HARTENERGY

MIDSTREAM Monitor September 16, 2013 | Volume 31 | Issue 37

Natural Gasoline Posts Second-Largest NGL Price Gains

Exports helping to lead way for increased C_{5+} demand

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

The start of the second-half of the fiscal year has seen natural gas liquid (NGL) prices improve with much of the credit being given to propane, which has posted the largest gains of any other product in the NGL barrel (bbl.).

However, one aspect of this growth that has largely been ignored has been that of natural gasoline (C_{5+}). Unlike propane and the two butanes, C_{5+} isn't as tied to seasonal demands as its primary end-use market is by refineries as a blending feedstock and oil sands producers as a diluent. In this way, C_{5+} is more closely akin to ethane, which is priced based on market dynamics.

According to Wells Fargo Securities' August *NGL Snapshot*, NGL prices rose 12% from the end of July through the start of August despite a downturn in ethane prices as the rest of the bbl. rose across the board. Composite prices rose to more than $1 per gallon (gal) during this timeframe.

The report noted that the average NGL bbl. in May, the most recent data available from the U.S. Energy Information Administration, was comprised 37% of ethane, 32% propane, 8% butane, 10% isobutane and 14% C_{5+}. Since ethane makes up such a large portion of the bbl., it is important for more than just one NGL price to improve in order to post composite gains.

Under The Radar | ells Fargo Securities reported that natural gas liquid prices rose 12% from the end of July to early August.

Propane prices rose 20% on the back of increased liquefied petroleum gas (LPG) export demand and an anticipation of a strong crop-drying season that resulted in farmers pre-buying propane. According to Wells Fargo Securities, LPG export demand was expected to be strong as new infrastructure came online, but it is outpacing previous forecasts.

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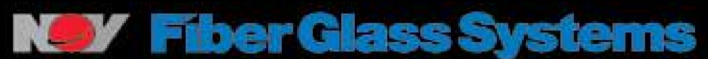

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NGL PRICES & FRAC SPREAD | Week in Review

NGL Prices Follow Crude Down As Geopolitical Fears Lessen

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

Natural gas liquids (NGL) prices took a sharp downturn this week at both Mont Belvieu and Conway, following the drop in West Texas Intermediate (WTI) crude prices as fears over a U.S. attack against Syria lessened. This followed last week's strong growth.

While the correlation between NGL and WTI crude prices had been decreasing, it appears the relationship is growing closer as the globalization of the market increases. NGL and crude prices had been decoupling for the past several years as the demand centers were different, but as we explain in this week's feature, this is changing as the dynamics for NGL exports grows.

According to Hart Energy's *Commodities Report*, NYMEX-traded crude futures on September 9 retreated from their highest settle in more than two years and Brent crude prices dropped to three month lows as the geopolitical risks surrounding the Middle East weakened.

This caused C_{5+}, the closest related NGL to crude, to dip 1% at both hubs to $2.24 per gallon (gal) at Mont Belvieu and $2.15 per gal at Conway. Both prices were the lowest at the hub in a month,

CURRENT FRAC SPREAD (CENTS/GAL)

September 16, 2013	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	21.37		25.15	
Shrink	24.07		24.13	
Margin	-2.70	-188.65%	1.02	-34.82%
Propane	110.64		113.02	
Shrink	33.25		33.34	
Margin	77.39	-6.63%	79.68	-4.76%
Normal Butane	131.04		133.38	
Shrink	37.64		37.75	
Margin	93.40	-7.15%	95.63	-6.44%
Isobutane	135.42		134.46	
Shrink	36.15		36.25	
Margin	99.27	-6.11%	98.21	-6.54%
Pentane+	215.04		223.72	
Shrink	40.26		40.37	
Margin	174.78	-1.83%	183.35	-0.87%
NGL $/Bbl	41.76	-3.78%	43.10	-3.42%
Shrink	13.26		13.30	
Margin	28.50	-5.66%	29.80	-3.86%
Gas ($/mmBtu)	3.63	0.55%	3.64	-2.41%
Gross Bbl Margin (in cents/gal)	65.23	-5.86%	68.73	-4.00%
Gross Bbl Margin (in cents/gal)				
Ethane	1.18	-7.09%	1.38	-4.34%
Propane	3.84	-4.58%	3.92	-4.08%
Normal Butane	1.42	-5.06%	1.44	-5.34%
Isobutane	0.84	-4.42%	0.84	-5.46%
Pentane+	2.77	-1.39%	2.88	-1.15%
Total Barrel Value in $/mmbtu	10.05	-4.08%	10.47	-3.62%
Margin	6.42	-6.52%	6.83	-4.25%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Sept. 4 - 10, '13	25.15	113.02	133.38	134.46	223.72	$43.10
Aug. 28- Sept. 3, '13	26.29	117.83	140.90	142.23	226.33	$44.63
Aug. 21- Aug. 27, '13	25.28	112.08	139.72	140.18	224.86	$43.57
Aug. 14- Aug. 20, '13	24.70	106.72	136.30	136.28	218.03	$42.10
August '13	25.01	105.63	134.40	136.61	219.58	$42.03
July '13	24.73	91.89	126.67	130.93	209.15	$39.09
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
Sept. 5 - 11, '12	31.04	95.04	155.78	171.54	215.74	$43.49
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Sept. 4 - 10, '13	21.37	110.64	131.04	135.42	215.04	$41.76
Aug. 28- Sept. 3, '13	23.00	115.95	138.03	141.68	218.08	$43.40
Aug. 21- Aug. 27, '13	21.84	110.08	135.78	140.78	217.04	$42.30
Aug. 14- Aug. 20, '13	21.26	103.74	132.56	140.50	212.18	$40.95
August '13	21.29	102.79	132.20	139.92	212.37	$40.82
July '13	20.54	87.20	123.28	150.40	207.71	$38.34
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
Sept. 5 - 11, '12	18.54	84.98	141.40	197.58	210.73	$40.16

(Above) Data provided by Bloomberg. 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

but this is a reflection of geopolitics playing a part in commodity prices more than a total market downturn. Both prices remained solidly ahead of the average price at their respective hubs in the month of August and demand remains strong from both refiners and producers. It is likely that prices should remain in their current range for the foreseeable future.

Butane and isobutane prices both fell 5% at Mont Belvieu, which pushed them to their lowest levels in more than a month. This is likely a result of the market balancing itself out after prices experienced large upticks the previous week. Indications are that demand is at its strong for both products in several months as refiners switch from summer-grade gasoline to winter-grade gasoline. In addition, Mont Belvieu isobutane suppliers are tightening up after Enterprise Products Partners look the largest isomerization unit in the U.S. down for maintenance.

Conway prices fell at a similar rate with isobutane down 4% and butane down 5%. The isobutane price of $1.35 per gal once again saw the Midcontinent price very slightly outweigh its Gulf Coast counterpart, but was primarily supported by an extreme one-day price spike when traders were caught short. Overall, this week's Conway price was the hub's lowest value since the week of June 19 when it was $1.25 per gal

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / September 12, 2013	
Gas Hub Name	**Current Price**
Carthage, TX	3.53
Katy Hub, TX	3.63
Waha Hub, TX	3.53
Henry Hub, LA	3.57
Perryville, LA	3.56
Houston Ship Channel	3.61
Agua Dulce, TX	3.59
Opal Hub, Wyo.	3.42
Blance Hub, NM	3.49
Cheyenne Hub, Wyo.	3.44
Chicago Hub	3.67
Ellisburg NE Hub	3.45
New York Hub	3.60
AECO, Alberta	2.05

Source: Bloomberg

Propane prices took a downturn at both hubs after a surprising report from the U.S. Energy Information Administration (EIA) found that stock levels were greater than at the same time last year and remained above the five-year average. It was expected that that the storage levels would continue to fall throughout the rest of the year and would soon be below the five-year average. The stock report from EIA helped to push prices at both hubs to their lowest levels in several weeks, but remain at the high end for the year.

RESIN PRICES – MARKET UPDATE –SEPTEMBER 12, 2013					
TOTAL OFFERS: 10,752,064 lbs		SPOT		CONTRACT	
Resin	**Total lbs**	**Low**	**High**	**Bid**	**Offer**
HDPE - Blow Mold	2,125,220	0.68	0.78	0.66	0.7
HDPE - Inj	1,631,404	0.7	0.73	0.68	0.72
PP Homopolymer - Inj	1,536,920	0.665	0.865	0.8	0.84
PP Copolymer - Inj	1,134,828	0.7	0.89	0.81	0.85
LDPE - Film	1,004,564	0.67	0.8	0.75	0.79
HMWPE - Film	837,748	0.77	0.77	0.725	0.765
LDPE - Inj	688,644	0.71	0.75	0.7	0.74
GPPS	570,000	0.86	0.925	0.86	0.91
HIPS	570,000	1.015	1.025	0.98	1.03
LLDPE - Film	564,552	0.7	0.78	0.66	0.7
LLDPE - Inj	88,184	0.75	0.75	0.67	0.71

Source: Plastics Exchange – www.theplasticsexchange.com

The Conway price dipped 5% to $1.11 per gal, which was the hub's second-largest price since it was $1.12 per gal the week of March 7, 2012. The Mont Belvieu price tumbled 4% to $1.13 per gal, which was also the hub's second-largest price since it was $1.16 per gal the week of April 25, 2012.

Conway ethane had the largest decrease of any NGL this week as it fell 7% to 21¢ per gal, its lowest price in a month. The Mont Belvieu price fell 4% to 25¢ per gal, also its lowest price in a month. Interestingly both decreases came about just as all ethane crackers were brought back online. Barring further outages, it is likely that excess inventory levels will be worked off by the end of the year and support price increases.

Despite the price decreases, the theoretical NGL bbl. price wasn't down too much at either hub this week. The Mont Belvieu price fell 3% to $43.10 per bbl. with a 4% drop in margin to $29.80 per bbl. while the Conway price decreased 4% to $41.76 per bbl. with a 6% drop in margin to $28.50 per bbl.

The most profitable NGL to make at both hubs remained C_{5+} at $1.75 per gal at Conway and $1.83 per gal at Mont Belvieu. This was followed, in order, by isobutane at 99¢ per gal at Conway and 98¢ per gal at Mont Belvieu; butane at 93¢ per gal at Conway and 96¢ per gal at Mont Belvieu; propane at 77¢ per gal at Conway and 80¢ per gal at Mont Belvieu; and ethane at negative 3¢ per gal at Conway and 1¢ per gal at Mont Belvieu.

READ FULL ARTICLE ONLINE

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Fourth LNG-Export Terminal Approved By DOE

BY **KRISTIE SOTOLONGO** | HART ENERGY

Richmond, Virginia-based Dominion Resources Inc. has been authorized by the U.S. Department of Energy (DOE) to export domestically produced liquefied natural gas (LNG) to countries that do not have a free-trade agreement (FTA) with the U.S.

Pending environmental review and final regulatory approval, Dominion will be able to export natural gas from its Cove Point terminal on the Chesapeake Bay in Lusby, Maryland, according to a September, 11 company announcement.

It's the fourth LNG-export project authorized by the DOE amid a natural gas glut.

"We agree with the DOE's decision that exports are expected to bring economic benefits to the country," Thomas F. Farrell II, Dominion chairman, president and chief executive, said. "It is good news on many fronts, including the thousands of jobs that will be created, the boost in government revenues that will result and the support it provides to allied nations."

Dominion said the project to modify the terminal is expected to cost between $3.4- and $3.8 billion. Construction is scheduled to begin in 2014, with an in-service date of 2017.

"The development of U.S. natural gas resources is having a transformative impact on the U.S. energy landscape, helping to improve our energy security while spurring economic development and job creation," said the DOE.

Shipments for Cove Point are under contract for 20 years with affiliates of Tokyo-based Sumitomo Corp. and GAIL India Ltd., based in New Delhi, and each have contracted for half the marketed capacity, Dominion said.

In early August, the DOE authorized Lake Charles Exports LLC to export up to 2 billion cubic feet (Bcf) of gas per day from its terminal in Lake Charles, Louisiana. Three months earlier, the Energy Department gave a green light to Freeport LNG's Quintana Island, Texas, terminal to broadly sell up to 1.4 Bcf per day of U.S. gas overseas.

In May 2011, Sabine Pass LNG became the first company to garner federal approval to export LNG from its Cameron Parish, Louisiana, terminal at a rate of up to 2.2 Bcf per day.

Permitted | Dominion Resources' Cove Point LNG terminal became the fourth U.S.-based facility approved to export volumes to non-FTA countries.

The three projects combined are allowed to ship out 5.6 Bcf per day of gas to Japan and other, non-FTA countries.

Significant changes in the global gas market in the past decade— the emergence of shale in North America, in particular— have dramatically altered the global outlook for LNG markets and fueled the commercial aspirations of firms seeking to seize the apparent profit opportunity offered by exports.

The altered outlook has also raised concerns that allowing exports from the U.S. would force prices up and negatively impact industrial activity and household budgets.

"The development of U.S. natural gas resources is having a transformative impact on the U.S. energy landscape, helping to improve our energy security while spurring economic development and job creation around the country," according to the DOE. "This increase in domestic natural gas production is expected to continue, with the U.S. Energy Information Administration forecasting a record production rate of 69.3 Bcf per day in 2013.

According to the latest DOE summary of LNG applications, 21 non-FTA requests— otaling 32.41 Bcf per day—are still pending. A month earlier, the agency was in the process of reviewing 19 non-FTA applications totaling 29.21 Bcf per day.

Federal law generally requires approval for natural gas exports to countries that have an FTA with the U.S. For countries that do not have an FTA with the U.S., the Natural Gas Act directs the DOE to grant export authorizations, unless the agency finds that the proposed exports "would not be consistent with the public interest."

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Inergy, Enserco Form Crude Rail Terminal Joint Venture

BUSINESS WIRE

Inergy Midstream LP and Enserco Midstream LLC formed a joint venture to own and operate a crude oil rail terminal located in Douglas County, Wyoming.

Inergy Midstream's subsidiary Inergy Crude Logistics LLC and Enserco Midstream's subsidiary Enserco Powder River Basin LLC each own an approximate 50% interest in Powder River Basin Industrial Complex LLC (PRBIC), the owner of the Douglas facility, which was placed into manifest service in August 2013. Unit train service is expected to begin during the first quarter of 2014.

After commencement of unit train service, Inergy Midstream and Enserco Midstream expect to expand throughput capacity to approximately 20,000 barrels (bbl) per day. The terminal's throughput capacity is further expandable to up to 60,000 bbl. per day as production volumes increase in the developing Niobrara Powder River basin shale play.

PRBIC has an anchor agreement with a major producer for handling of crude oil volumes at the Douglas facility.

Sunoco Mariner West Pipeline To Come Online In October

BLOOMBERG

Sunoco Logistics Partners LP's Mariner West NGL pipeline will begin by early October.

The initial capacity has been reduced to 10,000 bbl. per day from 20,000 bbl. per day and will increase to 50,000 bbl. by the end of first-quarter 2014, spokesman Jeff Shields told Bloomberg. The project will transport ethane from the Marcellus shale formation in western Pennsylvania to the Sarnia petrochemical market in southwestern Ontario.

Mariner East will take propane and ethane from the Marcellus shale to Marcus Hook, Pennsylvania, where it will be processed and stored. With a capacity of about 70,000 bbl. per day, Mariner East is scheduled to deliver propane by the second-half of 2014 followed by both ethane and propane by mid-2015.

Mariner South will move propane and butane from Lone Star NGL LLC's storage and fractionation complex in Mont Belvieu and Sunoco's terminal in Nederland, Texas, and will be operational by the first quarter of 2015, the company told *Bloomberg*.

PVR To Provide Gathering, Compression Services For Hess

PVR Partners LP says it will work with Hess Corp. to construct, own and operate a 45-mile gas trunkline and associated gathering pipelines and facilities servicing Hess's lean gas production in the Utica shale in eastern Ohio.

In addition to providing committed volumes of gas to the project, the agreement establishes an area of mutual interest covering portions of Belmont, Jefferson and Harrison counties, Ohio.

PVR will construct a minimum 20-inch trunkline with an expected minimum capacity of 450 million cubic feet (MMcf) per day and connections to the Texas Eastern and Rockies Express interstate pipelines, with possible future connections to other interstate systems.

Additionally, PVR will construct gathering pipelines, compression stations, dehydration facilities and other related facilities to gather Hess' production from the dedicated acreage. The services will be provided solely on a volumetric fee basis, with no direct commodity price exposure.

The project is expected to begin operations in late 2014, and PVR said it anticipates contracting with additional producers for capacity and gathering services as construction of the system progresses.

PVR expects the total capital investment for the trunkline, initial gathering lines, compression stations and dehydration facilities to be in the range of $125 million to $150 million. The company expects to invest approximately $10 million during the remainder of 2013, approximately $50 million during the first-half of 2014 and $50 million during the second-half of 2014, with the balance in 2015.

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Japan, South Korea LNG Price Relief Face Delays

After the Fukushima nuclear disaster in March 2011 led to a large pullback on Japan's reliance on nuclear power generation with the general consensus that LNG would be relied on at a much greater rate in Japan and South Korea. Currently the two countries combined account for more than 50% of global LNG demand. As this rate increases, the belief was that spot prices would remain high with relief coming in 2018 as supplies matched demand.

However, according to Wood Mackenzie this relief may be pushed further back to beyond 2020 due to policy and regulatory uncertainties that could limit LNG production. "While the governments of Japan and South Korea are actively promoting greater competition between new LNG suppliers to encourage lower priced LNG, uncertainty regarding nuclear generation and market liberalization may have the opposite effect and increase the cost of LNG procurement," the company said.

According to Wood Mackenzie's Head of Asia Pacific Gas and Power Analysis Gavin Thompson, government officials in Japan and South Korea are operating cautiously by only acquiring LNG volumes to meet their current demand levels. In response, producers are unwilling to vastly increase their production levels until they have a greater sense of security.

The biggest uncertainty revolves around this potential breakup of regional power utility monopolies in both countries. Government officials anticipated that the further opening up of markets to new players will create more competition. However, thus far it has created more questions and caused some LNG suppliers to operate more conservatively.

"Both governments recognize their influence on the global LNG market and are actively pursuing initiatives aimed at reducing overall LNG supply costs through increasing competition between global LNG suppliers. However, a lack of clarity around the timing and extent of market liberalization as well as ongoing uncertainty around nuclear power in their domestic markets could have the opposite effect," Thompson said.

Wood Mackenzie is forecasting that Japan and South Korea's combined incremental LNG demand to increase to more than 30 million tons per year in 2020, but so far the countries have only contracted for a small portion of this incremental demand. According to Thompson, the market could cover for this lack of initiative on the part of Japanese and South Korean officials' parts, but it is unclear if it will do so.

Uncertain | Regulatory and policy uncertainties could cause Japan and South Korea to keep paying high premiums for LNG supplies until 2020, according to Wood Mackenzie.

"The appetite for firm LNG procurement is lower compared to the demand outlook. This likely shortfall will need to be met by the spot market, Qatar or portfolio players. Portfolio players are particularly interesting as it is possible that existing and emerging portfolio players, some of them Chinese and Indian, start going long on LNG to secure market. This would introduce greater liquidity to the market, overcome the procurement shortfall from Japan and South Korea and drive spot prices down. But it is not yet clear whether portfolio players are willing to do that," he said.

"The governments of Japan and South Korea are rightfully looking to reduce overall energy costs to maintain competitiveness within their broader economies. However, the uncertainty that these policies have introduced could be counter-productive. Projects need some security of contracted volumes in order to be assured of commercial viability. Without this security, these projects will not be developed in line with market demand. The wave of supply expected to come online around 2018 will likely be

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delayed as a result, and risk LNG procurement costs rising. While portfolio players could aggressively launch new supply to fill this gap, potentially pushing down Pacific spot prices, it is not yet clear how much volume risk portfolio players are willing to take," Thompson added.

Energy Transfer Sells Missouri Gas Assets

BUSINESS WIRE

Energy Transfer Partners LP (ETP) completed the sale of the assets of Missouri Gas Energy to Laclede Gas Co. for $975 million. MGE is a division of Southern Union Co.

ETP said it expects the sale of the assets of Southern Union's New England Gas Co. natural gas distribution division for $60 million, less assumed debt, will be completed during the fourth quarter.

Cash proceeds from the sales will be utilized to repay debt, including borrowings under ETP's revolving credit facility.

Crude Plants Close For Maintenance

BLOOMBERG

Multiple plants, including two upgraders and two refineries, are scheduled to close in Canada in coming months for maintenance.

Husky Energy Inc.'s 82,000 bbl. per day Lloydminster upgrader, which processes heavy crude into lighter grades, will shut for 45 days starting in early September, executives said on an earnings call last month. Suncor said Aug. 1 that it's planning four to five weeks of maintenance on the 110,000 bbl. per-day Unit 2 at the Fort McMurray upgrader.

Also in Alberta, Royal Dutch Shell plc is shutting down the 97,870 bbl. per-day Scotford refinery this month, a person familiar with the matter told *Bloomberg*.

In the U.S. Midwest, Northern Tier Energy LP's 74,000 bbl. per-day St. Paul Park refinery plans to halt a fluid catalytic cracker during October, the company said during its earnings conference call in August.

BP's Whiting, Indiana, refinery will shut a 75,000 bbl. per day crude unit for 30 days of repairs starting in the third week of September, according to IIR Energy.

Harper Backs Climate Action For Keystone Approval

BLOOMBERG

Canadian Prime Minister Stephen Harper sent a letter to President Barack Obama last month as part of an effort to mollify U.S. concerns about greenhouse-gas emissions from TransCanada's proposed Keystone XL pipeline, a person familiar with the matter told Bloomberg. Environmentalists are urging Obama to reject the pipeline, saying it will contribute to global warming.

Support | Canadian Prime Minister Stephen Harper (right) sent U.S. President Barack Obama (left) a letter calling for approval of the Keystone XL Pipeline. (Courtesy: White House)

The offer from Harper might give Obama an opening to seek accommodations as a way to approve the project while blunting the complaints of increasingly active environmentalists.

After applying for Keystone construction in September 2008, TransCanada changed its route to avoid a sensitive ecosystem in Nebraska after state officials warned of environmental risks.

The State Department said it won't complete its environmental-impact review until after reviewing and publishing 1.5 million public comments, a months-long process. Mandatory comment periods could push the decision to late this year or early next year.

"We have not seen the letter but as we have said before, the Canadian government has been a strong ambassador for Keystone XL," TransCanada spokesman Shawn Howard told *Bloomberg*.

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"As a country, Canada has a great track record on the environment and is the only country that the U.S. currently imports oil from that has substantial greenhouse-gas emissions regulations in place."

Canada has so far failed to take meaningful action on curbing pollution linked to global warming, Clare Demerse, director of federal policy at the clean energy group Pembina Institute, told Bloomberg.

TransCanada has said the pipeline could carry 830,000 bbl. of oil a day with 100,000 bbl. reserved for the light sweet crude from the Bakken formation in North Dakota and Montana.

A March draft environmental impact statement found that the project wouldn't significantly increase greenhouse-gas emissions because the oil sands would be developed without Keystone and shipped out through other pipelines or by rail.

Environmental advocates challenged the State Department conclusion and said no trade-off is possible to compensate for the expansion of production of oil sands in Alberta.

In April, the *Globe and Mail* reported that Alberta's government presented a proposal to increase levies on carbon pollution and force oil sands producers to cut emissions as much as 40%.

Key features of the acquisition include:

- 232 acres of well-developed industrial land;
- in excess of 5,000 linear feet of rail track, currently serviced by Canadian National Railway;
- 160 acres of adjacent, existing Pembina lands, which can be developed for future merchant storage and rail expansions;
- 1,280 acres of Pembina salt rights in close proximity to support future cavern development; and
- the ability to access more than 4 millionbbl. per day of existing and future oil sands and conventional crude oil supply through various current and potential pipeline interconnections.

In addition, it is connected to condensate transported on third-party as well as Pembina pipeline systems, including imported pipeline and rail supplies. At the same time, Pembina has entered into a multi-year agreement with a major North American refiner for the provision of services to load crude oil railcars within the existing infrastructure at PNT. This service will commence immediately. The agreement provides up to 40,000 bbl. per day of various crude grades and capitalizes on the full service offering of pipeline, storage and rail infrastructure at Pembina's Nexus terminal.

Pembina Pipeline Acquires Land, Facilities In Alberta

Pembina Pipeline Corp. acquired a site in the Alberta Industrial Heartland for approximately $20 million featuring a well-designed existing rail system and utility infrastructure to support the future development of rail, terminaling and storage facilities as a build-out of Pembina's larger Nexus terminal.

The Heartland Hub will be a receipt-and-delivery terminal designed to capture opportunities to expand services for Pembina's customers. The site is in close proximity to major oil sands pipeline rights-of-way, existing crude oil and petrochemical infrastructure and Pembina's Redwater site. It is expected to provide interconnectivity via pipeline and rail to downstream refining markets and enable Pembina to offer upstream and downstream customers access to merchant storage and other complementary midstream services.

Natural Gas Facility Planned In Saskatchewan

SaskEnergy's subsidiary Bayhurst Energy Services Corp. announced a joint venture with Mistral Midstream Inc. of Calgary, Alberta, to build a $72.5-million facility to extract ethane and other hydrocarbons from gas being transported on SaskEnergy's gas system from the Bakken formation in southeast Saskatchewan, near Viewfield.

The facility will sit alongside SaskEnergy's gas pipeline system, where it will recover natural gas liquids (NGLs), compressgas and re-inject it into the transmission pipeline.

This project will provide SaskEnergy with revenue sources related to accessing gas for extraction, the amount of NGLs produced by the plant and the increased volume of gas delivered on the system.

Construction on the facility will begin in 2014, and the plant is expected to be operational in early 2015.

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Shell Files For Washington Rail Terminal

Shell Oil Products (US) officially joined the ranks of companies wanting to rail Bakken crude to West Coast refineries by filing documents with Skagit County, Washington, according to *Petroleum News*.

The plans outlined the potential construction of a rail terminal, called Rail East Gate, adjacent to its Puget Sound refinery at Anacortes north of Seattle. Shell said the purpose of the terminal is to import Bakken crude oil to replace gradually declining Alaska North Slope crude feedstocks, according to the report.

The Rail East Gate project would have an initial approximate capacity to unload one unit train per day and up to six unit trains per week. According to the report, the facility would be served by Burlington Northern Santa Fe.

Alliance Energy To Purchase Propane Terminal

Alliance Energy Services will acquire a propane terminal from Kinder Morgan Energy Partners LP for approximately $5 million. The terminal in Benson, Minnesota, supplies more than 75 million gallons (gal) per year via delivery from the Cochin Pipeline System and has a storage capacity of approximately 1.4 million gal.

Kinder Morgan will cease receiving propane into Cochin in spring 2014 to prepare for the in-service of the company's Cochin Reversal Project, which involves modifying the western leg of its pipeline to move light condensate northwest from Kankakee County, Illinois, to terminal facilities near Fort Saskatchewan, Alberta.

Propane deliveries to the terminal are expected to continue until May 2014. Alliance Energy will build out the terminal to accept propane via rail and expects to begin rail operations by June 2014.

Zachry Lands Contract For ExxonMobil Complex

ExxonMobil awarded a multi-year contract to San Antonio-based Zachry Holdings Inc. for capital work at its Baton Rouge chemical plant and refinery in Louisiana.

Financial terms of the contract were not disclosed in an August 27 announcement by Zachry.

Zachry also has contracts with ExxonMobil at sites in Beaumont and Baytown, Texas.

"We have an outstanding long-term relationship and partnership with ExxonMobil at many levels," Steve Brauer, president, Zachry's Industrial Services Group said. "It is exciting to continue to grow our business together by servicing their needs in Baton Rouge."

Zachry is a privately-held firm engaged primarily in the engineering, construction and maintenance of large industrial projects and facilities in the U.S.

Targa Resources Partners Provides Plant Update

Targa Resources Partners subsidiary Targa Midstream Services LLC (TMS) experienced a fire at the Saunders gas processing facility in Lea County, New Mexico. All workers have been accounted for.

The fire was contained and surrounding roads were secured and monitored by emergency personnel. The fire was extinguished, and TMS will begin to assess damage to the facility.

Canyon Midstream To Provide Services In TMS

Arroyo Midstream Partners LLC, a subsidiary of Canyon Midstream Partners LLC, entered into an interim gas processing and marketing agreement with Goodrich Petroleum Co. LLC for acreage in Louisiana and Mississippi, which is prospective for the Tuscaloosa Marine shale.

Arroyo is currently providing Goodrich with wellhead gas processing services at two recently completed wells in southwestern Mississippi and expects to add gas processing facilities to process gas volumes from an additional two wells by the end of 2013.

Arroyo is a joint venture between Canyon and Gas Processors Inc.

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A&D Expected To Pick Up In Last Quarter

BY **CHRIS SHEEHAN** | HART ENERGY

As the fourth quarter nears, Scott Richardson, co-founding principal of RBC Richardson Barr, is expecting a languishing acquisition and divestiture (A&D) market to pick up. He is predicting $10 billion in transactions in the fourth quarter, which would put 2013's A&D tally at just more than $30 billion. Yet, 2013 A&D transactions are expected to be roughly half of the level reached in 2012.

Richardson noted that transactions between 2010 and 2012 were in the $55- to $60 billion range annually with 2012 getting a bump up to almost $60 billion, driven in part by heavier than normal tax-related selling. Typically, the fourth quarter accounts for an outsized percentage of deal flow for the year, although the outlook is uncertain this year, he noted.

"If we have a similar quarter this year—which I don't think we will—we're probably going to close the year anywhere between $30- and $35 billion, which is a pretty dramatic decrease from years past," Richardson said at Hart Energy's A&D Strategies & Opportunities conference in early September. "This year has been pretty slow."

Transactions in the first two quarters of 2013 were $7.6 billion and $8.4 billion, respectively, and $4.9 billion so far in the third quarter. The average quarterly rate of transactions last year was just under $15 billion, with $18.9 billion taking place in the fourth quarter.

Richardson attributed the slower transaction pace in 2013 to less selling by private companies, which contrasts with last year's heavier than normal selling because of concerns in changes in the capital gains tax. Also in 2013, joint ventures (JVs) have been fewer. JV activity had been "pretty frothy for two or three years," with $7- to $10 billion a year in transactions. But this had largely dried up, with Chesapeake Energy, for example, selling interests in only $1- to -$3 billion a year of properties, down from a previous pace of $5- to $10 billion.

"And the biggest issue is on the undeveloped acreage deals. We're seeing a lot more failed deals," said Richardson. "From 2004to 2010, it really was much easier to sell undeveloped deals. Deals really didn't have to be de-risked. You had a lot of serial basin buyers, whether it be XTO, Chesapeake or whoever. Now you really don't have that same buyer. And the result is probably a lot more transactions that are not closing that are undeveloped."

Large Prediction | After experiencing a languid 2013 thus far, Scott Richardson of RBC Richardson Barr anticipates $10 billion worth of deals in the fourth quarter. (Courtesy: Hart Energy)

Richardson said transactions today are really "segmented" into two markets: a "core of the core" market for properties in coveted resource plays, where "valuations today have never been better," and a second market for lower quality properties—ones "with a little hair on them"—that are more challenged in terms of selling for modest metrics or don't sell at all.

In terms of current themes, the Permian was the basin with the most "sizzle," said Richardson.

"We've never heard so much buzz about the Permian as we are hearing now," he said. "The private market loves the Permian, and the public market loves the Permian."

With the JV market "more challenged" and capital intensity higher in resource plays, another theme identified by Richardson was public companies' strategy to "shrink to grow." By selling non-core, often unconventional properties, they could then re-deploy assets in their top resource plays. "I think that's a trend you will continue to see. We'll see a lot of that in 2014. I think that's a big variable that's going to cause 2014 to be a little more active than 2013."

In terms of buyers of onshore properties, Richardson said private equity sponsors had been the most active buyers, with $9.2 billion in transactions, a lot of it in the natural gas sector, and mostly involving conventional properties.

"We'll probably see this trend continue," he said, noting that typical deals involved 30% to 50% proved developed producing properties.

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This increase is expected to continue to rise later in the quarter as Targa Resources' new LPG export terminal comes online.

Despite these increases, Wells Fargo Securities is holding firm with its forecast that composite NGL prices will average 93¢ per gal in 2014. This is partially attributed to their forecast that propane prices could decrease in value next year as new fractionators come online in the second-half of the year.

Heavy NGLs rose an average of 9% as butane and C_{5+} rose 10% each and isobutane increased 8%. Although C_{5+} production is expected to grow by more than 40% during the next four years, the investment firm anticipates that prices will remain relatively static in their current range as diluent demand will increase from Western Canadian oil sands producers.

In addition, the market will be supported by increased waterborne export opportunities and substitution opportunities with condensate and light naphtha. According to the report, C_{5+} will maintain a strong correlation with West Texas Intermediate (WTI) crude as it will trade in a range between 85- to 95% with WTI crude and 77- to 87% of Brent.

"From a demand perspective, we see the following trends developing: exports of natural gasoline to Western Canada for use as a diluent could increase meaningfully over the next five years to almost 250,000 bbl. per day by 2017-2018 from 107,000 bbl. per day in 2012; midstream companies could construct a new diluent pipeline [or expand existing pipelines] in the 2016 timeframe to support the growing needs of Western Canadian oil sands producers," the report continued.

In the interim, Wells Fargo Securities anticipates rail playing a large part in transporting the product to Western Canada since C_{5+} is chemically similar to several crude-based products, unlike the other NGLs. "Accordingly, natural gasoline can be easily substituted with the aforementioned hydrocarbons, significantly increasing the depth of the demand market for natural gasoline and intricately linking its prices to that of crude oil."

It can also be easily transported by pipe, rail and ship, which extends its usage in global markets. The product doesn't require any special equipment to ship outside of equipment used to transport motor gasoline since it is liquid at atmospheric pressure and temperatures. By contrast, ethane and propane require specialized ships that can liquefy the gas. "Natural gasoline can be freely exported via traditional outlets and is therefore not dependent on specialized export facilities."

This flexibility in being able to meet demand will keep the market balanced over the next several years despite the expected healthy growth in supply and further increases the likelihood that it will continue to be traded in step with crude oil, according to the report.

One large possible headwind is that should LPG exports take off, they could reduce demand for naphtha in Asia, which would limit demand for C_{5+} in that region. "Many petrochemical companies in Asia are in the process of retooling ethylene units to accept lower cost LPG feedstock rather than naphtha. These companies intend to utilize growing LPG supply from the U.S. to reduce reliance on higher cost naphtha from the Middle East."

Should this result in a decrease in global naphtha demand, it could drop global prices that would cause a U.S. downturn in both demand and prices. A further negative in this scenario would be that Western Canadian oil sands producers could seek out cheaper naphtha from international markets to use as diluent rather than U.S. C_{5+}. "To note, part of Enbridge's Northern Gateway project involves a parallel line that would carry imported diluent from Kitimat, British Columbia to the oil sands in Edmonton, Alberta," the report said.

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