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TransCanada Thinking Big With Two Major Projects Planned

Announces $12B Energy East Project, still hopeful on Keystone XL

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

You would be hard-pressed to get any U.S. or Canadian citizen to name a single other midstream project besides the Keystone XL Pipeline under development, but that doesn't make the project the be-all/end-all of TransCanada Corp.'s business strategy and operations.

The strength of TransCanada is that despite tremendous delays in securing an approval decision on the project from the U.S. government, the company continues to perform strongly.

Indeed, on August 1 the company announced it was proceeding with a project that is larger and more expensive than the Keystone XL. The 2,700-mile Energy East Pipeline will move up to 1.1 million barrels (bbl.) per day of crude oil from western Canada to eastern Canadian refineries and export terminals. The project is expected to cost $12 billion and will convert a 1,864-mile portion of the natural gas pipeline capacity on the company's Canadian Mainline pipeline as well as construct 870 miles of new pipe.

Large-Scale | TransCanads's two multibillion-dollar pipeline projects are necessary for the continued success of the North American oil industry, according to the company's president, Russ Girling. (Courtesy: TransCanada Corp.)

Crude will be transported from Alberta and Saskatchewan to delivery points in Montreal and Quebec City and terminate at Canaport in Saint John, New Brunswick. The Canaport terminal will also house a new deepwater marine terminal that TransCanada is partnering on with Irving Oil. Russ Girling, TransCanada's president and chief executive, stated that marine access would allow Canadian producers to sell crude to more lucrative Asian

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NGL PRICES & FRAC SPREAD | Week in Review

WTI/Brent Spreading Impacting Bakken Rail Shipments

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

Natural gas and natural gas liquid (NGL) prices took a slight step back this week at both Mont Belvieu and Conway as they moved in the opposite direction of West Texas Intermediate (WTI) crude prices, which remained above $100 per barrel (/bbl.).

The rail industry is being negatively impacted by these prices as some East Coast refiners are finding it more economical to import North Sea and West African crude at the expense of Bakken crude being transported by rail. As of press time, the spread between WTI and Brent crude is $3/bbl., which is small enough that the extra costs associated with rail transport is driving this domestic production out. It is also likely that as the spread between WTI and Brent narrows, WTI prices will fall and provide stronger economics for refiners to use Bakken crude shipped by rail.

While crude prices have benefited from geopolitical events in the Middle East along with backwardation that has caused Cushing inventory levels to quickly be worked off, it is anticipated that this will be a short-lived scenario. Refiners will be reducing their crude runs in the fall for normal maintenance, which is likely to see inventory levels creep back up.

CURRENT FRAC SPREAD (CENTS/GAL)

August 5, 2013	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	22.48		25.37	
Shrink	22.41		22.61	
Margin	0.07	102.41%	2.76	419.51%
Propane	87.70		92.76	
Shrink	30.96		31.24	
Margin	56.74	-1.44%	61.52	0.09%
Normal Butane	125.54		127.48	
Shrink	35.05		35.36	
Margin	90.49	0.66%	92.12	0.66%
Isobutane	158.08		131.68	
Shrink	33.66		33.96	
Margin	124.42	2.90%	97.72	-0.11%
Pentane+	207.34		209.32	
Shrink	37.48		37.82	
Margin	169.86	0.68%	171.50	-0.84%
NGL $/Bbl	39.01	-0.86%	39.36	-1.78%
Shrink	12.35		12.46	
Margin	26.67	2.20%	26.91	1.03%
Gas ($/mmBtu)	3.38	-6.89%	3.41	-7.34%
Gross Bbl Margin (in cents/gal)	60.21	2.17%	61.47	1.12%
Gross Bbl Margin (in cents/gal)				
Ethane	1.24	6.34%	1.40	1.76%
Propane	3.04	-3.44%	3.22	-2.54%
Normal Butane	1.36	-1.57%	1.38	-1.70%
Isobutane	0.98	0.65%	0.82	-2.08%
Pentane+	2.67	-0.78%	2.70	-2.08%
Total Barrel Value in $/mmbtu	9.30	-0.75%	9.51	-1.64%
Margin	5.92	3.13%	6.10	1.86%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
July 24 - 30, '13	25.37	92.76	127.48	131.68	209.32	$39.36
July 17 - 23, '13	24.93	95.18	129.68	134.48	213.77	$40.08
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 '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 25 - 31, '12	36.48	88.98	134.88	161.02	189.92	$40.48
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
July 24 - 30, '13	22.48	87.70	125.54	158.08	207.34	$39.01
July 17 - 23, '13	21.14	90.82	127.54	157.06	208.96	$39.35
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 '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 25 - 31, '12	13.76	58.80	110.10	150.63	187.58	$31.80

(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

Natural gas prices are already facing headwinds as summer temperatures are hitting normal levels in much of the country, which is decreasing cooling demand significantly. Prices fell 7% last week at both hubs with the Mont Belvieu dropping to $3.41 per million Btu (/MMBtu) and the Conway price dropping to $3.38/MMBtu.

The future for gas prices isn't expected to markedly improve either. "Many investors see more pressure ahead for futures prices, with stockpiles comfortable, production still flowing at or near a record high and no extreme heat on the horizon to boost demand," according to Hart Energy's daily Commodities Report for August 1.

The good news for the NGL market is that the light side of the barrel continues to show improvements at both hubs as propane prices remain near their highs for the year thanks to increased liquefied petroleum gas (LPG) export capacity and demand.

While the price fell at both hubs, there was a tremendous amount of volatility this week, especially at Mont Belvieu, for propane. Prices fell 3% at both hubs with Mont Belvieu down to 93¢ per gallon (/gal) and the Conway price down to 88¢/gal. Both prices were the second-largest in the past 10 weeks at their respective hubs.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / August 1, 2013	
Gas Hub Name	Current Price
Carthage, TX	3.35
Katy Hub, TX	3.39
Waha Hub, TX	3.36
Henry Hub, LA	3.44
Perryville, LA	3.37
Houston Ship Channel	3.40
Agua Dulce, TX	3.59
Opal Hub, Wyo.	3.31
Blance Hub, NM	3.35
Cheyenne Hub, Wyo.	3.33
Chicago Hub	3.48
Ellisburg NE Hub	3.38
New York Hub	3.28
AECO, Alberta	2.61

Source: Bloomberg

Ethane was the lone NGL to experience a price improvement at both hubs as they appear to have hit the floor in the past few weeks and are now rebounding. The Mont Belvieu price rose 2% to 25¢/gal, its highest level in nearly two months. The Conway price increased 6% to 23¢/gal, its highest price since the week of April 3 when it was 25¢/gal. The Midcontinent price increase, combined with the downturn in gas prices, resulted in the frac spread margin turning theoretically positive by the slimmest of margins for the first time in nearly two months.

The only other NGL to experience a price improvement at either hub was Conway isobutane, which rose 1% to $1.58/gal, due to an unplanned outage of ONEOK Inc.'s isomerization unit in the region. This outage has kept the Conway price above the Mont Belvieu price for the past seven weeks. The Mont Belvieu price, which has been negatively impacted by refiners focusing on summer-grade gasoline, fell 2% to $1.32/gal.

RESIN PRICES – MARKET UPDATE – AUGUST 2, 2013					
TOTAL OFFERS: 14,375,856 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Blow Mold	3,191,140	0.63	0.73	0.64	0.68
LLDPE - Film	2,941,380	0.66	0.74	0.64	0.68
PP Copolymer - Inj	1,817,460	0.73	0.88	0.78	0.82
HDPE - Inj	1,611,380	0.675	0.71	0.66	0.7
LDPE - Film	1,310,000	0.67	0.84	0.72	0.76
PP Homopolymer - Inj	893,104	0.73	0.85	0.76	0.8
LDPE - Inj	807,288	0.72	0.75	0.68	0.72
HIPS	570,000	1.015	1.025	0.98	1.03
LLDPE - Inj	501,368	0.69	0.75	0.65	0.69
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

These prices resulted in the theoretical NGL barrel price falling 2% to $39.36/bbl. with a 1% gain in margin to $26.91/bbl. at Mont Belvieu. The Conway price fell 1% to $39.01/bbl. with a 2% gain in margin to $26.67/bbl. as prices are increasingly trading at a near equal value of late.

The most profitable NGL to make at both hubs remained C_{5+} at $1.72/gal at Mont Belvieu and $1.70/gal at Conway. This was followed, in order, by isobutane at 98¢/gal at Mont Belvieu and $1.24/gal at Conway; butane at 92¢/gal at Mont Belvieu and 91¢/gal at Conway; propane at 62¢/gal at Mont Belvieu and 57¢/gal at Conway; and ethane at 3¢/gal at Mont Belvieu and nil at Conway.

While cooling demand trailed off this week, it had been high enough this summer that storage injections were below normal levels. According to the U.S. Energy Information Administration's most recent data available, storage levels rose by 59 billion cubic feet to 2.845 trillion cubic feet (Tcf) the week of July 26 from 2.786 Tcf the previous week. This was 12% below the storage level of 3.213 Tcf posted last year at the same time and 1% below the five-year average of 2.879 Tcf.

The National Weather Service's forecast for this week anticipates cooler-than-normal temperatures in the Northeast and Midwest, which should significantly lower cooling demand and increase storage injections.

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Keyera, Kinder Morgan To Build Crude Rail Loading Terminal

BUSINESS WIRE

Keyera Corp. and Kinder Morgan Energy Partners LP announced a 50/50 joint venture to build a crude oil rail-loading facility in Edmonton, Alberta, called the Alberta Crude Terminal. When complete, the Alberta Crude Terminal will be able to accept crude oil streams handled at Kinder Morgan's Edmonton Terminal for loading and delivery via rail to refineries anywhere in North America.

The terminal will be constructed next to Keyera's Alberta Diluent Terminal on land recently acquired by a Keyera subsidiary. The Alberta Crude Terminal, which will be operated by Keyera, will have 20 loading spots capable of loading approximately 40,000 barrels (bbl.) per day of crude oil into tank cars and will be served by both Canadian National Railway and Canadian Pacific Railway.

In addition to the construction of the Alberta Crude Terminal, Kinder Morgan and Keyera are independently planning modifications to their respective facilities in the Edmonton area to facilitate delivery of crude oil to the Alberta Crude Terminal.

Kinder Morgan is proposing to construct a 16-inch pipeline to connect its North 40 Edmonton Terminal to Keyera's Edmonton Terminal. Keyera plans to construct a new 16-inch crude oil pipeline across its Edmonton Terminal to join to the existing Alberta Diluent Terminal connector pipeline and install additional pumping capacity. In conjunction with this project, Keyera is also proposing to construct a new 12-inch condensate pipeline connecting the Alberta Diluent Terminal to the company's Fort Saskatchewan Pipeline System.

Engineering work is under way on these initiatives, and commissioning of the new terminal is targeted for the second quarter of 2014. Keyera's share of the cost of the Alberta Crude Terminal, as well as the land purchase, pipeline construction and other facility modifications, is expected to be approximately $65 million. Kinder Morgan's share of the cost is expected to be approximately $33 million. Construction of the Alberta Crude Terminal is underpinned by a five-year agreement with a major refiner.

In anticipation of additional demand for crude oil loading services, Kinder Morgan and Keyera are currently evaluating a possible expansion of up to 125,000 bbl. per day of additional crude loading capacity and the possible addition of a diluent recovery unit.

DELIVERING THE GOODS | The Alberta Crude Terminal will cost nearly $100 million and have a capacity of 40,000 bbl. per day.

ONEOK Plans Separation Of Natural Gas Distribution Business

The ONEOK Inc. board of directors unanimously authorized management to pursue a plan to separate the company's natural gas distribution business into a stand-alone publicly traded company, called ONE Gas Inc., which will consist of Oklahoma Natural Gas Co., Kansas Gas Service and Texas Gas Service, and will be headquartered in Tulsa, Oklahoma.

Under the plan, ONEOK shareholders would retain their current stock shares and receive a pro-rata dividend of shares in the new company in a tax-free transaction. The actual number of ONE Gas shares that will be distributed to ONEOK shareholders will be determined prior to closing, which is expected during first-quarter 2014. Upon completion of the transaction, ONEOK will continue to hold its interests in ONEOK Partners LP, which include the sole general partner interest and limited partner interests, representing a combined 43.3%. ONEOK Partners will not be affected by the proposed transaction.

Following completion of the separation of the natural gas distribution business, current ONEOK shareholders are expected to receive separate cash dividends from ONE Gas and ONEOK, which plans to increase its dividend. Together, those dividends are expected to be higher than the current, pre-transaction ONEOK dividend.

At the time of separation, ONEOK will reduce its long-term debt with the proceeds from a one-time cash distribution from

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ONE Gas—estimated to be approximately $1.1 billion to $1.2 billion—as part of the transfer of natural gas distribution assets to ONE Gas from ONEOK. ONE Gas will fund this payment to ONEOK by issuing its own long-term debt. Upon completion of the separation, ONEOK expects to have $1.1 billion to $1.3 billion in total long-term debt outstanding.

Effective upon the completion of the transaction:

- Terry K. Spencer, currently president of ONEOK and ONEOK Partners, will become president and chief executive of ONEOK and ONEOK Partners, succeeding John W. Gibson, who currently serves as chairman and chief executive. Spencer will join the board of ONEOK and remain on the board of ONEOK Partners;
- Pierce H. Norton II, currently executive vice president, commercial, ONEOK and ONEOK Partners, will become president and chief executive of ONE Gas and join the board of ONE Gas; and
- Gibson will retire as an employee of ONEOK and become non-executive chairman of the board of each of ONEOK, ONEOK Partners and ONE Gas.

Enbridge To Build $1.3 Billion Woodland Pipeline Extension

Enbridge Inc. is proceeding with the construction of the Woodland Pipeline extension project, extending the Woodland Pipeline south from Enbridge's Cheecham Terminal to its Edmonton Terminal to connect up with refineries and export pipelines in the Edmonton area. The project has an estimated cost of $1.3 billion, of which 50% is Enbridge's capital contribution, and a planned in-service date in the third-quarter of 2015.

The Woodland Pipeline Extension is being constructed to serve the Imperial Oil and ExxonMobil Kearl oil sands project and its recently announced expansion.

The 228-mile, 36-inch pipeline extension will have an initial capacity of 400,000 barrels (bbl.) per day, with the ability to be expanded to approximately 800,000 bbl. per day dependent upon crude viscosity. The majority of the proposed route of the Woodland Pipeline Extension follows existing Enbridge right of way and will be in a shared corridor with the Waupisoo Pipeline. The project will include new pump stations at the existing Roundhill Station location and at the Cheecham Terminal.

With the Woodland Pipeline Extension Project, Enbridge is constructing infrastructure projects valued at more than $4.3 billion to service the increasing requirements of the Alberta oil sands producers. These projects are forecasted to come into service between 2013 and 2015.

Spectra Energy JV To Construct $3B Interstate Pipeline To Florida

Sabal Trail Transmission LLC, a joint venture of Spectra Energy Corp. and NextEra Energy Inc., will construct and operate a 465-mile interstate natural gas pipeline for Florida Power & Light Co. (FPL) to provide transportation services for their power generation needs beginning in May 2017.

The pipeline will have a capacity of more than 1 billion cubic feet per day and originate in Tallapoosa County, Alabama, extending through Georgia and ending at the Central Florida Hub near Orlando. Through a capacity lease with Transco, natural gas supply will be accessed at Transco's Station 85 in Choctaw County, Alabama.

Father of Shale Dies

BY **KRISTIE SOTOLONGO** | HART ENERGY

LEGEND | George Mitchell pioneered the use of fracing in the Barnett. (Courtesy: Mitchell Family Corp.)

Visionary billionaire oilman, developer and philanthropist George P. Mitchell died July 26 at his home in Galveston. He was 94.

Mitchell was born May 29, 1919, in Galveston, Texas, to Greek immigrant parents. He earned a degree in petroleum engineering from Texas A&M University in 1940, graduating at the top of his class. In Texas, his legacy is unmatched—extending from Galveston to Houston to The Woodlands.

His death was announced July 26 on the Mitchell family foundation website. According to the posting, Mitchell died of natural causes while surrounded by family.

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"We are deeply saddened. … His story was quintessentially American," according to the family statement. "George was raised as a child of meager means who, throughout his life, believed in giving back to the community that made his success possible and lending a hand to the less fortunate struggling to reach their potential.

"He will be fondly remembered for flying in the face of convention—focusing on 'what could be,' with boundless determination—many times fighting through waves of skepticism and opposition to achieve his vision."

Mitchell founded the independent oil and gas company, Mitchell Energy & Development Corp. and built it into a Fortune 500 company. Over the course of his career, Mitchell participated in around 10,000 wells, including more than 1,000 wildcats. Mitchell Energy made more than 200 oil and 350 natural gas discoveries.

In a March 2013 profile of Mitchell, Forbes magazine called him "the father of natural gas shale drilling," since he pioneered the use of hydraulic fracing to crack open the Barnett shale formation in Texas in the mid-1990s. In 2002, Mitchell sold his company to Devon Energy for $3.5 billion.

At that time, it was estimated that half its Mitchell Energy's value resided in the thousands of undrilled locations on its holdings in the Barnett shale play in North Texas.

In the early 1980s, Mitchell and his team of engineers and geologists began testing new technologies in the shale formations of the company's North Texas gas fields. While it was common knowledge the formations contained high volumes of natural gas, conventional wisdom suggested that the hard, "tight" rocks would never relinquish their hold on the prize.

Against prevailing sentiments both within and outside his company, Mitchell persisted through 17 years of failures and incremental successes. As he approached his 80th birthday, natural gas from the experimental wells finally began to flow—undoubtedly the biggest discovery for Mitchell Energy and a testament to the intellect, optimism and perseverance of George Mitchell.

Mitchell was a young lieutenant in the U.S. Army when—aboard a train from College Station to Houston on Thanksgiving of 1941—he met his future wife. Two years later, at the height of World War II, Captain George Mitchell and Cynthia Woods were married by an Army chaplain in a double wedding with her twin sister and brother-in-law.

Their marriage and partnership spanned six decades with 10 children, 23 grandchildren and numerous great-grandchildren.

As his fortunes grew in the energy business through Mitchell Energy, he and Cynthia decided that a majority of the wealth they had created would be dedicated "to making the world a more hospitable and sustainable place for society," according to the foundation website.

In the early 1970s, Mitchell developed The Woodlands, a master-planned community north of Houston that preserved trees and made protection of the environment a top priority. The Cynthia Woods Mitchell Pavilion, an outdoor performance-arts venue in The Woodlands, is named for his late wife.

In Galveston, Mitchell and his wife helped preserve and revitalize numerous buildings – beginning with the Strand Historic District. The couple also transformed the historic Blum building into the charming, European-style Tremont House, bought and restored the beachfront Galvez Hotel and built the iconic San Luis Hotel on the Seawall in 1984.

In 2002, Cynthia was diagnosed with Alzheimer's disease. She died in 2009 at the age of 87. Determined to help find a cure for Alzheimer's, Mitchell contributed millions toward research and established the George and Cynthia Mitchell Center for Neurodegenerative Diseases at the University of Texas Medical Branch in Galveston. He also helped found the George P. and Cynthia Mitchell Center for Research on Alzheimer's Disease and Related Brain Disorders at The University of Texas Health Science Center in Houston.

In 2011, two years after Cynthia's death, Mitchell joined "Giving Pledge" sponsored by Warren Buffet and Bill and Melinda Gates—making his and his wife's long-held, private intent that the majority of their wealth would be donated to charitable causes.

Encana Focusing On Liquids

BY **AMANDA HILOW** | HART ENERGY

Encana Corp. is placing a new emphasis on its portfolio of emerging liquid plays after seeing a 69% year-over-year increase in liquids production at the close of second-quarter 2013, with average production volumes of oil and natural gas liquids (NGL) rising to approximately 47,600 barrels (bbl.) per day and natural gas averages rising to about 2.8 billion cubic feet per day. The strategy was outlined in a recent conference call to discuss second-quarter earnings.

Moving forward, Encana has formulated an internal strategy-development team and is tracking the projects of the emerging plays as they are appraised, which will be a particular focus during the secondhalf of 2013.

"We are taking a rigorous and measured approach to funding these plays, evaluating each of our positions against their com-

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RE-STRATEGIZING | Encana Corp. announced the creation of an internal strategy development team to determine how the company should best move forward. (Courtesy: Encana Corp.)

mercial potential, scale and, ultimately, their strategic fit," said recently appointed Encana president and chief executive Doug Suttles during the second-quarter earnings conference call.

"We are closely monitoring key performance parameters such as well cost, flow rate and ultimate recoveries against very specific targets. Of note, we continue to be encouraged by our Duvernay results and the early results in the TMS [Tuscaloosa Marine Shale]."

In 2012, Encana drilled nine wells in the Duvernay play and is now producing about 900 bbl. per day of free condensate and about 3 million bbl. per day of natural gas, and the company expects to begin developing multi-well pads in the area in the next year. Currently being completed and brought on stream are two wells in the TMS that are "progressing well." Results from the wells are not yet available, but the company expects them "soon."

The company currently has six well pads in production at its Gordondale, Alberta, site—where a large part of Encana's oil growth in Canada is developed—and plans to bring two more on stream before the year's end.

According to Jeff Wojahn, executive vice president and president of Encana's U.S. division, the biggest U.S. driver area is the DJ basin, where the company is currently running three rigs and anticipates growing the rig count to five by year-end.

"But," Wojahn added, "we really see broad growth across our portfolio with our recent renegotiation of liquid extraction contract in the Rockies. You're going to see growth in our NGL and condensates in the Piceance basin and Jonah, and to a lesser extent, you'll see growth coming from some of our emerging plays like the San Juan, the Eaglebine, TMS."

Wojahn said Encana is also pursuing two plays in Eaglebine—the Lower Woodbine Sands and the Eaglebine Sand—where the well count is expected to increase from two to four before year-end.

In light of the company's reduced capital expenditure during the last two years, Encana extended the maturities of its revolving credit facilities, as well as those of its subsidiaries, to June 2018, and reduced the amount available under the Canadian facility from C$4 billion (US$3.89 billion) to C$3.5 billion (US$3.41 billion). "Across the company, we actively look for ways to reduce cost, improve efficiencies of margin, strengthen cash flow and ensure the sustainability of our business," said Sherri Brillion, Encana executive vice president and chief financial officer, during the conference call.

"We have gone through a mid-year review, and the teams have identified with a high level of confidence capital efficiencies or savings around $200 million. We expect that those will increase as we go through the balance of the year and as the teams have more confidence in realizing those additional efficiencies," she added.

Encana reported $730 million in net earnings, a cash flow of $665 million and operating earnings of $247 million for the second quarter. Year-to-date, the company generated $299 million in net earnings, $1.2 billion in cash flow and $426 million in operating earnings. Encana expects to end 2013 with roughly $2 billion in cash and cash equivalents.

While Suttles is not divulging much information about the company's 2014 business plan, he insists no major acquisitions will be made until after the strategy is determined and announced, which is expected by the end of the year.

"We're looking real hard at our core skills and what we're really good at," he said. "We're also taking a hard look at our competitive position—how good we are not only as an enterprise but also in a play-by-play sense against our competitors."

EIA: Global Energy Use In For A Big Increase

BY **MIKE MADERE** | HART ENERGY

The U.S. Energy Information Administration (EIA) on July 25 released a report projecting that world energy consumption will grow by 56% between 2010 and 2040.

The EIA's *International Energy Outlook 2013* expects world energy use, which was 524 quadrillion Btu in 2010, will rise to

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630 quadrillion Btu in 2020. In 2040, the number will jump to 820 quadrillion Btu.

Much of the growth in energy consumption is expected to occur in countries such as India and China, where demand will be driven by strong, long-term economic growth.

According to the EIA report, renewable energy and nuclear power are the world's fastest-growing energy sources. Each section is expected to grow 2.5% per year through 2040. Fossil fuels, however, will continue to supply almost 80% of world energy use through 2040.

Natural gas—bolstered by increasing supplies of tight gas, shale gas and coalbed methane—is the fastest-growing fossil fuel. Global natural gas consumption will increase by 1.7% through 2040, according to the report. Coal use is expected to grow faster than petroleum until about 2030, mostly because of increases in China's consumption of coal and tepid growth in liquids demand.

The industrial sector will continue to account for the largest share of energy consumption. Based on current policies and regulations, worldwide energy-related carbon dioxide emissions, which were 31 billion metric tons in 2010, will increase to 36 billion metric tons in 2020 and then to 45 billion metric tons in 2040, a 46% increase.

Liquid fuels

World use of petroleum and other liquid fuels, which was 87 million barrels (bbl.) per day in 2010, will jump to 97 million bbl. per day in 2020 and 115 million bbl. per day in 2040. Growth in liquids use will be in the transportation and industrial sectors. Although advances in non-liquids transportation technologies are anticipated, they will not be enough to offset the rising demand for transportation services worldwide, according to the EIA.

Furthermore, despite rising fuel prices, use of liquids for transportation will increase by an average of 1.1% per year, or 38% overall, from 2010 to 2040. The transportation sector will account for 63% of the total increase in liquid fuel use during the 30-year period. The remainder is attributed to the industrial sector, where the chemicals industry continues to consume large quantities of petroleum. The use of liquids will decline in the other end-use sectors and for electric power generation.

Natural gas

World natural gas consumption is predicted to increase 64%, from 113 trillion cubic feet (Tcf) in 2010 to 185 Tcf in 2040. Although the global recession help bring on an estimated decline of 3.6 Tcf in natural gas use in 2009, robust demand returned in 2010 with an increase of 7.7 Tcf, or 4% higher than demand in 2008.

Natural gas continues to be the "fuel of choice" for the electric power and industrial sectors in many of the world's regions, the report stated. In addition, it is an attractive alternative fuel for new power generation plants because of relatively low capital costs. The industrial and electric power sectors together account for 77% of the total projected world increase in natural gas consumption.

The largest production increases from 2010 to 2040 are expected to occur in Europe and Eurasia (18.9 Tcf), parts of the Americas (15.9 Tcf); and the Middle East (15.6 Tcf). The U.S. and Russia will each increase natural gas production by about 12 Tcf, together accounting for nearly one-third of the total increase in world gas production.

In response to the release of the report, Erica Bowman, chief economist at America's Natural Gas Alliance, said, "EIA's *Annual International Energy Outlook* makes it clear that natural gas must play an expanded role in the world to meet growing future energy demand, and the United States, with its vast natural gas resource base, can be a major influencer in the global energy picture."

"The outlook rightly calls natural gas a 'fuel of choice' for the electric power sector because of its relatively low carbon intensity, low capital costs and favorable heat rates," Bowman said. "As the outlook makes clear, with an overall growth in energy consumption of 56% by 2040, the world is going to need all forms of energy to meet growing demand. With major growth in reserves and production, North American natural gas is in a strong competitive position."

Genesis Expands Marine Transportation Business

BUSINESS WIRE

Genesis Energy LP agreed to acquire for approximately $230 million all assets of Hornbeck Offshore Transportation LLC, which is primarily comprised of nine barges and nine tug boats that transport crude oil and refined petroleum products. The business primarily serves refineries and storage terminals along the Gulf Coast, Eastern Seaboard, Great Lakes and Caribbean.

The acquired barges, which have an average age of approximately eight years, are double-hulled and fully compliant with the requirements of the Oil Pollution Act, and eight of them are equipped with vapor recovery.

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At the closing of the transaction, Hornbeck and Genesis expect to enter into transition service agreements to facilitate a smooth transition of operations and uninterrupted services. The acquisition is expected to close by the end of the third-quarter of 2013.

Genesis has available and committed liquidity under its $1 billion revolving credit facility to effect this acquisition in addition to funding all of its organic growth capital requirements. The acquisition is expected to be immediately accretive to Genesis' distributable cash flow per unit.

EIA: Natural Gas Spot Prices Increase During First-Half Of 2013

Average spot natural gas prices at most major trading points increased 40% to 60% during the first half of 2013 compared to the same period in 2012, according to the U.S. Energy Information Administration's (EIA) *Today in Energy* brief, and the price increases were relatively uniform throughout the country, with the exception of New England and New York, where supply constraints caused spot prices to spike when demand peaked this winter.

Source: U.S. Energy Information Administration, based on SNL Energy.

Price differences between Henry Hub—averaging $3.75 per million Btu (/MMBtu) during the first half of 2013, up 57% from the $2.39/MMBtu average spot price for the first half of 2012—and most western trading hubs averaged less than 100/MMBtu, the brief said. Spot prices so far in 2013 are very similar to levels seen in 2009 to 2011.

In addition, storage levels have remained below their five-year average, supporting gas prices in the $4/MMBtu range, despite relatively high injections during May and June, storage levels have remained below their five-year average. The EIA's *Short-Term Energy Outlook* projects that Lower 48 working inventories will reach 3,809 billion cubic feet by the end of October 31, with injection levels similar to those in 2008 to 2011, but much higher than in 2012.

Phillips 66 Partners Announces Pricing of Initial Public Offering

BUSINESS WIRE

Phillips 66's master limited partnership Phillips 66 Partners LP announced the pricing of its initial public offering of 16.425 million common units representing LP interests at $23 per common unit under the New York Stock Exchange ticker symbol "PSXP."

The underwriters of the offering have a 30-day option to purchase up to an additional 2.46375 million common units from Phillips 66 Partners to cover over-allotments, if any. The offering closed July 26.

At the closing of this offering, the public will own a 22.9% LP interest in Phillips 66 Partners, or a 26.3% LP interest if the underwriters exercise in full their option to purchase additional common units. Phillips 66, through certain of its subsidiaries, will own the remaining, majority LP interest in Phillips 66 Partners, as well as its 2% general partner interest.

Port of Vancouver Approves Tesoro-Savage Lease

The Port of Vancouver USA board of commissioners unanimously approved a 10-year lease with the joint venture between Tesoro Corp.'s subsidiary Tesoro Refining & Marketing Co. LLC and Savage Companies, called Tesoro-Savage Joint Venture (TSJV), for a previously announced crude oil handling facility at the port. The project will bring North American crude oil to the port by rail where it will then be transferred to marine vessels for transport to refineries in California, Washington and Alaska.

Approximately 42 acres of port property will be leased by TSJV to accommodate a rail unloading facility, storage tanks and a vessel loading area. The estimated capital investment by TSJV is $100 million, and revenue to the port during the 10-year lease period is expected to exceed $45 million. TSJV is required to obtain all necessary permits as a condition of operation at the port.

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SNAPSHOT | Industry Insight

Energi's Dave Tiegden (left) and Justin Russon (right) said that insuring oil field service contractors presents new opportunities. (Courtesy: Energi)

Worth The Risk

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

The rise of oil and gas production is having a dramatic economic impact around North America and helping the U.S. become energy self-sufficient, but the drilling and hydraulic fracturing production process remains controversial to the general public, and to the insurance industry as well.

Many oil and gas producers have been forced to utilize coverage perceived as too expensive or lacking some desired coverage. There are, however, several insurers willing to provide coverage to producers and oil field service contractors. Among them is Energi, a national energy reinsurer based in Peabody, Massachusetts, that currently offers insurance and risk management solutions to oil field service contractors.

"Energi's founder, Brian McCarthy, was tired of what he perceived to be his better energy customers being mistreated by the insurance industry and formed a captive (which insures risks with policyholders acting as shareholders). We started writing policies in our core businesses of fuel distribution and energy transportation in 2006. We no longer operate as a captive, but the majority of our stockholders remain as policyholders," Dave Tiedgen, senior vice president of research and development at Energi, told *Midstream Monitor*.

Although the oil and gas production industry can be perceived as high hazard, Energi believes that the risks associated with oil and gas production sites can be safely managed. Many exposures found in this industry segment are similar to other industries—such as heavy fleet operations—that Energi successfully insures.

"There are a lot of what some of us believe to be frivolous claims in this market segment, and the costs of these claims are a concern to underwriters. These claims have been defended successfully over time, but those defense costs are meaningful," Tiedgen said.

In order to prevent property damage and bodily injury, Energi assembles best practices in the sectors it operates in—including oil and gas production. Energi uses best practices developed by industry leaders and regulatory bodies and ensures that these practices are then instituted by their insured companies.

"The implementation and reinforcement of best practices will not only limit environmental damages and personal injuries but will also reduce the legal costs. You can't prevent everything. You do have claims, and that's why you have insurance. However, analyzing this industry, analyzing what these folks do, spending time on R&D, and then training insurers—both management and front-line employees—can help mitigate a lot of this risk," Justin Russo, senior vice president of safety and loss prevention at Energi, told *Midstream Monitor*.

Russo said best practices that are followed by Energi's oil and gas production and oil field service companies include efforts to protect water resources; keep the public informed through communications with local authorities and the public; determine where there are existing abandoned wells, natural fractures, faults, drinking water aquifers and shallow natural gas zones are located through site characterization; select pad locations away from bodies of water; and determine water quality variability by identifying sources of water locations and sampling private wells.

As part of Energi's risk-selection process for oil and gas production companies, Russo said that Energi reviews the company's best practices and meets with its management to make sure it has the right mindset, policies and procedures in place. Energi also requires extensive documentation and sends safety specialists into the field to ensure these policies are being followed and employees are properly trained.

"As best practices are developed and enforced, relatively lower costs should result for a couple of reasons. The absolute cost of losses should go down, and that will also encourage more insurance companies to participate, leading to increased competition," Tiedgen said.

Even through the increased use of best practices, risk will still remain an inherent part of the oil and gas industry, including drilling and hydraulic fracturing. "The oil and gas production industry overall has relatively high hazard operations and these types of operations show the most improvement from the increased implementation of best practices," Tiedgen said.

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markets, such as India, where they can compete with production out of the Middle East and Africa.

The project was originally projected to provide up to 850,000 bbl. per day of transportation capacity, but after TransCanada received firm 20-year commitments from shippers for 900,000 bbl. per day, the scope was expanded.

"We are very pleased with the outcome of the open season for the Energy East Pipeline held, and are excited to move forward with a major project that will bring many benefits across Canada," Girling said during a conference call to discuss the project.

The project is expected to be brought online by late-2017 for deliveries in Quebec and 2018 for deliveries to New Brunswick.

The company anticipates submitting requests to the Canadian government for the project in 2014, but opposition will likely be fierce. First Nations and environmental groups have built strong opposition in Canada to other projects designed to transport crude from the West Coast to the East Coast. It is not clear at this time whether the recent derailment in Lac-Megantic, Quebec, of a Montreal, Maine & Atlantic Railway Inc. train transporting crude would have any impact on the Quebec legislature supporting or opposing the Energy East Pipeline. However, the project is supported by both the Alberta and New Brunswick governments.

In addition to transporting Canadian crude, Girling said that the pipeline could result in some volumes currently being transported by rail out of the Bakken. In this scenario, the company would collect Bakken shale volumes at its oil storage terminal currently under construction in southeast Saskatchewan and transport them to Canada's East Coast via the Energy East Pipeline.

"Obviously, we've had some interest from U.S. parties, which we'll continue to pursue," Girling said during the conference call.

Although some interpreted the news of the Energy East project moving forward as meaning TransCanada was turning away from the Keystone XL, he said this was definitely not the case and that there was a need for both.

"Energy East is one solution for transporting crude oil, but the industry also requires additional pipelines such as Keystone XL to transport growing supplies of Canadian and U.S. crude oil to existing North American markets," Girling said during the Energy East conference call. "Both pipelines are required to meet the need for safe and reliable pipeline infrastructure and are underpinned with binding, long-term agreements."

If there wasn't such a pressing need for the Keystone XL, the company might have backed out of the project due to the ensuing acrimony and the regulatory hurdles. The U.S. State Department's review of the project has resulted in more than 1 million public comments and nearly 1,800 days that the project has been under review. Perhaps someone can do a separate report on the economic benefits this battle has had on the lobbying, public relations, analytical, activist and legal sectors in both Canada and in the U.S.

What has been largely ignored by the mainstream press is that the base Keystone pipeline has safely delivered more than 400 million bbl. of oil to refineries in Illinois and Oklahoma in three years of operation. During a conference call to discuss second-quarter 2013 earnings, Girling pointed out that the review for the original Keystone pipeline project, which is nearly identical to Keystone XL project in scope, took only 21 months.

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