HARTENERGY

MIDSTREAM Monitor

June 17, 2013 | Volume 31 | Issue 24

Dissecting The Master Limited Partnership Antitrust Issue

When does an MLP acquisition trigger FTC scrutiny?

BY **JEFFREY OLIVER** | SPECIAL TO HART ENERGY

Master limited partnerships (MLP) have had a remarkable decade. In 2002, there were 20 MLPs with a total market capitalization of $20 billion. Today, there are more than100 MLPs valued at more than $400 billion. The latest energy boom will fuel more growth and increase the frequency of MLP transactions. Recent years have already witnessed a remarkable proliferation—since January 2011, there have been about 227 MLP transactions worth a combined $114.4 billion.

Despite the increasing frequency of such transactions, the various novelties and relative youth of the MLP structure make for an unsettled regulatory environment. This is particularly true with antitrust review of MLP acquisitions. The number of MLP transactions that have received substantive antitrust review remains small. However, the record is now substantial enough to describe areas of relative clarity and obscurity and to identify a number of important antitrust questions relevant to many MLP transactions.

Much of the regulatory uncertainty results from the way MLPs fracture ownership —the right to a portion of profits—and control —day-to-day decision-making authority. Typical antitrust review assumes that a transaction transfers complete ownership and complete control of the acquired entity. However, many MLP transactions mix control and ownership in a myriad of ways that seldom produce a complete overlap of the two. Some MLP transactions transfer complete control coupled with a partial

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NGL PRICES & FRAC SPREAD | Week in Review

Gas Storage Levels Increase As Utilities Switch Back To Coal

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

Natural gas liquid (NGL) prices remained stagnant the second of June with only C_{5+} experiencing an increase in value as West Texas Intermediate crude prices held firm. The remaining NGL prices were adversely affected by storage injection rates increasing while consumer and industrial demand remained flat at best.

Mont Belvieu C_{5+} improved 2% to $2.04 per gallon (/gal), its highest price in a month while the Conway price of $1.97/gal represented a slight improvement from the prior week, but was the second-lowest it has been since the week of October 3, 2012.

The biggest downturn in price was for Mont Belvieu ethane, which is experiencing a late impact from unexpected cracker turnarounds. While these facilities are just now being brought back online, prices hadn't had much of, if any, downturn while capacity was constrained. In short, this week's 6% price drop is the market playing catch up. The price of 26¢/gal was the lowest at the hub since it was 25¢/gal the week of February 13. The Conway price largely remained unchanged at 18¢/gal.

CURRENT FRAC SPREAD (CENTS/GAL)

June 17, 2013	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	18.02		25.63	
Shrink	24.33		24.60	
Margin	-6.31	16.93%	1.03	-10.80%
Propane	83.36		89.92	
Shrink	33.62		33.98	
Margin	49.74	0.43%	55.94	2.92%
Normal Butane	114.68		121.72	
Shrink	38.06		38.47	
Margin	76.62	1.56%	83.25	0.73%
Isobutane	123.06		123.55	
Shrink	36.55		36.95	
Margin	86.51	1.56%	86.60	-1.06%
Pentane+	196.64		204.08	
Shrink	40.70		41.14	
Margin	155.94	2.07%	162.94	3.69%
NGL $/Bbl	35.53	-0.56%	38.19	-0.71%
Shrink	13.41		13.55	
Margin	22.12	2.46%	24.64	2.35%
Gas ($/mmBtu)	3.67	-5.17%	3.71	-5.84%
Gross Bbl Margin (in cents/gal)	49.76	2.48%	56.16	2.37%
Gross Bbl Margin (in cents/gal)				
Ethane	0.99	-0.22%	1.41	-6.05%
Propane	2.89	-1.91%	3.12	-0.57%
Normal Butane	1.24	-0.78%	1.31	-1.44%
Isobutane	0.77	-0.53%	0.77	-2.54%
Pentane+	2.54	0.48%	2.63	1.62%
Total Barrel Value in $/mmbtu	8.43	-0.71%	9.25	-1.14%
Margin	4.76	3.03%	5.54	2.29%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
June 5 - 11, '13	25.63	89.92	121.72	123.55	204.08	$38.19
May 29 - June 4, '13	27.28	90.44	123.50	126.77	200.83	$38.46
May 22 - 28, '13	28.50	92.00	124.25	127.00	201.00	$38.89
May 15 - 21, '13	27.87	94.04	125.60	125.88	205.80	$39.41
May '13	28.11	93.48	123.95	125.86	204.66	$39.21
April '13	28.58	93.99	131.09	135.73	205.91	$40.07
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
June 6 - 12, '12	29.82	77.28	136.34	146.40	176.53	$36.83
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
June 5 - 11, '13	18.02	83.36	114.68	123.06	196.64	$35.53
May 29 - June 4, '13	18.06	84.98	115.58	123.72	195.70	$35.73
May 22 - 28, '13	21.25	86.75	116.25	118.00	198.75	$36.55
May 22 - 28, '13	20.92	88.14	115.74	117.45	203.40	$36.94
May '13	21.07	87.53	116.00	117.09	204.19	$36.95
April '13	22.05	87.03	123.12	129.73	216.88	$38.62
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
June 6 - 12, '12	9.68	56.94	118.10	135.94	180.17	$30.42

(Above) Data provided by Intercontinental Exchange. Individual product prices in cents per gallon. NGL barrel in $/42 gallons | Source: Frank Nieto

(Left) Price, Shrink of 42-gal NGL barrel based on following: Ethane, 36.5%; Propane, 31.8%; Normal Butane, 11.2%; Isobutane, 6.2%; Pentane+, 14.3%, Fuel, frac, transport costs not included. Conway gas based on NGPL Midcontinent zone, Mont Belvieu based on Houston Ship Channel.

Shrink is defined as Btus that are removed from natural gas through the gathering and processing operation.

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NGL PRICES & FRAC SPREAD | Week in Review

According to En*Vantage, ethane stock levels remain too high while the operational reliability of the ethylene industry is too volatile to cause significant improvements in ethane balances the rest of the year.

Reviewing the latest data from the Energy Information Administration (EIA), ethane stocks nearly doubled in the five months from November 2012 to March 2013. During this time they rose from 672,000 barrels (bbl.) to 1.2 million bbl, their highest level in March since 2010.

The other light NGL, propane, remained flat as the Gulf Coast inventory level is being reduced due to increased export capacity and demand. The Mont Belvieu price fell 1% to 90¢/gal, the lowest value it has held since it had the same price the week of March 13. The Conway price fell 2% to 83¢/gal, its lowest price since the week of March 6 when it was 82¢/gal.

Mont Belvieu isobutane had the second-largest price drop this week as it was down 3% to $1.24/gal due to decreased demand for alkylate combined with refiners moving from winter-grade gasoline to summer-grade gasoline production. The price was the lowest at the hub since it was $1.20/gal the week of September 23, 2009. The Conway price decreased 1% to $1.23/gal, which was the closest the price differential had been between the two hubs for isobutane since the week of December 19, 2012, when it was also 1¢/gal.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / June 12, 2013	
Gas Hub Name	Current Price
Carthage, TX	3.71
Katy Hub, TX	3.74
Waha Hub, TX	3.72
Henry Hub, LA	3.74
Perryville, LA	3.71
Houston Ship Channel	3.71
Agua Dulce, TX	3.59
Opal Hub, Wyo.	3.57
Blance Hub, NM	3.60
Cheyenne Hub, Wyo.	3.61
Chicago Hub	3.81
Ellisburg NE Hub	3.96
New York Hub	3.78
AECO, Alberta	3.20

Source: Bloomberg

Frac spread margins were generally improved due to the static NGL prices combined with a 6% drop in Mont Belvieu natural gas prices to $3.71 per million Btu (/MMBtu) and the Conway price decreasing 5% to $3.67/MMBtu.

The theoretical NGL bbl. price decreased 1% at both hubs during the week with the Mont Belvieu price falling to $38.19/bbl. with a 2% gain in margin to $24.64/bbl. The Conway price dropped to $35.53/bbl. with a 3% gain in margin to $22.12/bbl.

RESIN PRICES – MARKET UPDATE – JUNE 13, 2013					
TOTAL OFFERS: 16,807,584 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LDPE - Film	4,440,508	0.68	0.75	0.68	0.72
HDPE - Blow Mold	2,718,944	0.65	0.71	0.615	0.655
LDPE - Inj	1,982,048	0.685	0.75	0.66	0.7
LLDPE - Film	1,840,300	0.7	0.73	0.63	0.67
PP Homopolymer - Inj	1,435,012	0.68	0.79	0.72	0.76
HDPE - Inj	1,283,932	0.655	0.75	0.625	0.665
HMWPE - Film	939,564	0.71	0.75	0.67	0.71
PP Copolymer - Inj	760,000	0.765	0.77	0.74	0.78
GPPS	570,000	0.91	0.93	0.86	0.91
HIPS	570,000	1.01	1.02	0.98	1.03
LLDPE - Inj	267,276	0.69	0.69	0.63	0.67

Source: Plastics Exchange – www.theplasticsexchange.com

The most profitable NGL to make at both hubs remained C_{5+} at $1.63/gal at Mont Belvieu and $1.56/gal at Conway. This was followed, in order, by isobutane at 87¢/gal at both hubs; butane at 83¢/gal at Mont Belvieu and 77¢/gal at Conway; propane at 56¢/gal at Mont Belvieu and 50¢/gal at Conway; and ethane at 1¢/gal at Mont Belvieu and negative 6¢/gal at Conway.

It appears that weather-related demand for natural gas is decreasing as more utilities are moving from gas-fired back to coal-fired power generation because of the increase in natural gas prices this year. According to the latest EIA figures, natural gas in storage increased 111 billion cubic feet from 2.141 trillion cubic feet (Tcf) from 2.252 Tcf the week of May 31. This injection level was 48 Bcf higher than the same time last year despite warmer temperatures and increased cooling demand this year. However, it was 22% lower than the 2.868 Tcf reported last year at the same time and 3% lower than the five-year average of 2.321 Tcf.

According to the National Weather Service's forecast for this week, there should be an increase in cooling demand from the southern U.S. that will extend from the Southeast to parts of the Southwest and the Gulf Coast up to parts of the Midwest. The forecast anticipates this demand to be countered by a decrease in New England and parts of the Northeast and the West Coast, which are both expected to experience cooler-than-normal temperatures.

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Bakken Shale Leading To Growth Throughout The Country

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

The 2012 U.S. Presidential campaign included a lot of talk about an "all hands on deck" domestic energy policy that indicated the country needed all forms of energy—crude oil, natural gas, coal, nuclear and renewable—in the future. While this may or may not be the case for a national energy policy, it is undoubtedly the case for energy transportation.

No play better exemplifies this than the Bakken shale, where crude is being moved by pipeline, rail and truck to other markets. In the future, some of these volumes may be shipped from hubs to other destinations via marine transport as well.

"We don't think of just a crude-by-rail solution, but an overall solution [encompassing all forms of transportation]," Nathan Savage, senior vice president and group leader, oil and gas solutions at Savage Companies, said at Hart Energy's recent DUG Bakken and Niobrara convention in Denver.

The phonograph was known as the "gift that keeps on giving," but the death of that technology combined with the Bakken's awesome power to stimulate the domestic economy might mean it is time to turn that catchphrase over to the play instead. Not only has the Bakken helped create a job boom in North Dakota, it has improved economies throughout the country through job growth thanks to its supply chain requirements.

Indeed, the Bakken is largely responsible for the revival of the Philadelphia oil refining industry and is helping to create increased refining capacity demand in the Gulf Coast as well. Eddystone Rail Co. is among the leaders in bringing Bakken crude to the Philadelphia market. The company, a joint venture between Enbridge Inc. and Canopy Prospecting Inc., was formed to serve Philadelphia-area refineries as an independent rail, marine and pipeline terminal.

This state-of-the-art terminal will be located in Eddystone, Pennsylvania, just outside of Philadelphia. It will feature a high-speed crude oil unloading facility with a barge-loading terminal and potential distribution pipeline facilities.

"Eddystone is positioned to be the Cushing of the Northeast," Eddystone Vice President and General Manager Erik Johnson said

TRENDING | A panel of midstream executives discusses the breakthrough of the Bakken shale at Hart Energy's recent DUG Bakken and Niobrara convention in Denver. Source: Hart Energy

at the conference. The project is being put together in three phases to achieve this goal. The first phase is currently under construction and includes 80,000 barrels (bbl.) per day of capacity that is designed to receive, unload and have unit trains of up to 120 cars ready for departure within 12 hours. It will also include 200,000 bbl. of storage capacity for Philly light crude spec along with outgoing cargo barge-loading via two berths up to 34 feet of depth. This phase is expected to be in-service by the end of the year.

The second phase is currently under commercial development and will include about 160,000 bbl. per day of capacity via two-plus unit trains per day that are designed for a less than eight-hour turnaround per 120-car unit train. This phase will aim to at least double the storage capacity at the facility while segregating non-Philly light crude. This phase is expected to complete by late 2014.

Once the first two phases are completed, Eddystone Rail will evaluate further growth opportunities available for third-phase construction.

The Eddystone terminal will be able to utilize Enbridge's more than $14 billion in new crude pipeline expansions that are under way. These provide access to Eastern and Gulf Coast markets and include 355,000 bbl. per day of pipeline export capacity on the North Dakota pipeline system with an additional 120,000 bbl. per day of capacity out of the region by rail.

"Eddystone is the key to the Philadelphia refinery market. It is within six miles of about 700,000 bbl. per day of mostly light-sweet refining capacity," Johnson said.

Much of these volumes flowing out of the Bakken are being transported on BNSF Railway's system, which is the only rail system to touch each of the country's western shale plays, according to Teresa Perkins, the company's general director, petroleum.

READ THE FULL ARTICLE ONLINE

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Devon Energy To Form Midstream MLP

BUSINESS WIRE

Devon Energy Corp.'s board of directors approved a plan to form a publicly traded midstream master limited partnership (MLP) that will initially own a minority interest in Devon's U.S. midstream business, including natural gas gathering and processing assets in Texas, Oklahoma and Wyoming.

According to a company release, Devon expects the MLP to file a registration statement with the Securities and Exchange Commission in the third quarter of 2013.

Devon will own the general partner of the MLP, all of its incentive distribution rights and a majority of its common units following completion of the initial public offering. The company said it expects to utilize proceeds from the sale of MLP common units to fund its continuing operations.

ONEOK To Discontinue Energy Services Segment

ONEOK Inc. will discontinue its energy services segment through an accelerated wind-down process, releasing third-party natural gas transportation and storage contracts to interested parties, the company said in a release. The energy services segment is expected to be classified as discontinued operations, effective April 1, 2014.

ONEOK said it expects to record a non-cash, after-tax write down of approximately $75 million in the second quarter 2013, resulting from the release of contracts and to record additional non-cash, after-tax write downs of up to $25 million between July 1 and April 1, 2014., In addition to these one-time charges and as a result of the wind down, ONEOK energy services expects pre-tax operating losses of approximately $55 million in 2013 and approximately $15 million in 2014.

ONEOK's updated 2013 net income guidance now reflects the expected one-time charges and operating losses in the energy services segment, the release said. The updated income guidance is expected to be in the range of $235 million to $285 million, compared with its previously announced net income guidance range of $350 million to $400 million.

"Our decision to discontinue operating our energy services segment will reduce ONEOK's earnings risk profile over the long term, while removing any earnings uncertainty associated with this segment in the near term," ONEOK Chairman and Chief Executive John W. Gibson said in the release.

Enbridge Plans IPO Of Natural Gas, NGL Midstream MLP

Enbridge Energy Partners LP announced its intention to file a registration statement with respect to the initial public offering of Midcoast Energy Partners LP (MEP), a proposed master limited partnership (MLP), whose initial asset will consist of an approximate 40% ownership interest in Enbridge's existing natural gas and natural gas liquids (NGL) midstream business.

According to a company release, Enbridge will retain ownership of the general partner and all the incentive distribution rights in MEP, and Enbridge expects MEP will sell a minority of its total limited partner interests in the offering and raise gross equity proceeds of approximately $400 to $500 million.

The purpose of the offering is to:

- Enhance Enbridge's access to capital by providing an alternative source of funding for its liquids pipelines growth projects through the intended dropdown of its remaining ownership interests in the natural gas and NGL midstream business to MEP over the next four to five years;
- Lower Enbridge's costs by reducing its equity and debt capital requirements;
- Position Enbridge to accept future dropdowns of liquids pipeline assets from Enbridge Inc.;
- Enhance the strategic focus of both Enbridge and MEP by allowing Enbridge to focus on its crude oil midstream business and MEP to focus on its natural gas and NGL midstream business;
- Provide MEP direct access to the capital markets and enhance the ability of both partnerships to increase investment in their core businesses to enhance growth;
- Increase investor choice by providing two MLP investment vehicles, each with its own unique growth strategy, risk profile, capital structure and financial prospects; and
- Enhance the ability of each business to respond to opportunities from changing market dynamics as separate MLPs.

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Banks Shifting Away From Gas Storage

BY **JENNIFER GIAMBI** | ASSISTANT EDITOR, MIDSTREAM BUSINESS

Natural gas storage has been a hot commodity in the past but change is on the way for the storage business as increased production output and lower profits have dampened the spirits of commodities traders, according to the *Wall Street Journal*.

Twenty years ago gas prices were high, supply was short and price volatility turned gas storage into a lucrative investment for those looking to capitalize on a vulnerable market. But, there are signs that the appeal is waning, according to the report.

According to the latest storage data collected by the Federal Energy Regulatory Commission, the amount of financial firms leasing storage space dropped .8%, the first drop in 10 years, according to the report. The downturn is expected to continue as many leases are not expected to be renewed, which could cause even more price fluctuations.

Currently, there are more than 400 active, underground storage facilities in the Lower 48, and the effect storage has on market dynamics depends on the regions and subsequent markets they are being developed in, according to Bentek analysts at last month's Benposium conference. Historically, natural gas storage has played a pivotal role in the supply and demand fundamentals throughout the U.S. Supply in the U.S. has not always been so stable, but increased domestic onshore production has made obtaining gas easier and, due to a calm natural-gas market, price volatility has almost become a thing of the past, according to Bentek analyst Ryan Smith.

But it is not all bad news, said Smith. Financial institutions still lease a large amount of gas storage space—514 billion cubic feet —that is interconnected with pipelines, which can feed supply to still stranded markets.

"U.S. pipelines connect supply to demand, and that's always evolving as we're discovering new supply sources," he said. "Big decisions can be made on long-term or short-term market dynamics, and it's important to view them as different contracts. But, storage can still play an important role; it really does offer a balance for the market."

Summit Acquires MarkWest Marcellus Gathering Assets

BUSINESS WIRE

MarkWest Energy Partners LP and Summit Midstream Partners LP announced that Summit will acquire certain gas gathering assets from MarkWest in Doddridge County, West Virginia, for $210 million in cash. Rich-gas gathered by these assets is dedicated to MarkWest for processing at the Sherwood complex, also located in Doddridge County.

The assets included in this transaction consist of more than 40 miles of newly constructed, high-pressure gas-gathering pipelines, certain rights-of-way associated with the pipeline and two compressor stations totaling more than 21,000 horsepower of combined compression. The rich-gas gathering and compression system is supported by a long-term, fee-based contract with an affiliate of Antero Resources Corp., anchor producer at MarkWest's Sherwood processing complex.

In northern West Virginia, Antero has 14 drilling rigs currently in operation and has access to 400 million cubic feet (MMcf) per day of fully dedicated cryogenic processing capacity at the Sherwood complex. In order to support Antero's growing rich-gas production, MarkWest said in a company release it expects to install two additional plants at the Sherwood complex by mid-2014, bringing total processing capacity to 800 MMcf per day.

The proceeds from this transaction will provide MarkWest with additional financial flexibility to fund growth capital invest-

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ments associated with more than 18 previously announced major midstream infrastructure projects primarily in the Marcellus and Utica shales. By the end of 2014, MarkWest is expected to have more than 4 billion cubic feet per day of processing capacity and 275,000 barrels per day of fractionation capacity in the Utica and Marcellus shale plays.

Kinder Morgan Expands BOSTCO Terminal

BUSINESS WIRE

Kinder Morgan Energy Partners LP (KMP) announced a 900,000-barrel (bbl.) expansion at the 185-acre Battleground Oil Specialty Terminal Company LLC (BOSTCO) storage space, which is located on the Houston Ship Channel. The approximately $54-million expansion is supported by a long-term storage and handling contract with Morgan Stanley Capital Group Inc. and includes six 150,000-bbl. ultra low-sulfur diesel tanks, additional pipeline and deepwater vessel dock access and high-speed loading at 30,000 bbl. per hour. Construction on the expansion is scheduled to start in the second quarter of 2013.

A joint venture between KMP, which owns a 55% interest in the facility, and TransMontaigne Partners LP, the approximately $485-million BOSTCO oil terminal is expected to begin commercial operations in the third quarter of 2013. With the completion of this expansion the terminal will be fully subscribed for the total capacity of 7.1 million bbl. and will include the construction of 57 storage tanks to handle ultra low-sulfur diesel, residual fuels and other black oil terminal services.

Inergy Completes Tres Palacios Header Pipeline Extension

Inergy LP placed into service its Tres Palacios 20-mile header pipeline extension in Matagorda County, Texas. Shippers can now transport up to 300 million cubic feet (MMcf) per day of natural gas from the tailgate of Kinder Morgan Energy Partners LP's Houston Central gas processing plant in Colorado County, Texas, to the Tres Palacios gas storage facility in Markham, Texas. The 24-inch header pipeline extension also enables shippers to deliver natural gas from the Houston Central plant to any of the 10 interstate and intrastate pipelines interconnected with the Tres Palacios header system.

The Houston Central plant provides approximately 700 million cubic feet (MMcf) per day of processing capacity and 22,000 barrels per day of fractionation capacity and is being expanded to process an additional 400 to 800 MMcf per day of rich natural gas from the Eagle Ford Shale play.

The storage facility includes 38.4 billion cubic feet of Federal Energy Regulatory Commission-certificated working gas capacity and is situated near the Eagle Ford shale.

Union Pacific Invests In Transportation Infrastructure

Union Pacific Railroad is investing more than $20 million in the rail line between Chester, Missouri, and near Scott City, Missouri, to strengthen Illinois' and Missouri's transportation.

According to a company release, the project is funded without taxpayer dollars and is scheduled to be completed by early November.

Union Pacific will replace 39,400 railroad ties, install 11,100 tons of rock ballast, replace a half mile of rail in various curves and install almost 23 miles of new rail. In addition, crews will renew the surfaces at 62 road crossings.

Williams Brings Transco Expansion Into Service

Williams Partners' expansion of its Transco natural gas pipeline was completed and brought into service, providing an additional 225,000 dekatherms (dth) of incremental firm natural gas transportation capacity to growing markets in the southeast U.S.

The Mid-South Expansion project consists of approximately 23 miles of new pipeline, a new compressor facility in Dallas County, Alabama, and upgrades to existing compressor facilities in Alabama, Georgia, South Carolina and North Carolina.

The project provides service to power generators in North Carolina, Alabama and Georgia. The company recently placed into service the second phase of the expansion, at 130,000 dth per day.

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U.S. Production Overcomes Oil Imports Imbalance

BY **DARREN BARBEE** | HART ENERGY

Organization of the Petroleum Exporting Countries (OPEC) leaders tend to minimize the U.S. oil and gas shale revolution, but they may have reason to be more attentive after U.S. production eclipsed imports for the first time in 16 years.

U.S. domestic oil production last exceeded imports in the week of January 3, 1997, according to U.S. Energy Information Administration statistics.

OPEC nations such as Angola and Nigeria have seen a precipitous decline of exports to their best customer as shale takes over.

Though OPEC has generally downplayed U.S. shale success, the cartel will begin studying the U.S. shale boom, leaders said at a May 31 meeting in Vienna. Separately, Saudi Aramco said May 8 it is exploring its own unconventional resources.

Still, OPEC has had an almost dismissive tone toward U.S. shale oil and gas. In January, Abdalla S. El-Badri, OPEC secretary general, said shale drilling was in the "very early development stages" and "questions remain as to how sustainable this growth will be in the long term."

On May 31, at OPEC's Vienna conference, El-Badri said the United States has already seen a slowdown in shale gas drilling and that oil has an associated marginal cost.

"And, in addition, we need to be careful in estimating their potential," he said. "There have been reports that shale wells can drop off by as much as 60%-90% within the first year."

However, following the drop in natural gas prices, a shift to shale oil has been lucrative for many U.S. companies.

The Vienna meeting caught OPEC flat-footed for a robust discussion of the implications of the U.S. unconventional oil production at its Vienna meeting, particularly on OPEC policy and the potential for lost market share, said Jeff Dietert, managing director, head of research, Simmons & Co. International.

But growth in light sweet crude supply has a more direct impact on OPEC countries, such as Angola, Algeria, Libya and Nigeria, with light oil production typically exported to the U.S. market.

"While OPEC oil ministers continue to express comfort with $100 per barrel (bbl.) oil, and with the OPEC basket closing yesterday at $99.77 per barrel, OPEC maintained the current quota of 30 million bbl. per day – no surprises here," Dietert said. "That said the current 30 million bbl. per-day quota has no teeth because there are no individual country allocations within the quota."

Since the quota was established in January 2012, supplies are rising in Iraq (500 bbl. per day), Libya (440 bbl.) and Kuwait (250 bbl.).Sanction-impacted Iranian supply is down 800 bbl. per day and Saudi supply is down 500 bbl.

"Our view is that all nations, aside from Saudi Arabia, are essentially producing at max capacity anyway," Dietert said.

Still, it has been widely reported that OPEC is uneasy with the shale boom and will launch a study of it.

"It is a concern," Nigerian Petroleum Minister Diezani Alison-Madueke was quoted as saying by Bloomberg. The committee will consider the effect of shale oil on the global market for OPEC crude "in the not-too-distant future," she said.

Alison-Madueke said in May that U.S. shale oil has resulted in declining imports from countries such as Nigeria, according to the Nigerian National Petroleum Corp.

Angola and Nigeria, among other OPEC countries, hope to make up the slack in U.S. demand by shifting supply to China. Some estimates point to China alone adding 370 million additional vehicles by 2030. Currently, there are about 50 million vehicles in the country.

However, as of March 2013, OPEC countries have supplied the U.S. with 321,075 bbl. of oil, behind the single largest country to supply to the U.S.: Canada, with 295,000 bbl.

Nigeria will continue to earmark more of its oil exports for Asian destinations after losing its market share in the U.S. due to U.S. shale production.

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Crude oil imports from Nigeria declined by 246,000 bbl. per day in February to 194,000, according to the U.S. Energy Information Administration. That was the lowest level of imports from the country since 1985.

Angola, too, is looking to increase its oil production to 2 million bbl. per day after oil exports to the U.S. fell by 34% in 2012. Deliveries amounted to an average of 221,000, down from around 500,000 in 2006.

Angola Minister of Petroleum Eng José Maria Botelho de Vasconcelos said as oil exports to the U.S. decline, Angola will also increasingly look to boost its oil deliveries to China.

"There is a reduction in petroleum imports to the U.S.," he said, but "emerging markets like India and China have been growing, and they have absorbed a large part of Angolan exports."

New Energy Company Is Formally Launched

BY **SUSAN KLANN** | HART ENERGY

Century Midstream LLC, Houston, has been formed through a partnership between a veteran management team and private-equity provider First Reserve. Century will primarily focus on the development, acquisition and expansion of midstream assets across North America, with an emphasis on emerging liquids and liquids-rich shale plays. First Reserve will support Century with up to $500 million of equity capital to co-found the company.

Led by Joseph A. Blount Jr. as chief executive with John Howard as president and chief operating officer, the four principal members of Century's management team have more than a century of midstream experience across the value chain.

Blount and Howard are joined by Jim Avioli Jr. as senior vice president of business development and Brian Raber as senior vice president of engineering. Most recently, this team designed and implemented a comprehensive strategy and business plan for developing unregulated midstream assets within NiSource in underserved portions of the Marcellus and Utica shale plays, including the Pennant Midstream LLC partnership.

Prior to his role as president and chief operating officer of NiSource Midstream & Minerals Group, Blount was the president and chief operating officer of Genesis Energy LP, where he oversaw the diversification of the master limited partnership's asset portfolio and operations.

Freeport-McMoran Loses FERC Authorization

The U.S. Federal Energy Regulatory Commission (FERC) ruled that Freeport-McMoRan Energy can no longer construct a pipeline in Alabama after missing its previously agreed deadline, which would have extended to a longer offshore pipeline and brought liquefied natural gas (LNG) from an import terminal in the Gulf of Mexico.

This decision negates a 2006 FERC authorization for Freeport-McMoRan to build a 36-inch-diameter, five-mile pipeline in Mobile County, Alabama, to connect the company's proposed LNG import terminal to an interstate pipeline hub at Coden, Alabama.

The pipeline would have been the onshore portion of a 92-mile pipeline from a proposed 1-billion-cubic-feet-(Bcf)-per-day LNG import terminal 16 miles from Louisiana. The offshore facilities would have been overseen by the Maritime Administration and the Coast Guard.

The FERC order required Freeport-McMoRan to place the facilities in service by May 18, 2012.

EPA Inspector General Plans Methane Leak Investigation

The Environmental Protection Agency's (EPA) Inspector General (IG) plans to review data and interview EPA staff, environmental groups, industry associations and scientists to investigate what actions are being taken to reduce methane leaks from natural gas pipelines, according to the *Associated Press (AP)*.

In April, the EPA lowered its estimates of natural gas leaks but some scientists questioned the figures, the *AP* said, and a previous IG report found that unreliable estimates on air pollution from natural gas production hinder EPA efforts to police drilling operations.

The *AP* report said the issue is important because natural gas emits far less pollution than coal when burned, but those benefits can be offset by leaks of methane, which is a potent greenhouse gas.

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SNAPSHOT | Industry Insight

North American GTL Projects Could Help Balance Gas Markets

BY JENNIFER GIAMBI | ASSISTANT EDITOR, MIDSTREAM BUSINESS

Depressed natural gas prices have left large volumes of North American gas shut-in or undeveloped causing an increased differential between oil and gas prices, which is expected to become the norm until domestic-gas demand ticks up bringing balance to the market, according to analysts with Kline & Company.

According to *From Cracks to Crankshafts: How the shale gas boom is shifting natural gas conversion and lubricant base stock manufacturing*, a report produced by the management consulting firm, there are a number of market-balancing options that could help increase gas demand including liquefied natural gas (LNG) exports, gas-fired power plants, gas-based ammonia and methanol plants, as well as the creation of North American gas-to-liquids (GTL) plants.

"GTL plants are perhaps the most salient indicator of the changing North American gas paradigm. To date, these plants have been located exclusively where gas resources are large and low-cost (Qatar and Malaysia), or where reliance on domestic resources was paramount (South Africa and New Zealand) to ensure security of supply," the report said

But things are changing, and at press time there were two North American GTL proposals on the table, both led by Sasol. But, GTL plants, which require "a large and sustainable premium between oil and gas prices", are big-ticket items and costs can skyrocket to more than $19 billion upon completion. According to the report, Sasol's Gulf Coast project, which will produce 96,000 barrels (bbl.) per day, will begin production in 2017 and is expected to cost $115,000-130,000 a bbl. per day, and recent market prices, the report added, are not making it easy.

"With current Henry Hub gas prices hovering around $4 per million Btu, Sasol's plant would require sustainable oil-to-gas premiums of $70-85/per barrel over the cost of feedstock to support that investment. While current oil-to-gas premiums support that required differential, committing in excess of $10 billion to projects with input-to-output price differentials that are subject to high commodity basis risk certainly requires deep pockets, patience, and exceptional risk management skills."

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>
> —Kline & Company

But a shift in plant design, the report stated, can help reduce the high-capital costs of these projects all while adding cost-benefit advantages. Introducing paraffinic wax into the production equation can be beneficial due to the fact that "high quality (Group III) lubricant base stock demand is expected to grow at rate of 12% CAGR (compound annual growth rate) over the next 10 years" and it is relatively inexpensive, according to the report.

"The incremental cost of adding the necessary wax isomerization unit at the back end of the GTL fuels mega plant is relatively insignificant. Sasol's 96,000 bbl. per-day GTL project at Lake Charles, Louisiana, has an expected price tag of $11-$14 billion; adding a complete 16,000 bbl. per-day Class III+ base stocks production unit at an additional cost of $350-$400 million (including off sites) increases total Capex by only 3%, but provides operational flexibility to arbitrage base stock-to-distillate spreads in the market."

If GTL plants take hold in North America the technology could have an impact on "conventional refinery margins" and industry economics. But, as it stands, GTL plants remain limited to the Royal Dutch Shells (Shell has an ongoing GTL project in Qatar) and Sasols of the world.

"Where does that leave independents that don't have the resources to play in GTL? The growth in GTL base stocks supply will ensure that this product will emerge from the shadows of an internally-captive supply within Shell's system to one with a rapidly-growing merchant market where it will compete directly with conventional oil-based Group II and Group III base stocks."

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Continued from Page 1

ownership, others transfer partial ownership with no control and others transfer partial ownership with partial control. This variability complicates the antitrust review and requires careful attention in preparing for relevant transactions.

Parties involved in MLP transactions must pay particularly close attention to any overlapping ownership or control interests, even if the relevant interests are highly partial and relatively small. For example, between 2004 and 2007, Carlyle Riverstone, a private equity fund, maintained or acquired partial control and partial ownership of a number of MLPs and MLP sponsors. These included SemGroup LP, Magellan Midstream Partners LP and Kinder Morgan Inc. Though none of Carlyle Riverstone's interests endowed unilateral control or majority ownership, the interests led to significant government scrutiny of at least three transactions. Two of the transactions ultimately dissolved partly due to antitrust concerns raised by the Federal Trade Commission (FTC).

In 2004, for example, Carlyle Riverstone's interests in Magellan and SemGroup prompted significant antitrust scrutiny when Magellan tried to sell a recently acquired terminal to SemGroup. At the time, Carlyle Riverstone held a 50% share of Magellan's general partner, along with a small portion of Magellan's common units and a 30% share of SemGroup. The overlap raised eyebrows at the FTC and Magellan eventually abandoned the transaction in the face of mounting FTC concern.

History repeated itself in 2006, when SemGroup moved to acquire TransMontaigne Inc. The transaction again resulted in FTC scrutiny. TransMontaigne competed with Magellan in various markets, and the transaction would have placed formerly competitive assets under the common—though highly partial—control and ownership of Carlyle Riverstone. The FTC launched what would have been a lengthy investigation motivated again by Carlyle Riverstone's overlapping interests. SemGroup ultimately abandoned the transaction.

Later that year, Carlyle Riverstone participated in the $22 billion management-led buyout of Kinder Morgan Inc. (KMI). The transaction left Carlyle Riverstone with a 22.6% ownership interest in KMI, which competes with Magellan in various markets. Once again, the FTC focused an investigation on Carlyle Riverstone's overlapping ownership and control interests, this time in KMI and Magellan. Ultimately, the FTC required Carlyle Riverstone to abandon any control of Magellan, rendering its interest in the MLP entirely passive.

These three events provide insight into the federal government's evolving approach to reviewing MLP transactions. First, an overlap in controlling interests of competing MLPs will almost inevitably trigger substantial antitrust scrutiny; even if those interests are highly partial (Carlyle Riverstone only owned a 30% interest in SemGroup and obtained only a 22.6% interest in KMI). Second, the FTC appears less concerned with purely passive ownership interests than with controlling interests. Third, overlapping interests do not necessarily spell the end of a transaction if parties are willing to negotiate a divestiture or some other fix with the FTC (as Carlyle Riverstone did with the KMI transaction).

The transactions also raise significant questions. For example, is there a threshold below that partial controlling interests do not raise antitrust concerns? Carlyle Riverstone had to divest all controlling interests in Magellan, even though those interests did not endow Carlyle Riverstone with anything close to unilateral control—is any overlapping control too much? Is the level of allowable control related to the size of the ownership interest?

READ THE FULL ARTICLE ONLINE

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