HARTENERGY
MIDSTREAM Monitor
July 22, 2013 | Volume 31 | Issue 29

MLPs Outperforming Market In 2013

The sector is putting up larger gains than the S&P 500 year-to-date

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

It might not be a true indication that the U.S. economy is turning around, but the master limited partnership (MLP) market is definitely at its strongest level since the recession of 2008-2009. There aren't many "sure things" in stock market trading, but investors are embracing the steady dividends that MLPs provide.

We've all heard financial and investment advisers suggest buying bonds to obtain security for riskier investments, so more MLPs are beginning to make sense as the dividends provide security and the growth potential for many partnerships allows investors to further solidify the growth aspects of their portfolios.

MLPs have become increasingly attractive for many companies in the energy sector to spin them off to obtain the strong credit profiles and tax advantages that the business structure affords. Once considered something of a niche product, MLPs have gone mainstream in 2013.

The sector was negatively impacted in early June by the same headwinds that affected the overall stock markets with concerns about interest rates and the Chinese economy. However, the market improved in the second-half of the month—with the Wells Fargo

Solid | A total of $42 billion was invested in MLPs in June, according to Wells Fargo Securities.

Securities MLP Index experiencing a 3.2% improvement for the month—as the interest rate concerns abated and capital flowed into the sector as buyers used the min-sell off as a buying opportunity, according to Wells Fargo Securities' MLP Monthly for July.

The report added that approximately $42 billion was invested in MLPs by the close of June. This could continue to grow going forward as Wells Fargo Securities reported that pension funds and mutual fund complexes are expressing interest in MLP investments given their strong yield performance and

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HIGHLIGHTS FROM TODAY'S EDITION

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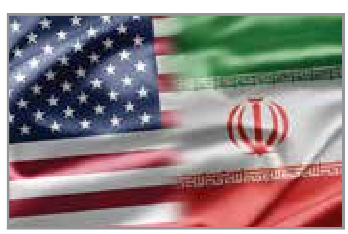

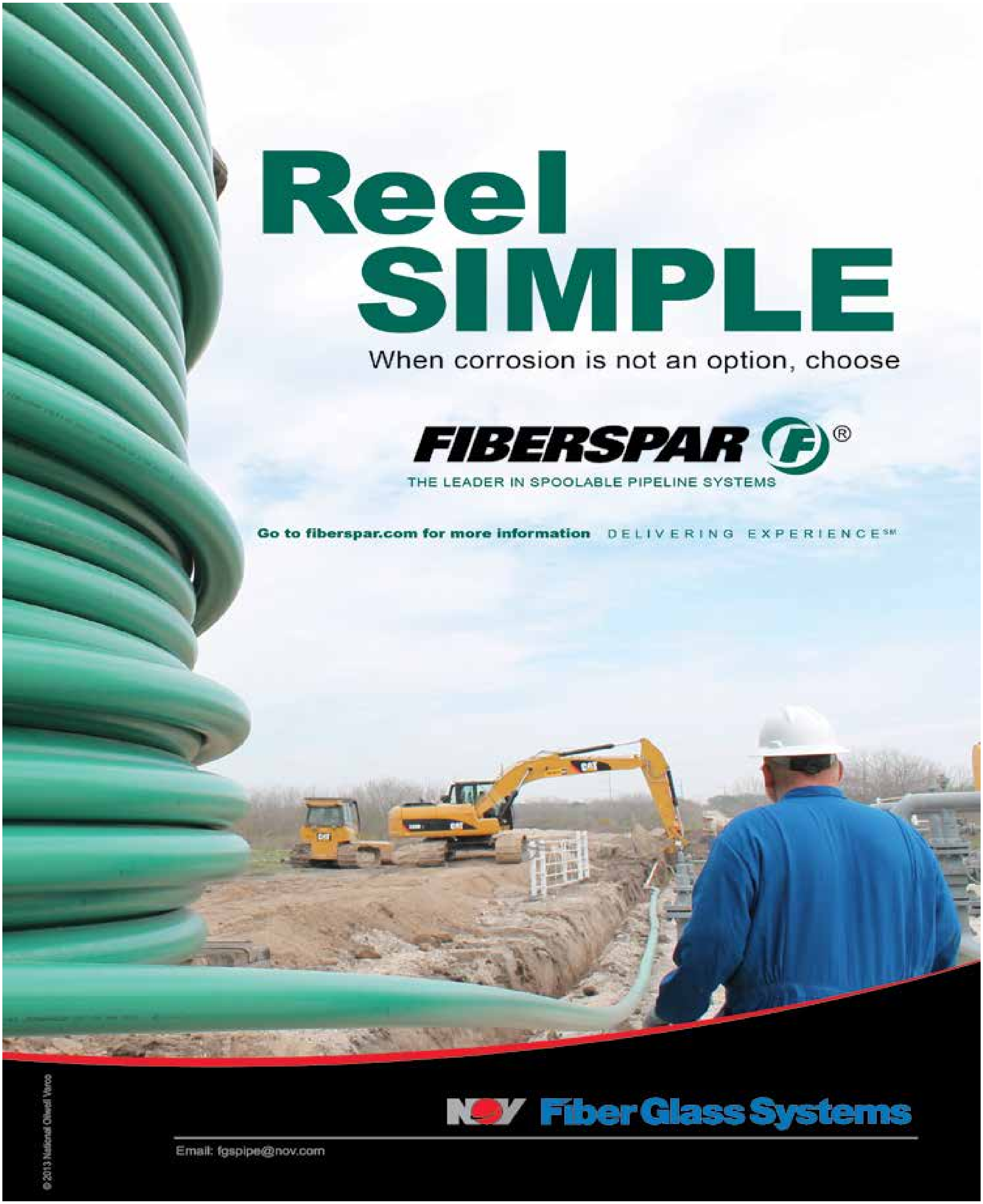
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NGL Prices Show Steady Improvement

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

Prices for natural gas liquids (NGL) were up the week of July 10 as West Texas Intermediate (WTI) crude prices remained above $100 per barrel (/bbl.). As we noted last week, it is likely that NGL prices will sustain their current levels rather than make significant gains.

This outlook was proven, at least for this week, as only Conway isobutane made significant gains. However, this isn't directly related to crude improvements, but instead related to limited alkylation capacity in the region as sources maintain that an isomerization unit is undergoing unplanned maintenance.

The theoretical NGL bbl. improved 3% in Mont Belvieu to $39.39/bbl. with a 6% gain in margin to $26.24/bbl. while the Conway price rose 4% to $38.54/bbl. with a 7% increase in margin to $25.46/bbl. Margins benefited from a downturn in natural gas prices at both hubs as they fell 2% to $3.60 per million Btu (/MMBtu) at Mont Belvieu and 1% to $3.58/MMBtu.

Although ethane margins remained firmly negative at Conway and only positive in the smallest of theoretical measures at Mont

CURRENT FRAC SPREAD (CENTS/GAL)

July 22, 2013	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	19.84		24.23	
Shrink	23.74		23.87	
Margin	-3.90	21.57%	0.36	381.93%
Propane	87.36		92.48	
Shrink	32.79		32.98	
Margin	54.57	6.93%	59.50	8.74%
Normal Butane	123.94		128.24	
Shrink	37.12		37.33	
Margin	86.82	7.90%	90.91	7.03%
Isobutane	152.13		130.92	
Shrink	35.66		35.86	
Margin	116.47	13.20%	95.06	5.72%
Pentane+	210.92		212.56	
Shrink	39.70		39.92	
Margin	171.22	3.73%	172.64	4.27%
NGL $/Bbl	38.54	4.12%	39.39	3.36%
Shrink	13.08		13.15	
Margin	25.46	7.19%	26.24	6.38%
Gas ($/mmBtu)	3.58	-1.38%	3.60	-2.17%
Gross Bbl Margin (in cents/gal)	57.36	7.40%	59.82	6.59%
Gross Bbl Margin (in cents/gal)				
Ethane	1.09	3.87%	1.33	-0.16%
Propane	3.03	3.65%	3.21	4.58%
Normal Butane	1.34	4.94%	1.39	4.18%
Isobutane	0.95	9.41%	0.81	3.44%
Pentane+	2.72	2.73%	2.74	2.99%
Total Barrel Value in $/mmbtu	9.13	4.16%	9.49	3.27%
Margin	5.55	8.07%	5.89	6.92%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
July 10 - 16, '13	24.23	92.48	128.24	130.92	212.56	$39.39
July 3 - 9, '13	24.27	88.43	123.10	126.57	206.38	$38.11
June 26 - July 2, '13	24.17	84.96	117.90	120.53	197.74	$36.66
June 19 - 25, '13	24.62	82.70	110.84	115.36	198.14	$35.98
June '13	24.81	86.20	116.29	117.82	201.62	$37.02
May '13	28.11	93.48	123.95	125.86	204.66	$39.21
2nd Qtr '13	27.12	91.38	124.01	127.46	204.12	$38.82
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
July 11 - 17, '12	31.58	87.36	129.82	145.64	184.88	$38.51
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
July 10 - 16, '13	19.84	87.36	123.94	152.13	210.92	$38.54
July 3 - 9, '13	19.10	84.28	118.10	139.05	205.32	$37.02
June 26 - July 2, '13	19.08	80.36	112.20	137.98	194.60	$35.48
June 19 - 25, '13	20.32	79.02	104.58	124.90	194.56	$34.77
June '13	18.83	81.18	109.78	124.94	196.00	$35.16
May '13	21.07	87.53	116.00	117.09	204.19	$36.95
2nd Qtr '13	20.71	85.37	116.50	123.91	204.86	$36.89
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
July 11 - 17, '12	6.52	57.06	100.18	142.00	181.68	$29.25

(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.

NGL PRICES & FRAC SPREAD | Week in Review

Belvieu, both margins experienced the largest improvements for the week. Though these improvements look strong in the statistical sense, in the financial sense they were minimal at best.

The price of Conway ethane improved 4% to 20¢ per gallon (/gal), which was only 1¢/gal greater than last's week price. This was the highest price seen at the hub since one month ago. The Mont Belvieu price had a slight fall to 24¢/gal—the same value it has had for the past three weeks.

Ethane prices will face an uphill battle in seeking price improvements for the remainder of the year as stock levels are increasing from planned and unplanned cracker outages. According to Energy En*Vantage Inc., at least 250,000 bbl. per day of ethane is being rejected out of 1.17 million bbl. per day of capacity this month. This figure excludes production out of the Marcellus and Utica shales as there is no solid transportation capacity out of the play to marketplaces at this time. However, this will change when Sunoco Logistics' Mariner West pipeline comes online later this month.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / July 18, 2013	
Gas Hub Name	Current Price
Carthage, TX	3.64
Katy Hub, TX	3.65
Waha Hub, TX	3.60
Henry Hub, LA	3.66
Perryville, LA	3.66
Houston Ship Channel	3.64
Agua Dulce, TX	3.59
Opal Hub, Wyo.	3.53
Blance Hub, NM	3.55
Cheyenne Hub, Wyo.	3.56
Chicago Hub	3.86
Ellisburg NE Hub	3.53
New York Hub	3.82
AECO, Alberta	2.80

Source: Bloomberg

As ethane continues to struggle for solid footing, propane prices appear to have turned the corner as demand levels are increasing from the European export market as well as from the petrochemical market.

There is still a supply overhang, but this is being worked off, and it is anticipated that propane storage levels will hit their five-year averages in the next three months. This outlook has resulted in solid gains at both hubs the last month. The Mont Belvieu price rose 5% to 93₵/gal, its highest level since the week of May 15 when it was 94₵/gal. The Conway price improved 4% to 87₵/gal, its highest level since it was 88₵/gal, which was also the week of May 15.

RESIN PRICES – MARKET UPDATE – JULY 19, 2013					
TOTAL OFFERS: 18,574,412 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Blow Mold	3,278,968	0.64	0.73	0.65	0.69
PP Copolymer - Inj	3,171,552	0.73	0.88	0.78	0.82
LDPE - Film	2,548,496	0.665	0.77	0.71	0.75
LLDPE - Film	2,126,828	0.66	0.75	0.66	0.7
PP Homopolymer - Inj	1,876,760	0.72	0.85	0.76	0.8
LDPE - Inj	1,865,496	0.66	0.75	0.68	0.72
HDPE - Inj	1,814,024	0.66	0.85	0.66	0.7
LLDPE - Inj	589,552	0.69	0.76	0.65	0.69
HIPS	570,000	1.015	1.025	0.98	1.03
GPPS	380,000	0.925	0.93	0.86	0.91
HMWPE - Film	352,736	0.75	0.76	0.7	0.74

Source: Plastics Exchange – www.theplasticsexchange.com

Heavy NGL prices rose at both hubs, but were largely unchanged from the same time last year due to a reduction in gasoline demand along with a growing disconnect between heavy NGL prices and crude oil prices.

The most profitable NGL to make at both hubs remained C_{5+} at $1.71/gal at Conway and $1.73/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.17/gal at Conway and 95¢/gal at Mont Belvieu; butane at 87¢/gal at Conway and 91¢/gal at Mont Belvieu; propane at 55¢/gal at Conway and 60¢/gal at Mont Belvieu; and ethane at negative 4¢/gal at Conway and nil at Mont Belvieu.

Lower natural gas prices are making natural gas more attractive for power plants with the capability to switch between coal and gas, as evidenced by natural gas storage levels increasing only 58 billion cubic feet. According to the most recent data available from the U.S. Energy Information Administration, storage levels rose to 2.745 trillion cubic feet (Tcf) the week of July 12, from 2.687 Tcf the previous week. This was due to increased cooling demand from much of the country, especially the Northeast, Midwest and Gulf Coast. This was 13% below the 3.159 Tcf reported last year at the same time and 1% below the five-year average of 2.779 Tcf.

Cooling demand is expected to decrease this week as the National Weather Service's forecast anticipates cooler-than-normal temperatures in the Northeast and Great Lakes regions. In addition, normal temperatures are expected in parts of the Midwest, Mid-Atlantic and Southeast. The forecast expects warmer-than-normal temperatures along the West Coast, Southwest and Gulf Coast.

Utica Report: Infrastructure Needed

BY **LARRY PRADO** | HART ENERGY

The western oil window of the play seems to have been abandoned by operators because they "haven't cracked the code," according to a Baird Equity Research Energy report. Yet, operators are still actively delineating the northern/southern extent of the play, and the Utica is still in the early stages of play development "with plenty more to learn about the economic potential."

"The jury is still out on the economic potential of the broader Utica with lack of production data, infrastructure and well results driving the uncertainty in our view," the report said.

The report, Deep Dive into the Utica: Finally a Play Ohio Fans Can Cheer For, also indicates that the play is very active at its core and that additional infrastructure and gas processing plants are in the works.

Planned gas processing plants probably won't be ready until late 2013, or more likely into 2015. Plans are on the drawing board for plants to be able to process an additional 5.9 billion cubic feet (Bcf) of incremental production in southwestern Pennsylvania and eastern Ohio. The total processing capability in the Appalachia area could be around 10 Bcf in 2015.

The report also notes that there is a backlog of wells that could be put on production. There may be as many wells waiting on pipelines as those that are producing. Most of the delays are related to gathering lines currently in place.

"Midstream build-out lends additional credence to economics of the play, although likely somewhat meant to support nearby Marcellus activity as well."

GROWTH | Processing capacity in Appalachia could reach 10 Bcf by 2015.

Phillips 66 Prices MLP IPO

Phillips 66 Partners LP (PSXP) announced the size and expected price range of its pending initial price offering (IPO). The company will offer 15 million common units at a price expected to fall between $19 and $21 per unit, implying gross proceeds of $285 million to $315 million, which is in-line with the initial S-1 size of $345 million including overallotment.

The IPO will represent a 20.9% limited partnership (LP) interest in PSXP, or 24% LP interest if underwriters exercise their options to purchase additional units, with the remainder and general partnership interests to be owned by Phillips 66.

Atlas Expands Further In Permian Basin

Atlas Pipeline Partners LP plans to construct a new 200-million-cubic-feet (MMcf)-per-day cryogenic processing plant to accommodate rapidly increasing Permian production. The Edward plant will have an initial capacity of 100 MMcf per day and is expected to be in service in the second half of 2014.

As production increases behind the system, placement of additional compression and refrigeration equipment to increase the plant's capacity to 200 MMcf per day will come in service as needed. Completion of the full facility will increase processing capacity at the WestTX system from 455 MMcf per day to 655 MMcf per day.

Atlas plans to spend an estimated $100-$120 million on both expansion phases of the Edward plant, with the majority of the plant capex being deployed in the 2013-2014 time period. Future capex will be deployed in the form of expected compression and well connection costs as needed to fully utilize the Edward plant's capacity.

Storage Builds As Gas Production Climbs In Marcellus, Utica

BY **DARREN BARBEE** | HART ENERGY

Production in the Marcellus shale is on the upswing as natural gas supplies move out of the play's long-standing log jam, likely upping U.S. stockpiles and lowering prices, said Goldman Sachs' commodity analyst Damien Courvalin.

Pipeline flows point to the Marcellus and Utica shales as key drivers to recent production growth in southwest Pennsylvania and West Virginia during the past few months, Courvalin said. The increase is likely due to new processing plants, since rig counts have not increased.

"With rig counts stable in the Marcellus, this growth in production is most likely driven by the addition of new processing plants that are allowing uncompleted wells to come online," Courvalin said.

> "While reduced switching demand can appear bearish in the near term, it is in fact a reflection of the structural tightening shift in the supply-demand balance and part of the path toward sustainably higher natural gas prices."
>
> —Damien Courvalin, Goldman Sachs' commodity analyst

Natural gas prices have likewise been pressured to the lowest levels since March after the U.S. Energy Information Administration (EIA) reported larger-than-expected storage numbers in mid-June, Courvalin said.

Year-to-date production growth has averaged a 500 million cubic feet (MMcf) per day increase from 2012, according to EIA data. At one point, prices fell to $3.57 million Btu -), before edging up again to $3.65.

Production growth has added to increases in storage, despite "recent realized and forecast weather being slightly hotter than average, offsetting the May/June weather implied cumulative storage surplus," Courvalin said.

"In our view, these higher than seasonal injection levels imply that coal-to-gas switching demand has continued to decline, likely below 2 billion cubic feet (Bcf) per day in June, closely tracking our expectation for lower coal-to-gas switching over the course of this year."

Coal-to-gas switching was a life preserver for natural gas in 2012. However, that switching has ebbed, which could signal that gas can "break free from pricing against coal," Courvalin said.

"While reduced switching demand can appear bearish in the near term, it is in fact a reflection of the structural tightening shift in the supply-demand balance and part of the path toward sustainably higher natural gas prices," he said. "The natural gas market will no longer need to rely as heavily on coal displacement to avoid breaching storage constraints."

Goldman Sachs expects production will now grow at about 250 MMcf per day in 2013, ending the summer with 3.775 trillion cubic feet (Tcf) of stored gas, about 100 Bcf above the firm's previous forecasts. Ultimately, that could prompt 2013 coal-to-gas switching to increase 150 MMcf per day.

However, a dip in coal price led Courvalin to lower natural gas price forecasts for the rest of 2013. Prices are still expected to reach $4.25 in 2014.

Goldman Sachs still holds that sustained $4.25-4.50 natural gas prices will make dry gas drilling outside of the Marcellus active again. A $4.25 price in 2014 could bring back rigs and keep the market balanced given the ongoing structural demand growth, driven by increasing exports to Mexico and regulation-induced shutdowns of coal-fired power plants, Courvalin said.

"We would argue that the price required for an actual pickup in drilling activity could be even higher as most producers remain focused on liquids-rich opportunities," he said.

Iran LNG Dreams Vanish As U.S. Shale Gas Looms

BLOOMBERG

Iran's ambition to exploit the world's biggest natural gas reserves, stymied for years by U.S. sanctions, faces an even sterner test as rising global output and the North American shale boom threaten to erode prices.

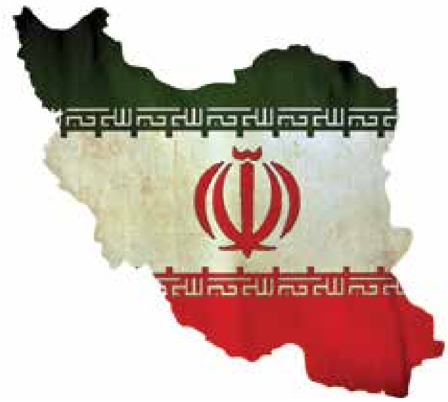
The Persian Gulf state would need a decade to build planned export capacity of at least 40 million metric tons a year of liquefied natural gas (LNG) even if unfettered by economic curbs over its nuclear program, say analysts including Tony Regan at Singapore-based Tri- Zen International Pte. A surge in U.S., Canadian and Australian gas from shale deposits may depress prices for new LNG projects by 35%, according to Barclays Plc. and Royal Bank of Canada (RBC), reducing Iran's potential profit from selling the fuel.

The U.S. and European Union already restrict Iran's largest revenue source, crude exports and the financial industry that enables payments for them. The constraints have cut Iranian crude sales by half since 2011, the International Energy Agency said, and are stifling projects to export some of Iran's 1,187 trillion cubic feet of gas reserves, about 18% of the global total, as LNG. Iran's President-elect Hassan Rohani recently said that he'll seek a gradual removal of sanctions.

"Iran has missed the boat," said Regan, an energy consultant at Tri-Zen, which has worked with BP Plc and OAO Lukoil, according to its website. "They should have slotted in nicely between Qatar's projects and the new Australian ones and before anyone was talking about U.S. exports." Sanctions have driven away partners with the know-how Iran needs to develop LNG, he told Bloomberg. "In addition to a lack of technology, they lack the funds."

Sanctions bite

U.S. sanctions targeting energy investment in Iran since 1996 have narrowed the Gulf nation's options for converting its gas resources into cash. Partners such as Royal Dutch Shell Plc, Repsol SA and Total SA abandoned plans for LNG ventures there, depriving Iran of the buyers as well as the money and expertise needed to make and sell the fuel. Iran denies allegations it may be developing nuclear weapons, saying its atomic program is for civilian use.



FUTURE UNCERTAIN | Unconventional production threatens to depress LNG prices, which will hinder Iran's potential sales profits.

> "Energy should not be politicized. Energy in Iran should benefit all countries."
>
> —Rostam Qasemi, Iran's Oil Minister

"Energy should not be politicized," Iran's Oil Minister Rostam Qasemi said in a speech in Frankfurt. "Energy in Iran should benefit all countries."

Should Rohani succeed in loosening the restrictions and Iran does develop an LNG industry, it would enter a crowded market for the gas chilled to a liquid for shipment by specialized tankers. LNG plants under construction worldwide will boost total export capacity by 32% by 2018, data compiled by Bloomberg Industries show.

More capacity

The U.S. and Canada together may add as much as 77 million tons of capacity by 2020, an amount equal to the entire output of Qatar, the world's biggest producer, according to Barclays and RBC.

"Australia is set to eclipse Qatar as the world's leading supplier of LNG," RBC analysts led by Greg Pardy said in a May report.

The wave of new projects will probably drive down prices, enabling North American producers to supply Asia for as little as $11 per million Btu by 2015, compared with long-term contracts linked to crude that are now at about $17 per million Btu, Shiyang Wang, a New York-based energy analyst at Barclays, told Bloomberg.

Spot prices for LNG in Asia, the largest market for liquefied gas, were at $15.60 per million Btu as of July 8, according to the Energy Intelligence Group. They averaged $16.12 in the last six months.

High Costs

While shale gas from the U.S. may affect the future supply and price of the fuel, the impact "should not be exaggerated," Qasemi said. In addition, other countries may not be able to employ the technologies needed to extract gas from shale, he said.

Iran and the other 12 members of the Gas Exporting Countries Forum said in a June 28 statement that U.S. exports of LNG would struggle to compete in Europe and Asia. The group, which supplied almost two-thirds of the world's LNG last year, cited the high costs of building liquefaction plants and transporting the fuel.

Falling prices could prevent Iran from matching the success of neighboring Qatar, with which it shares the biggest undersea gas field. Qatar's expansion over two decades into the largest LNG exporter has made it the world's richest state, while Iran, with 34% more gas than Qatar, is a net importer of the fuel, according to data from BP. Qatar's per capita income was $102,769 last year, almost eight times Iran's average of $13,104, according to the International Monetary Fund.

READ THE FULL ARTICLE ONLINE

EQT Midstream To Acquire Sunrise Pipeline

BUSINESS WIRE

EQT Midstream Partners LP agreed to acquire EQT Corp.'s wholly owned subsidiary Sunrise Pipeline LLC for $507.5 million cash and $32.5 million of common and general partners units. EQT Midstream also agreed to pay additional consideration of $110 million to EQT upon the effectiveness of a new transportation agreement with a third party. The partnership announced a 40¢ cash distribution per unit for the second-quarter of 2013, which represents an 8% increase over the first-quarter of 2013.

Sunrise's assets consist of 41.5 miles of 24-inch pipeline that parallels and interconnects with the segment of the partnership's transmission and storage system from Wetzel County, West Virginia to Greene County, Pennsylvania; the Jefferson compressor station in Greene County; and an interconnect with the Texas Eastern pipeline in Greene County.

The pipeline has existing throughput capacity of approximately 391 million cubic feet (MMcf) per day. EQT's marketing affiliate EQT Energy LLC entered into a firm contract for 298 MMcf per day of capacity, and 92 MMcf per day of capacity has been contracted with third parties. These contracts provide $44.3 million in annual firm reservation revenue and up to $700,000 of annual firm usage revenue.

Sunrise is currently expanding its Jefferson compressor station, which will provide approximately 538 MMcf per day of additional capacity. The partnership will invest $30 million for the expansion, which is fully subscribed and expected to be in service by September 2014. EQT Energy has entered into a precedent agreement for approximately 288 MMcf per day of firm capacity over a 10-year term, commencing on the date the expansion is placed in service, which results in $26.9 million of annual firm reservation revenue.

Sunrise also entered into a precedent agreement with a third party, over a 20-year term, for firm transportation capacity related to the Jefferson expansion. The precedent agreement is for approximately 246 MMcf per day of firm transportation capacity from November 1 through March 31 of each year and 61 MMcf per day of firm transportation capacity from April 1 through October 31 of each year. The agreement is expected to commence April 1, 2014, and result in $13 million of annual firm reservation revenue and up to $1 million of annual firm usage revenue. If a transportation agreement becomes effective under the terms of the precedent agreement by December 31, 2014, the partnership will make a payment of $110 million to EQT as additional consideration.

The partnership currently operates the Sunrise assets as part of its transmission and storage system under a lease agreement with EQT. Effective with the close of the Sunrise transaction, the lease agreement will terminate.

Upon completion of the Jefferson expansion, revenues generated under contracts are expected to be approximately $84 million annually. Revenues generated by firm usage could add up to $1.7 million annually, based on the terms of the previously described contracts. According to a company release, the partnership expects ongoing operating expenses for the Sunrise assets, excluding depreciation and amortization, to be approximately $5 million to $7 million per year.

Columbia Gas Launches $2.7MM Pipeline Improvement Project

Columbia Gas of Pennsylvania, Inc. launched a $2.7 million pipeline improvement project in Mount Lebanon, Pennsylvania.

According to a company release, Columbia Gas will replace more than 9,300 feet of existing steel pipe by the end of the year.

Veteran Management Team Forms Isis Energy

Isis Energy LLC, a new midstream company focused on the transportation, storage and distribution of crude oil and related products, announced a $150-million commitment from EnCap Flatrock Midstream. Isis will use the capital to provide logistics and infrastructure for moving, storing and blending low-gravity crude and other products including residual fuel oil, asphalt and reclaimed products. Isis will provide rail and waterborne solutions in the U.S. and Canada.

The new company is led by Isis President A.J. Brass, who has been involved in the refining, transportation, marketing and distribution of crude and petroleum products for more than 20 years, most recently as president of Gulf Coast Asphalt Co. LLC (GCAC).

In addition, Brass will be joined by chief financial officer Jason Goldstein, vice president Joe Mattingly Jr., vice president Kenny Hucker and vice president and general counsel Dave Hubenak. Mattingly, Brass and Hucker worked together at GCAC in various roles for the past 15 years. Goldstein joined GCAC in 2010 as partner, and Hubenak joined GCAC in 2012 from Tesco Corp., where he served as deputy general counsel.

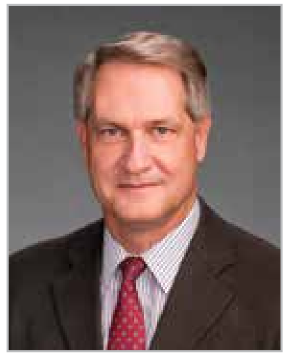
Fluor Secures Sasol FEED Contract

Fluor Corp. secured a front-end engineering and design (FEED) contract for Sasol's ethane cracker and associated derivative chemicals facility at its Lake Charles Chemical Complex in Louisiana.

Fluor will book approximately $120 million for the FEED contract into backlog in the second quarter. FEED work is under way and is expected to be completed later this year.

The new ethane cracker and associated facilities will allow Sasol to expand its business in the U.S. Project start-up and completion is forecast in 2017 with the expected production of 1.5 million tons of ethylene per year with downstream derivative plants.

SEC Energy Names New President



Tommy Stone, president, SEC Energy
(Courtesy: SEC Energy)

SEC Energy Products & Services named Tommy Stone as the company's new president. Stone brings more than 30 years of experience in the natural gas industry to the position.

Stone will oversee the expansion of SEC's facilities and services, which is expected to double production capabilities and workforce by 2014.

Most recently, Stone served as senior vice president of operations for Energy Transfer Partners and chairman of the board of directors of oil and gas producer Citrus Corp.

Gibson Expands At EdmontonTerminal

Gibson Energy Inc. signed a long-term contract with Statoil Canada Ltd. to build infrastructure at the company's Edmonton, Alberta, terminal.

"This development will be located on the western side of our Edmonton terminal and is the first step in capitalizing on our 45 acres of undeveloped land," Stewart Hanlon, Gibson's president and chief executive, said in a release. "With this new infrastructure in place, our Edmonton location will emulate the business model of our Hardisty Terminal providing merchant storage, flexible delivery options and pipeline connectivity to our customers."

As a result of the contract, Gibson will construct pipeline and connection infrastructure to multiple pipelines in the Edmonton area, a new rail loading track and a 300,000-barrel crude oil storage tank. The expected in-service date for the new facilities is in the first half of 2015.

Report: Era of Cheap Gas To End

BY **JACK PECKHAM** | HART ENERGY

A new report by Wall Street energy-market analyst Sanford Bernstein & Co. finds that natural gas prices in Asia will double in the next couple of years—with global knock-on effects—thanks to new, oil-linked natural gas pricing policies announced by governments in India and China, two of the world's biggest, fastest-growing, gas-consuming countries.

The Bernstein report throws cold water on recent, popular notions that world natural gas prices are "decoupling" from oil prices. In fact, just the opposite is happening, according to the new Bernstein report, The Era of Cheap Gas Ends.

What's more, the new China/India pricing policies inevitably will stimulate more exports of liquefied natural gas (LNG) from North America—hence spiking U.S. natural gas prices in the future and further undercutting the "cheap gas forever" claims of U.S. gas industry proponents pushing conversions of diesel engines to LNG or compressed natural gas (CNG).

"The changes announced in the way in which oil and gas prices are set has enormous implications for the energy industry in both countries [China and India]," according to Bernstein.

"Although gas production growth has been impressive in China, India and much of Southeast Asia over the past 10 years, the problem has been the tendency for governments to regulate gas prices at low levels, making natural gas the sideshow to oil.

"While this has been good for gas consumers and downstream distribution companies alike who have enjoyed high margins and strong growth, it has been less good for upstream producers who have enjoyed marginal returns from gas at best.

"This has created a number of problems for the nascent gas industry.

"Firstly, low domestic gas prices have meant that domestic supply has not kept pace with demand, as producers have been unable to commercialize gas resources at price levels set by governments.

"In India for example, Reliance Industries has more than 20 offshore gas discoveries, which remain undeveloped because of artificially low-pricing policies.

Flame Out? | Gas prices might rise as India and China link gas prices to oil indexes.

"In China, which has the largest reserves of shale gas and tight gas outside of the U.S., development continues to be painfully slow given the weak gas price environment.

"The second problem is that as demand growth outpaces domestic supply, gas imports into China and India have surged.

"As a result, companies such as PetroChina are hemorrhaging cash subsidizing imports, which would be better spent expanding domestic gas supply. Last year, PetroChina incurred losses of more than $5 billion importing LNG and pipeline gas at international prices and selling at a loss.

"As governments across the Asia-Pacific region are now finding out, if they want to have a sustainable gas industry, [then] gas prices need to move higher.

"In China, NDRC [the National Development and Reform Commission] announced that all new (incremental) gas is to be set according to a formula, which will see gas prices directly linked to LPG and fuel oil prices.

"This will effectively result in gas prices for major cities reaching RMB3.3 per cubic meter or $15 per 1,000 standard cubic feet across the eastern seaboard of China. The price will be similar to that of an LNG contract price, resulting international gas pricing for the first time.

"While existing (base) gas will remain at a discount to the formula, by 2015, all gas prices will be based on the new oil linked pricing formula according to the timetable set out by the NDRC.

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LEAD STORY | From The Front

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solid fundamentals as oil and natural gas liquid (NGL) midstream infrastructure continues to be built out.

The investment firm predicts the MLP sector to experience an 8% increase for the next 12 months due to these fundamentals. Thus far, the market has outperformed the S&P 500 on a year-to-date basis by a large margin as MLPs generated total returns of 22.5% compared to the S&P 500 at 12.6%.

"We believe MLP valuations should improve relative to history and converge with those of REITs (real estate investment trusts) and utilities over time as the sector's liquidity and market cap increase and MLPs gain broader acceptance among institutional investors. Consequently, we would expect MLPs to trade at a premium to historical valuation levels on a 'normalized' basis."

Due to federal regulations that require the partnership to receive at least 90% of its revenues from "qualifying sources," MLPs have generally been a vehicle largely utilized by the energy industry, especially in the midstream. These sources are largely natural-resource activities but can also include income gained from real estate sales and rent.

While companies involved in real estate would normally utilize REITs, several companies obtaining capital from real estate have selected the MLP structure. Notably, funeral home and cemetery corporation Stonmor Partners and amusement park operator Cedar Fair Partners are MLPs outside of the traditional structure focused on real estate as their qualifying incomes.

Though they have both found success, it is likely that the real growth for MLPs will continue to be found in energy. The sector, in fact, could see the addition of alternative and renewable energy companies if the MLP Parity Act (HR 1696) is passed.

Representative Ted Poe (R-TX) and Senator Chris Coons (D-DE) introduced the act in May to help this still-fledgling industry secure a lower cost of capital that is available to MLPs. By altering the qualifying sources to include renewable energy sources such as wind, solar, hydro, fuel cells, geothermal, biomass and municipal solid waste, it will also help secure necessary funding for large-scale alternative- and renewable-energy projects.

It is unclear if, or when, Congress will vote on the bill, and there are questions regarding what sort of impact it would have on the MLP market should be it be passed. It is difficult to imagine investors turning their backs on the sound economics and strong returns posted by midstream and upstream MLPs in favor of a still uncertain renewables market. It is more likely investors would use MLPs involved in the renewables industry to diversify their holdings. Additionally, companies with alternative and renewable energy assets would likely spin these off into new MLPs to take advantage of improved costs of capital.

Even without alternative and renewables entering the picture, the MLP sector is growing. Thus far in 2013, seven MLPs have completed initial public offerings (IPOs): CVR Refining, Emerge Energy Services, KNOT Offshore Partners, New Source Energy Partners, SunCoke Energy Partners, Tallgrass Energy Partners and USA Compression Partners. Additionally, Phillips 66 Partners priced its IPO this week (see story in this issue), and there are five more companies that filed their S-1 forms for IPOs.

According to Wells Fargo Securities, MLPs are increasingly turning to at-the-market (ATM) equity- distribution agreements to raise larger sums of capital for certain projects. These equity offerings are in addition to the more traditional secondary offerings and private-investment-in-public-equity offerings.

Kinder Morgan was the first MLP to utilize an ATM program as part of its corporate strategy. There are now 21 MLPs with such programs that raised $1.5 billion in capital in 2012,nearly half of the total funds these programs have raised since their inception in January 2009. Wells Fargo Securities anticipates MLPs to raise a total of $2.6 billion through ATMs in 2013. As large as this figure is, it will only represent about 8.5% of the investment firm's forecasted total of $30.6 billion that MLPs will raise in 2013 through equity issuances.

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