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Northeast Conundrum: Supporting Midstream Growth

Infrastructure is needed, but questions remain over gaining necessary support.

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

There is a tremendous amount of regulatory and, increasingly, economic pressure to convert coal-fired power plants to natural-gas fired facilities. What goes unanswered much of the time is who will pay for the necessary infrastructure to be developed for the power generation market to convert from coal to gas?

Midstream companies are willing to build, but they need firm, long-term commitments from utilities to transport volumes from production centers to power plants. However, thus far, utilities have largely been unwilling to make these commitments because they are unfamiliar with such business practices. Utilities that operate on coal are used to consistent volumes that are stored on site for when they are needed.

Increasingly, cities in the Northeast, which represent one of the largest regions for gas-fired generation growth, are coming up with creative ways to entice this development. At the recent North American Gas Forum in Washington, D.C., that was organized by Energy Dialogues LLC, representatives from New England utilities ,midstream operators and a New York City official discussed the ways in which they are encouraging the switch from coal and fuel oil to gas.

New England's largest utility, Northeast Utilities, began to plan to switch from fuel oil to natural gas once the Marcellus shale began to take development to deliver consistent supplies to the region. Camilo Serna, vice president, corporate strategy for Northeast Utilities, said that switching from fuel oil to natural gas saves consumers an average of $1,800 per year. It was this realization that caused Connecticut officials to begin to develop a comprehensive energy strategy last year that also sought ways to encourage the use of gas in the state.

City Support | New York City's PlaNYC program, headed by Sergej Mahnovski, aims to increase the city's use of natural gas. (Courtesy: New York City Energy Efficiency Corp.)

This strategy called on all of the utilities in the state to work together toward the goal of expanding the gas system by more than 50% in the next 10 years. "We currently have 600,000 gas customers in the state and are targeting the addition of another 280,000 new customers. This would

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HIGHLIGHTS FROM TODAY'S EDITION

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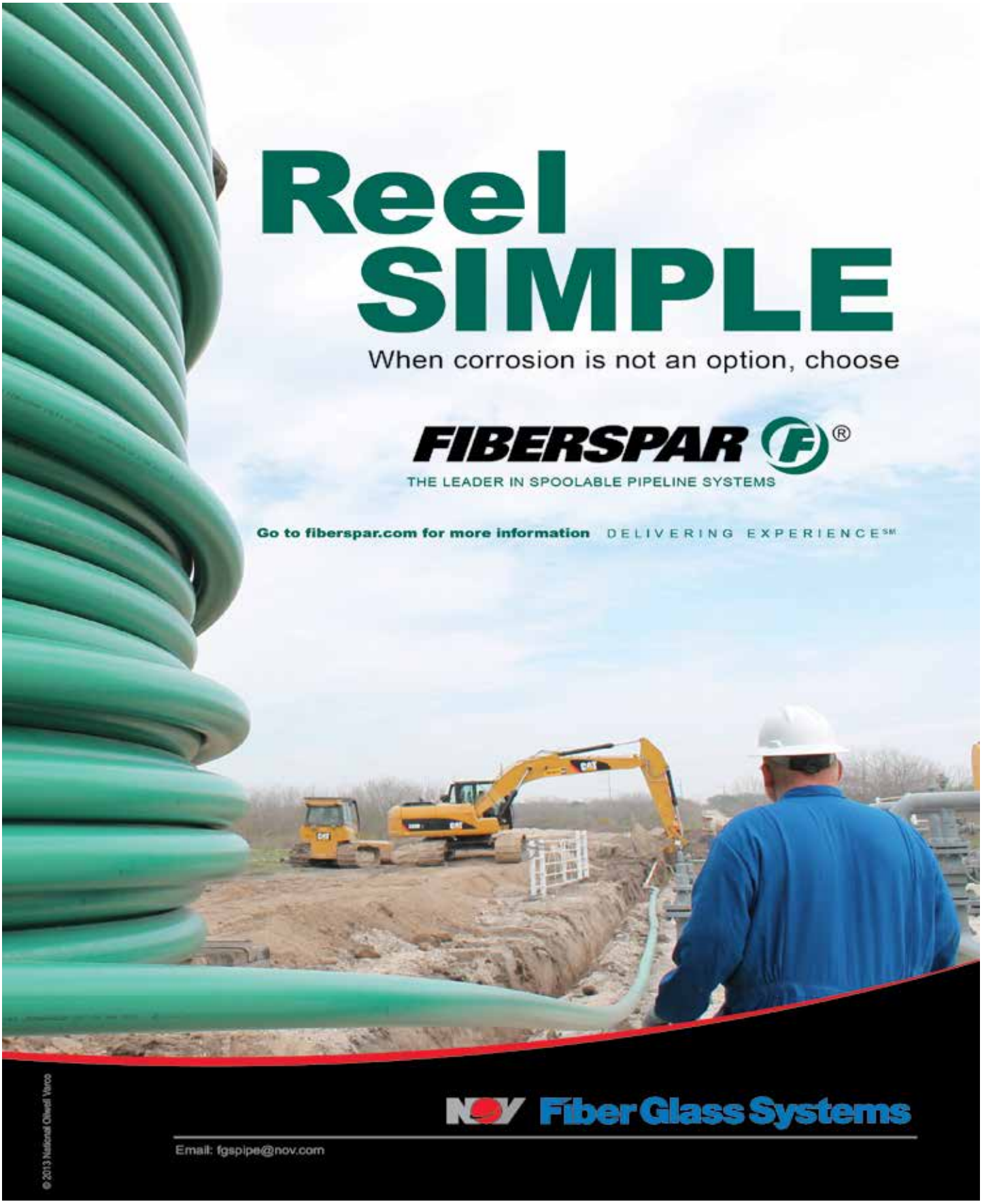
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NGL Prices Improve Despite Shutdown

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

The U.S. government shutdown hasn't had much of an impact on commodity prices thus far, although the industry will soon be forced to base some of its market movements on analyst forecasts and outlooks other than hard data from the government.

The Energy Information Administration (EIA) was to begin furloughing more staff beginning October 11, which would cause the agency to cease publishing its weekly reports on natural gas storage and other data. Since these reports help many traders make their decisions, the industry will be flying blind until the shutdown comes to a halt.

CURRENT FRAC SPREAD (CENTS/GAL)

October 14, 2013	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	20.90		25.08	
Shrink	23.07		23.60	
Margin	-2.17	28.98%	1.48	90.43%
Propane	105.80		109.62	
Shrink	31.88		32.61	
Margin	73.92	5.08%	77.01	6.14%
Normal Butane	144.40		145.18	
Shrink	36.09		36.92	
Margin	108.31	9.11%	108.26	6.70%
Isobutane	150.82		147.98	
Shrink	34.66		35.46	
Margin	116.16	6.86%	112.52	6.98%
Pentane+	196.62		206.10	
Shrink	38.59		39.48	
Margin	158.03	-2.31%	166.62	-0.75%
NGL $/Bbl	40.97	2.38%	42.47	2.22%
Shrink	12.71		13.00	
Margin	28.26	3.62%	29.46	3.89%
Gas ($/mmBtu)	3.48	-0.29%	3.56	-1.39%
Gross Bbl Margin (in cents/gal)	64.65	3.86%	67.96	4.15%
Gross Bbl Margin (in cents/gal)				
Ethane	1.15	4.08%	1.38	1.50%
Propane	3.67	3.40%	3.81	3.79%
Normal Butane	1.56	6.60%	1.57	4.52%
Isobutane	0.94	5.13%	0.92	4.85%
Pentane+	2.54	-1.92%	2.66	-0.88%
Total Barrel Value in $/mmbtu	9.86	2.70%	10.33	2.44%
Margin	6.38	4.40%	6.77	4.57%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Oct. 2 - 8, '13	25.08	109.62	145.18	147.98	206.10	$42.47
Sept. 25 - Oct. 1, '13	24.71	105.62	138.90	141.14	207.92	$41.55
Sept. 18 - 24, '13	24.55	109.08	134.86	136.30	213.46	$41.97
Sept. 11 - 17, '13	24.85	112.46	133.64	135.04	223.50	$43.00
September '13	24.91	110.95	135.38	136.84	218.42	$42.63
August '13	25.01	105.63	134.40	136.61	219.58	$42.03
3rd Qtr '13	24.87	102.65	132.06	134.86	215.56	$41.21
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
Oct. 3 - 9, '12	29.70	95.66	145.02	171.70	199.25	$41.68
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Oct. 2 - 8, '13	20.90	105.80	144.40	150.82	196.62	$40.97
Sept. 25 - Oct. 1, '13	20.08	102.32	135.46	143.46	200.46	$40.02
Sept. 18 - 24, '13	20.20	105.70	131.58	136.40	203.92	$40.28
Sept. 11 - 17, '13	20.33	110.40	131.12	135.08	215.16	$41.57
September '13	20.59	108.24	132.50	137.44	209.98	$41.14
August '13	21.29	102.79	132.20	139.92	212.37	$40.82
3rd Qtr '13	20.80	99.22	129.23	142.77	209.94	$40.07
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
Oct. 3 - 9, '12	16.52	83.00	142.20	174.94	196.02	$38.03

(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.

The only other real impact on commodity prices related to the shutdown was the decline in West Texas Intermediate crude oil prices based on fears that consumer demand will decrease in line with a possible economic downturn.

As a result, C_{5+} prices took a similar downturn as they fell 1% to $2.06 per gallon at Mont Belvieu and 2% to $1.97 per gallon at Conway. The Mont Belvieu price was the lowest price at the hub since it was $1.98 per gallon the week of June 26. The Conway price was also that hub's lowest since the week of June 26 when it was $1.95 per gallon.

NGL PRICES & FRAC SPREAD | Week in Review

The other two heavy natural gas liquids (NGL) prices, butane and isobutane, had the largest improvements at both hubs as refining demand continues to increase with refiners switching to winter-grade gasoline. Conway isobutane prices were again greater than their Mont Belvieu counterparts as there are rumors that the local isomerization unit has once again been taken offline for maintenance. This would mark the third time in a year that this has occurred. The price of $1.51 per gallon represented a 5% gain and the its highest value at the hub since it was $1.58 per gallon the week of July 24. The Mont Belvieu price of $1.48 per gallon was the highest at the hub since the week of February 27 when it was $1.50 per gallon

There was near parity between the hubs' prices for butane as the Conway price rose 7% to $1.44 per gallon and the Mont Belvieu price increased 5% to $1.45 per gallon Both prices were the largest since the refining market began to switch to summer-grade gasoline in late winter in February.

Propane prices ended a four-month losing streak as they posted solid gains at both hubs. Both increased export demand and capacity are having a positive impact on lowering propane storage level. The Mont Belvieu price increased 4% to $1.10 per gallon while the Conway price rose 3% to $1.06 per gallon These prices have put propane on track to reach their five-year inventory levels by the end of October.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / October 3, 2013	
Gas Hub Name	Current Price
Carthage, TX	3.53
Katy Hub, TX	3.56
Waha Hub, TX	3.49
Henry Hub, LA	3.58
Perryville, LA	3.54
Houston Ship Channel	3.57
Agua Dulce, TX	3.59
Opal Hub, Wyo.	3.53
Blance Hub, NM	3.48
Cheyenne Hub, Wyo.	3.55
Chicago Hub	3.66
Ellisburg NE Hub	3.45
New York Hub	3.54
AECO, Alberta	2.91

Source: Bloomberg

While ethane prices also saw improvements at both hubs, NGL remains depressed as frac spread margins are extremely thin at Mont Belvieu and remain negative at Conway. It is expected that ethane will continue to struggle throughout the remainder of the year, even as it slowly improves its price.

It will take significant price improvements for ethane margins to turn positive as heating demand is starting to come online in parts of the country. Though natural gas prices dipped slightly at both hubs, it is likely they will continue to improve as winter approaches.

The theoretical NGL barrel (bbl.) price improved 2% at both hubs with the Mont Belvieu price increasing to $42.47 per bbl. with a 4% gain in margin to $29.46 per bbl. and the Conway price rising to $40.97 per bbl. with a 4% gain in margin to $28.26 per bbl.

RESIN PRICES – MARKET UPDATE –OCTOBER 11, 2013					
TOTAL OFFERS: 15,239,284 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	5,112,324	0.71	0.78	0.67	0.71
HDPE - Blow Mold	2,540,944	0.72	0.78	0.68	0.72
PP Copolymer - Inj	2,528,196	0.795	0.9	0.77	0.81
HDPE - Inj	1,133,840	0.67	0.73	0.69	0.73
LDPE - Inj	1,058,208	0.73	0.78	0.72	0.76
LDPE - Film	1,050,748	0.75	0.82	0.76	0.8
PP Homopolymer - Inj	786,196	0.77	0.85	0.76	0.8
HMWPE - Film	396,828	0.77	0.77	0.74	0.78
GPPS	274,000	0.9	0.98	0.86	0.91
HIPS	190,000	1.03	1.03	0.98	1.03
LLDPE - Inj	168,000	0.72	0.75	0.69	0.73

Source: Plastics Exchange – www.theplasticsexchange.com

The most profitable NGL at each location remained C_{5+} at $1.58 per gallon at Conway and $1.67 per gallon at Mont Belvieu. This was followed, in order, by isobutane at $1.16 per gallon at Conway and $1.13 per gallon at Mont Belvieu; butane at $1.08 per gallon at Conway and Mont Belvieu; propane at 74 cents per gallon at Conway and 77 cents per gallon at Mont Belvieu; and ethane at negative 2 cents per gallon at Conway and 2 cents per gallon at Mont Belvieu.

Natural gas storage levels increased 90 billion cubic feet to 3.577 trillion cubic feet (Tcf) the week of October 4 from 3.487 Tcf the previous week according to the latest information from the EIA. This was 4% below the figure of 3.715 Tcf posted last year at the same time and 2% greater than the five-year average of 3.522 Tcf. Should the government shutdown continue in the weeks ahead, *Midstream Monitor* will endeavor to report on storage forecasts from industry analysts until the EIA reports return.

Heating demand is expected to increase in the Midwest according to the National Weather Service's forecast for the week of October 15 to October 19, which anticipates cooler-than-normal temperatures in the region. However, this will be countered by warmer-than-normal temperatures along the East Coast that will run into the Southeast and parts of the Gulf Coast. Tthe National Weather Service indicated it will continue to issue forecasts even if the government shutdown continues.

Crestwood, Inergy Complete Merger

Crestwood Midstream Partners LP and Crestwood Holdings LLC together with Crestwood Midstream and Inergy, L.P. and Inergy Midstream LP announced that the merger of Crestwood and Inergy has been completed. The combination is a fully integrated midstream partnership platform with a total enterprise value of approximately $8 billion.

The merger of Crestwood Midstream with a subsidiary of Inergy Midstream closed October 7, completing the final step in the combination of Inergy and Crestwood. The newly combined entity has been named Crestwood Midstream Partners LP and will trade under the ticker symbol CMLP on the New York Stock Exchange beginning on October 8.

Additionally, Inergy LP has been renamed Crestwood Equity Partners LP and will trade on the New York Stock Exchange under the ticker symbol CEQP beginning on October 8.

Going forward, Crestwood's core operations will be organized into two primary business units: the Natural Gas Unit, which will include all gathering and processing and natural gas storage and transportation assets and operations, and the Crude Oil and Liquids Unit, which will include all crude oil rail terminals, trucking and storage, as well as all NGL storage, trucking, logistics and marketing assets and operations

As outlined in prior announcements, Robert G. Phillips has been named as chairman, president and chief executive of Crestwood Midstream and Crestwood Equity.

Crestwood Seeking Liquids Midstream Deals After Merger

BLOOMBERG

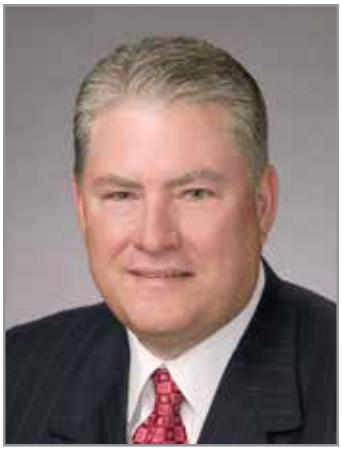
Crestwood Midstream Partners LP is on the hunt for more assets to expand its oil and natural gas liquids business, focusing on shale regions such as the Marcellus in the northeast U.S., following its merger with Inergy Midstream LP, according to *Bloomberg*.

The combined companies will have a market capitalization of about $6.1 billion and operations in the Bakken, the Niobrara, the Permian and the Utica/ Marcellus.

"We think the market is very attractive right now," Crestwood Chief Executive Officer Robert G. Phillips said in a phone interview with *Bloomberg*. "If we continue to acquire assets, which we will, they'll be located in those areas."

Crestwood may target businesses between $100 million and $1 billion in size, depending on how a deal could be financed, Phillips said. Opportunities will be presented to Crestwood's newly merged board of directors when it meets in November.

Phillips is aiming for an investment-grade rating from the credit agencies. To obtain that, Crestwood needs about $500 million in annual free cash flow, which is "certainly" within reach next year if it makes additional purchases, he told *Bloomberg*.



Eyeing Liquids | Crestwood Midstream Partners' CEO Bob Phillips is looking at more deals related to liquids-rich plays. (Courtesy: Crestwood Midstream Partners)

Williams, Boardwalk Sign JV For Proposed LPG Export Terminal

Williams and Boardwalk Pipeline Partners LP executed joint venture (JV) agreements to continue developing a liquefied petroleum gas (LPG) export facility in the Lake Charles, Louisiana, area. The proposed Moss Lake LPG terminal would be located on the Calcasieu River and serve tanker ships transporting LPG to Asian, Latin American and European markets.

The terminal is being designed to store 900,000 barrels (bbl.) of fully refrigerated propane and butane with a load-rate of 25,000 bbl. per hour. Williams and Boardwalk are currently working with a number of parties to reserve offtake capacity at the terminal.

If completed, the terminal would facilitate the export of a portion of the propane and butane components of the natural gas liquids (NGLs) transported on the proposed Bluegrass Pipeline and separated at the Moss Lake Fractionation plant, both of which are also being developed by a JV between Williams and Boardwalk.

The Moss Lake Fractionation Plant near Lake Charles would consist of storage facilities and a large-scale fractionation plant to separate NGLs into component products.

Sanctioning and completion of this project, including the Bluegrass Pipeline, Moss Lake Fractionation project and Moss Lake LPG, is subject to, among other conditions, execution of customer contracts sufficient to support the project and the parties' receipt of all necessary approvals, including board and regulatory approvals.

Judge Orders San Carlos Gas Pipeline Shutdown

In a potentially precedent-setting decision, a Northern California judge ordered Pacific Gas & Electric Co. to shut down a natural gas pipeline due to concerns that could possibly lead to a deadly explosion, like the one that occurred in San Bruno, California, three years ago.

Forced Stoppage | A temporary injunction ordering the shutdown of a gas pipeline in California because of the possibility of an incident could have long-lasting impacts.

San Mateo County Judge George Miram signed a temporary injunction after San Carlos City Manager Jaff Maltbie on October 4 declared a state of emergency following the utility's refusal to act on the city's request to close a four-mile section of gas transmission line 147.

According to the news station KTVU, "The city says emails from PG&E officials question whether the pipeline dating back to 1929 had been properly maintained and inspected. Issues include external corrosion and fatigue cracks."

The Safety and Enforcement Division of the California Public Utilities Commission supported the judge's decision to keep the pipeline closed and initiated an investigation to determine whether the pipeline poses any immediate danger, according to the San Jose Mercury News.

A hearing is scheduled for October 24.

Why The Marcellus Matters

BY **MIKE MADERE** | HART ENERGY

Amid a backdrop of falling gas rig counts and flat gas production in North America, a Bernstein Research report concludes that the Marcellus shale will continue to be the brightest star.

Released September 30, the report states that the Marcellus is the "single biggest element" in the gas market, meaning it's the dominant force in the North American market. More specifically, what's "big" about the Marcellus are its recent production results and an impressive forecast for the future. As of mid-2013, the Marcellus produced about 8 billion cubic feet (Bcf) per day, compared with about 6 Bcf per day in mid-2012, according to Bernstein. Looking ahead, production is expected to swell to 18 Bcf per day by 2020.

The expected growth in the Marcellus will have significant impacts on regional gas markets in the short-, medium-, and long-terms, Bernstein reports. Midstream capacity in the Northeast will be sufficient in the near-to-medium term, "but there are likely to be ongoing blowouts and volatility as pipelines continuously rush to catch up to the needs of production," said Bob Brackett, senior Bernstein analyst.

As of now, the Northeast is still a net importer of gas from the Henry Hub and the Rockies. Yet, "as Marcellus continues to grow, this will no longer be the case, and additional outlets for the Marcellus gas may even be needed," Brackett said.

According to Bernstein, Northeast gas demand is highly seasonal. It hovers at less than 9 Bcf per day in the shoulder months and nearly 20 Bcf per day in the winters. If Marcellus hits high-case targets of 12 Bcf per day during the next two to three years, additional distribution capacity would be required.

"The most likely resolution will be one or more of the major incoming pipelines reversing direction, sending Marcellus gas either toward the Midwest, or south toward the mid-Atlantic," Brackett said.

Marcellus-Henry Hub differential

Until the past five years, the Northeast relied heavily on gas from Western Canada and the Henry Hub, and the price in New York was on average $1.19 higher than Henry Hub, reflecting the cost to transport gas.

In 2009-10, things began to change. The spread dropped to $1.01 as the New Rockies Express Pipeline offered new capacity and the Marcellus began to ramp up. In 2011-12, the spread fell further to 76 cents, reflecting the increased volumes. In recent months, the spread has hovered just above zero as more Marcellus supply has come online, and there is low demand during the fall shoulder months.

"We estimate that the long-term differential of Marcellus gas to Henry Hub would be 25 cents per million cubic feet (MMcf), which would obviously be added to the effective marginal cost," said Brackett. "This would benefit producers in Arkansas and Louisiana."

Gas prices: looking ahead

In the medium term, 2014-2016, Bernstein expects a $4 per MMcf price deck. Bernstein bases the $4 price on a stable average residential and commercial power demand. In the longer term, 2017-2020, Bernstein expects modest growth in power demands but significant growth from LNG exports, particularly to Mexico.

With the increased export demands, Bernstein thinks Henry Hub prices will hit the $5 per MMcf range.

TransCanada To Finish Southern Keystone Line By End Of Month

BLOOMBERG

TransCanada Corp. said it expects to finish construction of the southern portion of the Keystone XL pipeline network by the end of October, according to *Bloomberg*.

TransCanada will begin filling its Gulf Coast pipeline with oil shortly after that, a process that's forecast to take 30 days, Les Cherwenuk, project director for the company, said in an interview after a speech at Hart Energy's Executive Energy Club in Houston. He declined to discuss the grades of crude that will be moved via the pipeline, though he said that filling it would be easier with light, or low-density oil.

The Gulf Coast pipeline to Nederland, Texas, from Cushing, Oklahoma, is likely to speed the flow of crude out of Cushing. He declined to discuss the grades of crude that will be moved via the pipeline, though he said that filling it would be easier with light, or low-density oil.

The Gulf Coast pipeline to Nederland, Texas, from Cushing, Oklahoma, is likely to speed the flow of crude out of Cushing, the delivery point for West Texas Intermediate (WTI) futures traded on the New York Mercantile Exchange (Nymex). Cushing supplies fell to 32.8 million barrels (bbl.) last week, the lowest level since February 2012, the government reported today. They are down 34% since June 28 and reached a record 51.9 million January 11.

"It's positive for WTI because there were lots of rumors going around that this could get delayed," said Amrita Sen, chief oil analyst for London-based Energy Aspects Ltd.. "That was one of the biggest factors weakening it."

WTI surged 1% in 18 minutes after the comments were published at 9:42 a.m. in New York, on speculation that the pipeline would reduce stockpiles at Cushing.

November-delivery futures gained $2.06, or 2%, to settle at $104.10 per bbl. on the Nymex. WTI's discount to Brent oil, the European benchmark, narrowed 81 cents, the most in two weeks, to $5.09 per bbl.

$2.3-billion project

Building the 700,000 bbl. per-day Gulf Coast line will cost $2.3 billion, TransCanada has said. Under construction since August 2012, after the line's initial capacity is reached, it will be able to expand capacity to 830,000 bbl. per day, according to the company.

Construction was split into three sections. The middle portion is already finished, and the southern part should be complete in the next week, Cherwenuk said, according to *Bloomberg*. The northernmost portion, originating at Cushing, and a terminal at Cushing, still need to be completed, he said.

The pipeline was originally part of TransCanada's Keystone XL project, which entered its sixth year of U.S. review last month. President Barack Obama initially rejected the conduit in January 2012, citing concerns with its path through ecologically sensitive lands in Nebraska.

TransCanada reapplied with a new Nebraska route last year and split the project in two, proceeding with the Gulf Coast project—the southern portion of the network that doesn't require a permit.

Cherwenuk declined to speculate on when the company expects another decision on the northern pipeline. He said the State Department is poring over thousands of public comments and trying to address them all in an environmental impact statement.

TransCanada has agreements to ship about 100,000 bbl. per day from the Bakken shale formation in North Dakota on the northern expansion.

TransCanada hasn't decided what to do if the State Department approval doesn't come through, Cherwenuk said. Building just the portion between North Dakota and Nebraska while awaiting approval doesn't make sense because there wouldn't be enough shipments to justify a line of the size planned, he said.

Tenaska To Launch Natural Gas Transportation-Fuels Business

Independent energy company Tenaska is launching a marketing and development company in response to the growing use of liquefied natural gas (LNG) and compressed natural gas (CNG), together NG fuels, in the transportation sector and among industries using high-horsepower engines. Chairman of Natural Gas Vehicles for America Doug Clark has signed on to lead commercial activities for the new affiliate, Tenaska NG Fuels LLC (TNG Fuels).

TNG Fuels said it will leverage Tenaska's energy marketing expertise and its 26 years of project development and commercial financing experience to assist utilities and customers in the trucking, mining, railroad, vessel and other transportation industries to realize cost savings and meet new and changing environmental regulations.

Clark is the former president of the Metropolitan Utilities District (MUD) in Omaha, Nebraska, one of the first municipal utilities to contract with a third party to market LNG to companies transitioning to the fuel for operations or transportation. Clark also oversaw the fuel conversion of a fleet of 200 vehicles from gasoline and diesel fuel to CNG and the development of the infrastructure required to support it, including several public fueling stations. MUD sales of CNG are on track to total the equivalent of 400,000 gallons in 2013.

Tenaska is based in Omaha, with regional offices in Dallas, Denver, Pittsburgh and Calgary and Vancouver, Canada.

Rock River Resources To Build Crude Oil Processing Plant In Utah

Rock River Resources will build a new state-of-the-art crude oil processing plant and rail terminal facility in Green River, Utah. The project will require a capital investment of more than $230 million and will provide a long-term crude processing option in the region.

The first phase of the project will include a terminal and rail-loading facility that is planned to break ground in 2013 and will be operational in 2014. The second phase of the project will be a 10,000 barrel per-day plant that will process local crudes and condensates. The plant is projected to be operational by mid-2015. The final phase of the project will be a processing plant for regional wax crudes, which the company said should be operational by mid-2016.

HEYCO Energy Group To Install LNG Facility Dedicated To Energy

HEYCO Energy Group Inc. will install the first liquefied natural gas (LNG) facility dedicated to the energy sector and Southern Gulf Coast. The Lavaca County, Texas, plant will serve the Eagle Ford shale play and should be producing by the fourth quarter of 2014.

The facility's first-stage production capacity will be 150,000 gallons per day (g/d), expandable to 300,000 (g/d) within six to eight months as demand dictates.

HEYCO's plant will target dual-fuel applications in the energy sector, specifically drilling rigs and hydraulic fracturing units as well as marine applications in the southern Gulf Coast.

Stabiles Energy, Flint Hills Resources Form LNG Venture

Stabilis Energy has formed a venture with Flint Hills Resources LLC, a subsidiary of Koch Industries, to build up to five liquefied natural gas (LNG) liquefiers serving oilfield fuel consumers. The new venture will open its first LNG production facility in January 2015. Located in George West, Texas, the facility will produce LNG for high horsepower oilfield fuel applications throughout the Eagle Ford Shale. Planned production capacity is 100,000 gallons per day. The company said it will begin taking orders for LNG supply immediately.

In addition to announcing its first LNG production facility in the Eagle Ford Shale, the venture is finalizing land procurement in North Dakota and West Texas for facilities that are scheduled to begin production in 2015 and 2016. Other LNG production facilities will be located to meet customer demand and are scheduled to begin production in 2016 and 2017.

Stabilis and Flint Hills will share management-committee responsibilities.

Stabilis will provide LNG transportation, logistics and field service support through its subsidiary Stabilis LNG Transportation and Field Service. Stabilis is currently working with oilfield customers to plan dual-fuel engine conversions. Completion of the Stabilis Eagle Ford liquefier will enhance its ability to supply LNG at competitive prices with maximum reliability.

Centrica, QPI Complete $1 Billion Acquisition From Suncor

Centrica and Qatar Petroleum International (QPI) completed a C$1-billion agreement with Suncor Energy to acquire a package of producing oil and natural gas assets in the Western Canadian Sedimentary basin.

The assets include proven and probable reserves estimated by the partners at 978 billion cubic feet equivalent (90% natural gas), with estimated 2013 production of approximately 250 million cubic feet equivalent per day.

On behalf of the partnership, Centrica Energy will operate these assets, along with its existing portfolio. Centrica will operate 6,760 wells. The package includes over 1 million acres of undeveloped land, a large seismic database and infrastructure, including gas processing plants.

Western Refining Logistics, LP Announces IPO

Western Refining Logistics LP (WNRL) announced the launch of its initial public offering of 12,500,000 common units representing limited partner interests pursuant to a registration statement on Form S-1 filed with the U.S. Securities and Exchange Commission. WNRL will grant the underwriters a 30-day option to purchase from WNRL up to an additional 1,875,000 common units, at the initial public offering price. The common units being offered to the public have been approved for listing on the New York Stock Exchange and will be traded under the symbol WNRL, subject to official notice of issuance.

NuStar Energy Completes Open Season For Crude Pipeline

NuStar Energy L.P. announced that its affiliate, NuStar Crude Oil Pipeline, L.P., received binding commitments from committed shippers filling all of the space available on Phase 1 of the partnership's South Texas Crude Oil Pipeline system project. In addition, NuStar continues to receive interest in Phase 2 of the project and will evaluate whether to proceed with this phase in the near future.

NuStar's South Texas Crude Oil Pipeline system currently transports Eagle Ford shale crude oil from several terminal locations in Frio, McMullen, and La Salle counties to NuStar's Corpus Christi North Beach facility. As previously announced, the proposed South Texas system project will include pipeline capacity upgrades to the segments of the South Texas Crude Oil Pipeline System between NuStar's Gardendale Terminal in La Salle County, Texas and NuStar's Corpus Christi North Beach Terminal in Nueces County, Texas.

The first phase will add incremental throughput capacity to the South Texas Crude Oil Pipeline System of approximately 35,000 barrels (bbl.) per day and is expected to be available for service to committed shippers in the third quarter of 2014. If NuStar decides to proceed with the second phase of the project, it will add incremental throughput capacity to the South Texas Crude Oil Pipeline system of approximately 65,000 bbl. per day and could be available as early as the first quarter of 2015. Both phases, when completed, will add a total aggregate incremental capacity of 100,000 bbl. per day, of which 90,000 bbl. per day will be available to committed shippers.

Alaska LNG Project Selects Lead Terminal Location

BUSINESS WIRE

ExxonMobil, BP, ConocoPhillips and TransCanada have selected a site in the Nikiski area on the Kenai Peninsula as the lead site for the proposed Alaska LNG project's natural gas liquefaction plant and terminal.

More than 20 locations were evaluated based on conditions related to the environment, socioeconomics, cost and other project and technical issues.

"This is a step forward for the Alaska LNG project and shows continued progress toward building Alaska's energy future," said Steve Butt, senior project manager in a release. "The work that we have put into the site selection process gives us confidence that the Nikiski site is the lead location for the LNG plant and terminal. The Nikiski site also results in a pipeline route that provides an access opportunity to North Slope natural gas by the major population centers in Fairbanks, Mat-Su Valley, Anchorage and the Kenai Peninsula."

Chosen Site | The Port of Nikiski on the Kenai Peninsula was selected as the proposed site for a new LNG terminal in Alaska. (Courtesy: State of Alaska)

A number of engineering, technical, regulatory, fiscal, commercial and permitting issues still need to be resolved as work on the potential $45-65+ billion project progresses. While Nikiski is the lead site, the project team continues to consider other secondary locations. Pipeline routing definition work also continues based on the project summer field work activities, which will be extended south of Livengood.

The companies are continuing to refine the agreed project concept that includes a gas treatment plant located on the North Slope, an 800-mile, 42-inch pipeline with up to eight compression stations and at least five off-take points for in-state gas delivery, and a liquefaction plant and terminal. The teams are currently preparing for more detailed engineering and design work, consistent with previously released plan phases.

Kinder Morgan Begins Service At BOSTCO Oil Terminal

BUSINESS WIRE

Kinder Morgan Energy Partners LP announced commercial operations are underway for Phase 1 at the 185-acre Battleground Oil Specialty Terminal Company, LLC (BOSTCO) project on the Houston Ship Channel.

Approximately 20 of the 51 storage tanks built during Phase 1 construction are being placed into service this month, and the remaining tanks will come online during the next six months. A two-berth ship dock and 12 barge berths are also scheduled to be in service this month. A joint venture of Kinder Morgan (which owns a 55% interest in and will operate the facility) and TransMontaigne Partners LP, the almost $500 million BOSTCO terminal is fully subscribed for a total capacity of 7.1 million barrels (bbl.) (including the project's phase two expansion) and is able to handle ultra-low sulfur diesel, residual fuels and other black oil terminal services.

Phase 2 of construction at BOSTCO is under way and involves the construction of an additional six, 150,000-bbl., ultra-low sulfur diesel tanks, additional pipeline connectivity and high-speed loading at a rate of 25,000 bbl. per hour. BOSTCO expects phase two to begin service in the fourth quarter of 2014.

Blueknight Energy Announces Startup Of Oklahoma Arbuckle Pipeline

BUSINESS WIRE

Blueknight Energy Partners, LP announced the operational startup of the southern Oklahoma Arbuckle pipeline.

The Arbuckle pipeline is a 65-mile pipeline from southern Oklahoma to Wynnewood, Oklahoma, where it intersects BKEP's existing Oklahoma mainline system. The pipeline was constructed as part of a long-term transportation agreement with XTO Energy Inc., a subsidiary of Exxon Mobil Corp. The pipeline transports committed XTO crude oil production from the Woodford Shale area in Southern Oklahoma to BKEP's crude oil terminal in Cushing, Oklahoma.

McClendon Digs Into Utica With New JV Partner, $1.7 Billion

DARREN BARBEE, HART ENERGY

Aubrey McClendon has resurfaced, and he appears bent on taking on the Utica.

McClendon, the former Chesapeake Energy chief executive, has raised $1.7 billion in capital and now, with a new joint-venture (JV) agreement, has even more firepower.

Red Hill Development, part of the family owned Kimble Cos., has entered a JV with McClendon's American Energy-Utica LLC (AEU) for development of a portion of Red Hill's Utica shale acreage located in Eastern Guernsey and Western Harrison County. Those areas are in the core of the wet gas window.

Reports suggest the development could involve 50,000 acres.

The JV plans to immediately apply for Utica well permits and commencing construction on well sites as early as October, with the first well to be spud before the end of 2013. Plans for additional drilling activity are being developed for 2014 through 2016.

Red Hill said it will maintain a "significant ownership position" in its Utica leaseholds included in the JV, and will be involved in future investment and drilling operations alongside AEU.

"The joint venture will enhance our ability to fully and expeditiously develop our acreage in Harrison and Guernsey counties while we continue to explore opportunities for development of our additional holdings in the region," said Keith B. Kimble, manager of RHDK Oil & Gas LLC, dba Red Hill Development.

"We've spent a great deal of time and energy studying the Utica shale and the best available technologies to use in order to effectively develop the Utica," Kimble said. "We have a lot of history drilling through the Utica and know it can be challenging and will require a tremendous amount of capital."

Kimble said the family looked for the best opportunity to develop leases quickly, safely and productively. They spent the past few years working with various banks and private equity groups to finance drilling operations and negotiating with midstream companies for transportation and processing options.

After all due diligence, the best fit for rapid, safe and productive development was a joint venture, Kimble said.

"Aubrey's ability to raise money for development, and his experience in horizontal drilling in general and the Utica Shale in particular, were a perfect fit for Red Hill Development," Kimble said.

Back In The Game | McClendon, seen speaking at Hart Energy's 2009 DUG East conference, has long been a supporter of the Utica shale. (Courtesy: Hart Energy)

McClendon may have some interest in the Niobrara, as well. But his eye is clearly trained on the Utica.

"Thus far it seems that McClendon has been solely focused on increasing its acreage position in the Utica shale with his land men marching to the orders of don't get outbid on leases," said Hsulin Peng, senior analyst, E&P, for Baird Energy.

While still with Chesapeake, McClendon completed a $2.32 billion JV withTotal SA that gave the French company a 25% interest in 619,000 net acres in the liquids-rich area of the Utica Shale.

"McClendon put the Utica on the map back at Chesapeake Energy and his continued bullishness on the play is a positive for other Utica players. Interestingly though, this time around McClendon's leasing appears to be focused further south in the wet gas window than the first time, confirming the emerging core where industry drilling is currently focused."

In August, McClendon's American Energy was said to be behind the $284.3 million purchase of EV Energy Partners LP (Nasdaq: EVEP) and EnerVest's Utica acreage.

"One interesting data point that surfaced was that American Energy Partners is getting aggressive in the basin," David Tameron, Wells Fargo senior analyst, said at the time.

American Energy-Utica is an offshoot of McClendon's American Energy Partners LP, which is privately held.

LEAD STORY | From The Front

Continued from Page 1

increase residential use to 50% and 60% on the commercial side," Serna said.

The utilities and the state are also trying to find ways to lower the upfront costs for customers to convert to gas. This includes providing manufacturer credits, incentives from energy-efficiency fundsand by providing financing options that will be part of the utility bill.

"We're also focusing on the customer-interconnection process. Moving from fuel oil to gas is not an easy process as customers. It is very cumbersome as the customer needs to work with contractors, utilities and financiers. We are trying to set up a one-stop shop to meet all of their needs," Serna said.

However, there is one piece missing from this puzzle: transportation capacity. "We don't have enough pipeline capacity in New England, especially in Connecticut, to expand the market," he continued.

This once again brings up the conundrum that we mentioned previously as pipeline operators require firm commitments, but thus far utilities and power generators have been slow to provide these assurances.

"The problem in New England is they don't have the ability to support their reliability needs. Given current market conditions, utilities cannot afford to pay firm fees," Richard Kruse, vice president of regulatory affairs and Federal Energy Regulatory Commission chief compliance officer for Spectra Energy, said. While gas-fired electric generation has increased in New England, firm contracts held by power generators is only about 23% with the bulk being moved on local distribution company's (LDC) contracts, he said.

This works fine until there is a cold front at which point the LDC utilizes all of their capacity. It is at this point that the gas-fired generation is most needed due to its quick ramp-up time and reliability. "There is a growing consensus that the inability to meet demand when it is needed most is an electric problem, not a pipeline or supply one. If you have firm contracts, you will get reliable service," Kruse said.

This rift between utilities and the midstream is understood, but it is hard to bridge without government support. Kruse noted that Spectra had originally planned on its $1 billion Algonquin Incremental Market (AIM) expansion project, which is needed by utilities to deliver gas into the region, to have a capacity of 1 billion cubic feet per day. This was later downsized to 500 million cubic feet (MMcf) per day in pre-filing paperwork, but even after two open seasons, the company was only able to secure 340 MMcf per day in firm commitments.

"Pipelines are not rewarded for speculating on capacity, we need significant firm contracts to support a project of this magnitude," he said.

New York City embracing natural gas

Under Mayor Michael Bloomberg, New York City has been encouraging building owners to convert from fuel oil boilers to natural gas boilers. Sergej Mahnovski, director of energy policy for the mayor's office, said that the city's air is cleaner than it has been in the past 50 years and much of this success can be attributed to the increased use of natural gas.

"New Yorkers are very passionate about the environment, and we get a lot of questions on natural gas. Because there hasn't been a major investment in the city for transportation or distribution in a number of years, there are a lot of concerns about safety, disruption and fracing. We looked at a number of studies and the analysis was pretty clear that natural gas won hands down versus coal and fuel oil when comparing emission levels," he said.

According to Mahnovski, New York City spends $800 million per year on energy, more than any other city in America. Natural gas represents 63% of the total energy mix for the city and is fast increasing. Unlike other cities that are seeking ways to reduce their greenhouse gas (GHG) emissions, New York City is not focused on transportation since the bulk of its emissions come from stationary sources.

"Our plan is to reduce GHG emissions by 30% by 2030. Since the bulk of the emissions in New York City come from stationary sources, we are seeking to retrofit the boilers in buildings in order to eliminate the use of heating oil," he said. This practice is a major health hazard that accounts for 500 deaths and 8,000 hospital and emergency room visits in the city per year.

Since the project, dubbed PlaNYC, was announced in 2007, the city has completed 2,700 conversions. The Mayor's Office supports these conversions and other infrastructure development by providing technical assistance, as well as financing and other incentives. c

He noted that since 2005, carbon intensity in the ity is down 28% and GHG emissions have decreased by 16%. In addition, soot emissions have decreased by 69% since 2008.

READ FULL ARTICLE ONLINE

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