial private offering for its midstream MLP, Tallgrass Energy Partners LP, which seeks to raise $315.2 million. The amount of units available for the company was not disclosed, but officials stated that Barclays plc and Citigroup Inc. will act as underwriters for the IPO.

The MLP, which will trade on the New York Stock Exchange under the "TEP" symbol, acquired $3.3 billion worth of midstream assets from Kinder Morgan in November. These assets included Kinder Morgan Interstate Gas Transmission, Trailblazer Pipeline Co., Casper-Douglas natural gas processing and the West Frenchie Dew treating facilities in Wyoming. In addition, the agreement included a 50% interest in the Rockies Express Pipeline.

Oil Spill In Minnesota Comes As Producers Increase Rail Use

BY **DARREN BARBEE** | HART ENERGY

A March 27 spill of 15,000 gallons of oil in Minnesota highlights the challenges of ramping up transport on rail instead of using pipelines.

A Canadian Pacific Railway train derailed on March 27 in a rural area about one mile north of Parkers Prairie in west central Minnesota.

Canadian Pacific estimates that fewer than 15,000 gallons were spilled based on the amount of oil remaining in three tanker cars that were leaking. Fourteen tanker cars derailed, said Dan Olson, spokesman for the Minnesota Pollution Control Agency.

The oil spilled into a field on one side of the tracks and into a ditch on the other side of the tracks, Olson said. Freezing temperatures at the site that helped contain the spill have also made it difficult to clean up the oil.

About 1,000 gallons had been recovered by March 28. The remaining oil on the ground has thickened into a heavy tar-like consistency mixed with snow. The mixture is being excavated into piles that are being stored in a lined depression. Collecting the spilled oil in this manner will likely take another day or two.

Canadian Pacific will use equipment to steam-heat the derailed tanker cars so oil they contain can be pumped into other tanker cars. The cleanup will take a few weeks, Olson said.

The rail line was formally reopened early March 28, following full track repairs and mandatory inspections, said Canadian Pacific spokesman Ed Greenberg.

The cause of the derailment remains under investigation.

Company experts coordinated closely with local officials, and the product that escaped from the car was quickly contained.

The mixed-freight train, with a total of 94 cars, originated in Alberta and was bound for the Chicago area, Greenberg said.

The company's rails lines run from British Columbia to the East Coast and through the Dakotas.

Parkers Prairie was "running as normal," said Kim Schroeder, city clerk and treasurer.

Shipping crude oil by rail has become more common, though proportionately it's a small mode of transportation for producers. In areas such as the Bakken and Canada, however, it can be more important because of insufficient pipeline capacity.

Pipe will remain the dominate mode of transport, said Jackie Forrest, IHS senior director and head of the IHS CERA Oil Sands Energy Dialogue.

"By no means is it going to be even a majority, because the vast majority is by pipe," Forrest told Hart Energy.

In the U.S., about 700,000 barrels (bbl.) a day is moved by rail out of 6.5 million bbl. of field production.

However, companies have turned to rail transport to deliver oil across the nation. Over a one year period in the Williston basin, for instance, takeaway capacity by rail grew nearly 150% to 660,000 bbl. per day in December 2012. However, not all of that capacity is always used, Forrest said.

Overall, the amount of crude oil and petroleum products delivered by rail in 2012 increased 46% from 2011, to nearly 71,000 carloads, according to the Association of American Railroads (AAR), which tracks movement of commodities by rail. Crude oil made up about 38% of the combined deliveries in oil and petroleum products during 2012, up from 3% in 2009.

For Canada in particular, the shipping of oil sands, rather than upgrading pipelines or local refineries, has the potential for more jobs and greater economic benefit, according to IHS.

A new IHS CERA report, Oil Sands Dialogue, examines the economic drivers that have toppled a once bullish outlook for upgrading and refining in the Canadian oil sands region.

"Following (the 2008 recession), higher-than-average capital costs from a constrained labor market in Alberta and a narrowing of the price difference between light and heavy crudes have constrained investment in processing oil sands crude locally," Forrest's report says.

"The current reality is that, in many cases, new value-added upgrading and refining investments in Alberta have challenging economics, and investors do not get a reasonable return on the billions they must commit for a bitumen processing facility," Forrest said. "Producers would be taking additional steps and spending more money to upgrade or refine oil sands, when the strongest demand is for non-upgraded products."

Pipelines are considered the most cost-effective way to transport crude oil but are expensive to build and may face regulatory hurdles.

And railway companies face risks in transporting crude over long distances.

In February 2012, Union Pacific Railroad Co. agreed to a settlement with the Environmental Protection Agency for $1.5 million over Clean Water Act violations, including accusations that the company had six oil spills in Colorado, Utah and Wyoming. The settlement directed $1.4 million to the Oil Spill Liability Trust Fund, which is used by federal agencies to respond to spills.

Dominion Cove Point Liquefaction Project Moving Forward

Officials at Dominion announced they have reached three major milestones in its Dominion Cove Point LNG liquefaction project.

The company has fully subscribed the marketed capacity of the project with signed, 20-year terminal service agreements. Pacific Summit Energy LLC, a U.S. affiliate of Japanese trading company Sumitomo Corp. and GAIL Global (USA) LNG LLC, a U.S. affiliate of GAIL (India) Ltd., have each contracted for half of the marketed capacity. Sumitomo in turn has announced agreements to serve Tokyo Gas Co. and Kansai Electric Power Co., Inc. GAIL the largest natural gas processing and distributing company in India.

It has awarded its engineering, procurement and construction (EPC) contract for new liquefaction facilities to IHI/Kiewit Cove Point, a joint venture between IHI E&C International Corp. of Houston and Kiewit Corp. of Omaha, Nebraska, following completion of the front-end engineering and design (FEED) work.

The company plans to submit today its application to the Federal Energy Regulatory Commission (FERC) for the $3.4 billion to $3.8 billion project. The filing is more than 12,000 pages and considers all aspects of the project, including safety, environment, security, cost, community effects and benefits.

Subject to receipt of regulatory approvals, Dominion plans to start construction on the 5.25- million-tons-per- annum facility in 2014 and put the liquefaction facilities in service in 2017.

New Rail-To-Barge Terminal To Move Bakken Crude

Indigo Resources Ltd. will build a rail-to-barge crude oil terminal on the Mississippi River. Located next to Osceola, Arkansas, the Indigo Terminal will help alleviate current infrastructure constraints impacting the transportation of crude oil and other petroleum products produced in Canada and the Bakken shale formation of North Dakota. The terminal will accommodate direct rail service via BNSF Railway and facilitate the downstream movement of products to Gulf Coast refineries.

The 480-acre rail-to-barge terminal will be situated on 610 acres on the Mississippi River at mile marker 784.5. This facility will include 3,000 feet of river frontage and five rail loop tracks, with more than 16 miles of track allowing for the accommodation of 120-car unit trains as well as manifest shipments. The terminal is designed to unload two unit trains of crude per day and three manifest trains of bitumen per week. This terminal will include state-of-the-art port facilities to move crude oil and other products to the lower Mississippi River.

The terminal will have two million barrels (bbl.) of storage capacity consisting of four tanks with a 250,000-bbl. capacity each and 10 tanks with 100,000 bbl. capacities each. This will provide individual storage for the many different types of crude oils. The Indigo Terminal will also provide blending services. The storage facility will have dedicated-tankage capabilities for inbound crudes from Canada, Colorado, Montana, North Dakota and Wyoming.

The Indigo Terminal expects to break ground in the fourthquarter of 2013 and be in service by the end of 2014.

BNSF To Test LNG In Locomotives

BNSF will begin testing a small number of locomotives using liquefied natural gas (LNG) as an alternative fuel later this year.

"The use of liquefied natural gas as an alternative fuel is a potential transformational change for our railroad and for our industry," said Matthew K. Rose, BNSF chairman and chief executive, in an announcement. "While there are daunting technical and regulatory challenges still to be faced, this pilot project is an important first step that will allow BNSF to evaluate the technical and economic viability of the use of liquefied natural gas in through-freight service, potentially reducing fuel costs and greenhouse gas emissions, thereby providing environmental and energy security benefits to our nation."

BNSF has been working with the two principal locomotive manufacturers, GE and EMD, a unit of Caterpillar, to develop the natural gas engine technology that will be used in the pilot.

Improved economics and technology make the use of natural gas in long-haul service more operationally feasible today.

READ THE FULL ARTICLE ONLINE

DCP Completes Dropdown Interests In Eagle Ford JV

DCP Midstream Partners completed the previously announced dropdown from the owner of its general partner, DCP Midstream LLC of an additional 47% interest in the Eagle Ford joint venture for $626 million. The transaction is immediately accretive. This brings the partnership's ownership interest in the Eagle Ford joint venture to 80%. The transaction is subject to certain customary closing conditions and working capital and other purchase price adjustments. DCP Midstream took 20% of the consideration in the partnership's common units. In conjunction with the transaction, DCP Midstream provided the Partnership with a three-year direct commodity price hedge for the additional 47% interest in the joint venture.

In addition, as part of the transaction the Partnership increased its ownership interest in the Goliad plant and associated infrastructure to 80%. With this announced dropdown, the incremental ownership in the Goliad plant and the completion of the wholly owned Eagle plant, the Partnership has over an 80% interest in one of the largest gathering and processing systems in the prolific Eagle Ford shale play.

Kinder Morgan Expands Chemical Storage Capacity

BUSINESS WIRE

Kinder Morgan Energy Partners LP (KMP) will invest approximately $58 million to expand its chemical storage capacity. KMP has entered into a long-term contract with Methanex Corp. to support the construction of methanol storage capacity near Kinder Morgan's Geismar Liquids Terminal (GLT) in Geismar, Louisiana. Kinder Morgan will build, own and operate the storage tanks and related infrastructure, including improvements to its existing dock at GLT. The assets will provide critical marine, rail and truck access in support of a 1- million-tonne-per-year methanol production plant being relocated by Methanex from Chile to South America. The terminal infrastructure is expected to be in service during the second half of 2014, coinciding with the anticipated startup of the relocated plant.

KMP has also acquired Quality Carriers, Inc.'s 26-acre terminal located in Chester, South Carolina. The 19-tank facility currently provides storage for a single customer of 35,000 barrels and receives product by rail and distributes by truck.

Chesapeake Names New Acting Chief Executive

BUSINESS WIRE

Chesapeake Energy Corp. announced that its board of directors has established a three-person office of the chairman while continuing its previously announced chief executive search process with the assistance of Heidrick & Struggles.

The Office of the Chairman includes: Archie W. Dunham, non-executive chairman of the board; Steven C. Dixon, who has been named acting chief executive in addition to his continuing role as chief operating officer; and Domenic J. Dell'Osso Jr., chief financial officer. Dixon has served as executive vice president and chief operating officer since 2006 and has held various senior operational positions since joining Chesapeake in 1991.

As part of Chesapeake's previously announced succession plan, the members of the office of the chairman have been working closely to transition oversight of strategic, operational and financial matters as well as certain day-to-day management responsibilities from chief executive Aubrey K. McClendon, who has previously agreed with the board to retire on April 1.

Quicksilver Sells Interest of Barnett Shale Assets To Tokyo Gas

Quicksilver Resources Inc. executed an agreement to sell an undivided 25% interest in its Barnett shale oil and gas assets for $485 million to TG Barnett Resources LP, a whollyowned U.S. subsidiary of Tokyo Gas Co., Ltd.

Quicksilver will remain as operator of the assets. Future development spending will be shared in proportion to each party's working interest in accordance with applicable operating agreements.

The effective date of the transaction is September 1. Closing is expected to occur on April 30 and is subject to customary closing conditions.

Proceeds from the transaction are expected to reduce Quicksilver's debt.

Saudi Arabia To Drill For Shale: Reports

The world's largest oil exporter will soon start drilling for shale gas, according to numerous media reports. Saudi Arabia is expected to test seven wells for shale this year.

The country's minister of petroleum and mineral resources Ali Al-Naimi announced the plans April 1 during a Credit Suisse conference in Hong Kong.

"We have rough estimates of 600 trillion cubic feet of unconventional shale gas," Al-Naimi said during the conference, according to a Saudi Gazette report. "The potential is very huge, and we plan to exploit it."

The minister later told The Wall Street Journal that he expected Saudi Arabia to tap into its shale oil reserves, too, though, "we have to find them" first.

It isn't yet clear when Saudi Arabia will begin commercially producing shale gas or oil.

The news follows the well-documented hesitance of the Organization of Petroleum Exporting Country (OPEC) to endorse drilling for fracking for oil or shale gas, the Journal notes.

Saudi Arabia is OPEC's largest member.

Antero, Patterson Replace Diesel With Natural Gas On Drilling Rigs

With diesel prices remaining high, Antero Resources and Patterson-UTI Drilling sought to reduce fuel costs by utilizing GE's Waukesha gas engines, which are rich-burning engines that are 100% natural-gas-fired. The engines reduce fuel costs while also meeting stringent state and federal mobile emissions guidelines.

The companies recently finalized the first installation of three L7044GSIs with a well completion in Harrison County, West Virginia, and plans are in the works to replace diesel engines powering drilling rigs in multiple other locations.

The L7044GSI gas engines have the ability to also scheduled maintenance versus other spark ignited and diesel engines. With performance ratings at altitudes up to 8,000 feet with no de-rate, the L7044GSI uses Non-Selective Catalyst Reduction (NSCR) technology — commonly referred to as a Three Way Catalyst (TWC)—achieving NOx, CO2 and volatile organic compounds values much lower than lean-burn engines. As NOx permitting requirements approach 0.5g/BHP/hour and below, rich-burn engines equipped with three-way catalysts operate more cost effectively and provide greater return on investment.

While CO2 is the most significant greenhouse gas addressed globally, methane has 21 times the effect on the atmosphere, an advantage for rich-burn engines as they produce substantially less methane than other options. And since the Enviornmental Protection Agency requires the inclusion of both CO2 and methane in carbon calculations, rich-burn engines deliver a better greenhouse gas profile. Further, formaldehyde emissions (the most significant of all the hazardous air pollutants emitted by engines) can be 10% less when using a rich-burn engine.

Steel Reef Establishes Midstream Infrastructure Company

Steel Reef Infrastructure Corp. closed its initial private placement and said that it is fully funded to pursue its business plan. The private placement, which targeted a minimum of $50,000,000, was significantly over-subscribed. Proceeds from the initial private placement will target midstream investment opportunities, focused on the acquisition or construction of field-gathering systems, processing facilities and other infrastructure opportunities in the Western Canadian Sedimentary basin.

Steel Reef is led by Lane McKay as executive chairman, Scott Southward as president and chief executive and Austin Voss as chief operating officer. In addition to Lane Mackay and Scott Southward, the board of directors includes Jamie McVicar, Steve Magus and Guy Le Blanc, with Dean Potter and Neil Roszell serving as special advisors and Robert Lehodey as corporate secretary.

SNAPSHOT | Industry Insight

Producers To Get Pinched When Gulf Coast Crude Price Plunges

BY **STEVE TOON** | HART ENERGY

The price for Gulf Coast crude oil is destined to fall as did natural gas and gas liquids prices previously, said David Pursell, managing director, head of securities for Tudor, Pickering, Holt & Co., adding that an impending glut of new tight oil supply is expected to bottleneck at Gulf Coast refineries.

"We're going to build up light sweet crude on the Gulf Coast and disconnect U.S. pricing from global pricing. The Brent crude out in the boat is going to be $110, and we're going to see lower prices on the Gulf Coast because we can't get our crude on a boat and ship it to global markets," he said while speaking at an energy forum hosted by law firm Boyar Miller.

Tudor Pickering assumes a $10 discount between Gulf Coast light sweet crudes to Brent pricing in the second half of this year.

Adding 2 million barrels a day in new supply since 2005, the U.S. is essentially responsible for all the net growth in non-OPEC supply, he noted. "If it weren't for this, the peak oil guys would be pounding their chests, and we'd have $140 crude. This is a big deal."

"If you're a refiner on the Gulf Coast, that's fantastic because you can buy crude cheap, and you can export refined products. It's a good time to be a refiner, and I've never uttered those words — ever."

Technology making it possible to economically extract oil from lower-quality reservoir rock has made this U.S. supply growth possible, but producers are victims of their own success, he suggested.

"All of the 2 million incremental barrels of crude is light sweet, and all of that light sweet crude is coming to the Gulf Coast. And we can't export crude."

SQUEEZED | Crude prices may take a downturn similar to natural gas and NGLs due to increased production and tight infrastructure capacity.

The result will be a bonanza for refiners. "If you're a refiner on the Gulf Coast, that's fantastic because you can buy crude cheap, and you can export refined products. It's a good time to be a refiner, and I've never uttered those words — ever."

Transporters and processors stand to profit as well, but producers will hold the short end of the profits from the revolution they've created. "They'll make a little, but the margin moves downstream," Pursell said.

The same is true for gas liquids producers. "We've oversupplied ethane in the U.S. That's good for petrochemical businesses; it's bad for ethane producers. You can't export it, and if you're long ethane prices go to gas equivalent and you no longer get an uplift."

Natural gas producers, likewise, will suffer their successes indefinitely. "We're finding better rock and growing production with fewer rigs. There is a lot of inventory out there, so gas prices are going to be low for a while."

The good news? The U.S. industrial economy is leveraged to gas and power, and everything made in the U.S. is now advantaged globally. "That's the best thing that has happened to the U.S. economy since the Fed started pumping money into it," he said.

Continued from Page 1

incident. ExxonMobil reported that thus far it has received 140 claims through the claim line it set up for residents.

"We regret that this incident has occurred and apologize for any disruption and inconvenience that it has caused," said Karen Tyrone, southern operations manager of ExxonMobil Pipeline Co. "Our focus is on protecting health, safety and the environment. We will be here until the cleanup is complete."

"An influx of tar sands on the U.S. pipeline network poses greater risks to pipeline integrity, challenges for leak detection systems and significantly increased impacts to sensitive water resources," the Natural Resources Defense Council said in a press release.

Both the Pegasus and Keystone XL pipelines will transport heavy Canadian crude to the Gulf Coast, but it's important to note that there are major differences between the Pegasus pipeline and TransCanada's proposed Keystone XL with the largest being that the Pegasus pipeline was originally built in the 1940s and was expanded to transport an additional 30,000 bbl. per day and upgraded with new leak detection systems in 2009.

The Keystone will be the most state-of-the-art pipeline when it is brought online. Another major difference is that the Pegasus pipeline extends through residential areas while the Keystone XL will primarily transport volumes through rural areas. Considering that environmental groups and other opponents of the Keystone XL pipeline still compare the potential ramifications of the project to a vastly different piece of infrastructure: BP's Deepwater Horizon rig in the deepwater of the Gulf of Mexico that experienced a blowout in July 2010, it's safe to say that these opponents won't take the time to notice the differences between the pipelines and instead focus on the similarities in order to further derail the Keystone XL and future pipeline projects.

Clearly there is a need for strong safety measures and emergency response plans for all oil and natural gas infrastructure, including pipelines, but it appears that ExxonMobil's response to this incident was fast and has been very quick and effective – thus far the only reported casualties have been two ducks with no human lives harmed.

Thus far the State Department seems to be taking a more measured approach to the Keystone XL project than many of its opponents by not actively comparing this incident with another completely different project. "Safety is of paramount concern in the way we look at these applications and our national interest determination. It's an essential consideration that we take into account, and we consult extensively, including with all of the expert agencies, so it's one of the things that goes into our overall look at the Keystone [XL] pipeline," Victoria Nuland, spokesperson for the State Department, said at a press briefing on April 1.

In addition, White House spokesperson Jay Carney was also careful to not equate the two when he was asked during a press briefing on April 1 about the oil spill and its possible ramifications on the Keystone XL pipeline. "We take the safety of our many pipelines in this country very seriously and we have an agency that is dedicated to the task of making sure that those pipelines operate safely and in cases like these that investigations are undertaken and steps taken to both mitigate the damage and hopefully avoid them in the future." Carney added that the Pegasus oil spill has not influenced President Obama's ultimate decision on the Keystone XL one way or the other.

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