HARTENERGY

MIDSTREAM Monitor

October 28, 2013 | Volume 31 | Issue 43

Devon, Crosstex To Form New Company With Liquids Focus

Deal is the latest in a series of bold moves in the midstream.

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

After a quiet few months in the midstream A&D market, there has been a major uptick the pastfew weeks as Devon Energy and Crosstex Energy agreed to create a new midstream company that will combine Devon's midstream assets with Crosstex's assets.

This follows the October closing of Crestwood Midstream Partners' $8-billion merger with Inergy Midstream, along with announcements last week that Regency Energy Partners intends to acquire PVR Partners for $5.6 billion and Crestwood Midstream Partners will acquire Arrow Midstream for $750 million.

"Crosstex and Devon know each other well from our longstanding commercial relationship, and we have a shared vision for what the new company will become. Our goal together is to be not only one of the most valuable midstream businesses, but to be one of the best," Barry Davis, Crosstex president and chief executive, told *Midstream Monitor*.

It is expected that the new company, which has yet to be named, will have an adjusted EBITDA of roughly $700 million. It is expected that the transaction will close in first-quarter 2014. Davis and the rest of the Crosstex executive team, along with one Devon executive, will lead the new company.

Gaining Momentum | After a relatively quiet period in the middle of the year, the mergers and acquisition midstream market is heating up.

The newly constituted boards of directors for the general partner entity and the general partner of the master limited partnership (MLP) will each be comprised of nine directors, including five members designated by Devon. John Richels, Devon's president and chief executive, will act as chairman. The new company will be headquartered in Dallas, Texas, with a continued employee presence in Oklahoma City.

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HIGHLIGHTS FROM TODAY'S EDITION

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Gas Prices Drop, Help Drive NGL Margins Up

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

Although the natural gas market remains oversupplied, it has been gaining strength this year as electric generation demand is expected to continue to grow in the years ahead. This has caused prices to increase as producers have been hedging production at its highest rate in three years.

Also helping to support gas prices has been crude oil price hedges as a great deal of gas production from shale plays has been from associated gas. By encouraging the continued production at steady prices, gas has been able to garner solid prices moving forward.

CURRENT FRAC SPREAD (CENTS/GAL)

October 28, 2013	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	20.87		25.68	
Shrink	24.66		24.20	
Margin	-3.79	-25.39%	1.48	723.87%
Propane	111.50		115.88	
Shrink	34.08		33.43	
Margin	77.42	4.21%	82.45	5.05%
Normal Butane	153.16		153.38	
Shrink	38.58		37.85	
Margin	114.58	3.46%	115.53	4.49%
Isobutane	164.22		155.76	
Shrink	37.05		36.35	
Margin	127.17	7.90%	119.41	4.07%
Pentane+	209.44		215.22	
Shrink	41.25		40.48	
Margin	168.19	3.87%	174.74	2.41%
NGL $/Bbl	43.33	1.49%	44.56	1.71%
Shrink	13.59		13.33	
Margin	29.74	3.88%	31.23	4.46%
Gas ($/mmBtu)	3.72	-3.38%	3.65	-4.20%
Gross Bbl Margin (in cents/gal)	68.00	4.00%	72.09	4.60%
Gross Bbl Margin (in cents/gal)				
Ethane	1.15	-7.24%	1.41	0.94%
Propane	3.87	1.77%	4.02	2.20%
Normal Butane	1.65	1.65%	1.66	2.20%
Isobutane	1.02	5.13%	0.97	2.02%
Pentane+	2.70	2.36%	2.78	1.10%
Total Barrel Value in $/mmbtu	10.40	1.13%	10.84	1.74%
Margin	6.68	3.83%	7.19	5.04%

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Oct. 16 - 22, '13	25.68	115.88	153.38	155.76	215.22	$44.56
Oct. 9 - 15, '13	25.44	113.38	150.08	152.68	212.88	$43.81
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
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. 17 - 23, '12	31.77	95.92	151.86	179.76	215.24	$43.69
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Oct. 16 - 22, '13	20.87	111.50	153.16	164.22	209.44	$43.33
Oct. 9 - 15, '13	22.50	109.56	150.68	156.20	204.62	$42.69
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
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. 17 - 23, '12	20.48	85.90	148.80	175.60	211.56	$40.44

(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.

According to a recent research note from Barclays Capital, producers have hedged 55% of their gas production as of September. This represents a 3% increase over the previous year. Looking ahead to 2014, gas hedging has increased 5% from the same time this year. Meanwhile, crude hedging is the highest it has been in the past six years.

The increase in gas prices has resulted in a push back on natural gas liquid (NGL) frac spread margins for much of this year, especially in the case of ethane, which has had a negative margin for nearly all of 2013.

This situation had a bit of a reverse this week as NGL prices continued to benefit from improved demand as the heating season and winter-grade gasoline production began and liquefied petroleum gas

NGL PRICES & FRAC SPREAD | Week in Review

(LPG) export capacity has increased. NGL prices improved at both hubs, with the notable exception of Conway ethane. At the same time, gas prices took a bit of a dip due to increased storage levels.

According to the latest information from the Energy Information Administration, gas in storage levels rose 87 billion cubic feet to 3.741 trillion cubic feet (Tcf) the week of October 18 from 3.654 Tcf the week before. This was 2% below the 3.833 Tcf figure posted last year at the same time and 2% greater than the five-year average of 3.664 Tcf.

Consequently gas prices dropped 3% to $3.72 per million Btu (MMBtu) at Conway and 4% to $3.65 per MMBtu at Mont Belvieu. "While planned maintenance at some of the nation's nuclear-power plants and cold weather should lend some support to prices, many traders still remain skeptical of any prolonged upside momentum until real winter temperatures arrive, noting comfortable inventories and near-record production," according to Hart Energy's *Commodities Report*.

These real winter temperatures are expected to be held off at least another week as the National Weather Service's forecast for next week anticipates normal late-fall temperatures for much of the country. This will cause some heating demand increases, but not likely enough to give a real push to gas prices.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / October 24, 2013	
Gas Hub Name	Current Price
Carthage, TX	3.58
Katy Hub, TX	3.59
Waha Hub, TX	3.58
Henry Hub, LA	3.65
Perryville, LA	3.63
Houston Ship Channel	3.59
Agua Dulce, TX	3.59
Opal Hub, Wyo.	3.66
Blance Hub, NM	3.58
Cheyenne Hub, Wyo.	3.66
Chicago Hub	3.88
Ellisburg NE Hub	3.62
New York Hub	3.76
AECO, Alberta	3.41

Source: Bloomberg

The Conway NGL market saw both the largest increase and the largest decrease in prices this past week as ethane dropped 7% to 21 cents per gallon due to a total lack of support for the product at the hub combined with high supply levels. Isobutane prices increased 5% to $1.64 per gallon,their highest level since early February, as isomerization capacity at the hub has been throttled back once again. We are unsure as we went to press whether this situation was due to a maintenance outage or market participants attempting to create better balance.

Mont Belvieu ethane rose 1% to 26 cents per gallon as petrochemical demand along the Gulf Coast has been increasing along with improved macroeconomic drivers. This was the hub's highest price in nearly two months. Isobutane experienced solid gains at the hub – increasing 2% – but remained below its Conway counterpart as the market remains better supplied with steady capacity. The price of $1.56 per gallon was the highest at Mont Belvieu since late February.

RESIN PRICES – MARKET UPDATE –OCTOBER 25, 2013					
TOTAL OFFERS: 13,025,028 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	4,858,208	0.705	0.78	0.67	0.71
PP Homopolymer - Inj	3,312,036	0.725	0.85	0.74	0.78
LDPE - Film	1,739,392	0.76	0.845	0.75	0.79
HDPE - Blow Mold	1,159,552	0.715	0.745	0.68	0.72
PP Copolymer - Inj	624,644	0.75	0.895	0.75	0.79
GPPS	400,000	0.9	0.98	0.87	0.92
HMWPE - Film	396,828	0.77	0.77	0.73	0.77
HIPS	190,000	1.03	1.03	0.99	1.04
LDPE - Inj	176,368	0.73	0.74	0.71	0.75
LLDPE - Inj	168,000	0.68	0.68	0.68	0.72
LLDPE - Inj	168,000	0.72	0.75	0.69	0.73

Source: Plastics Exchange – www.theplasticsexchange.com

Aside from Conway isobutane, propane had the strongest performance of any NGL this week as the Mont Belvieu price rose 2% to $1.16 per gallon This was its highest price since it was the same level the week of April 25, 2012. It appears that forecasts that stated propane was likely to reach its five-year averages in October were on the money as LPG exports have helped work the storage overhang off. The Conway price also rose 2% and reached their highest level since early March 2012 when they were the same $1.12 per gallon level they were this week.

The theoretical NGL barrel (bbl.) price increased 2% at both hubs with the Conway price increasing to $43.33 per bbl. with a 4% increase in margin to $29.74 per bbl. and the Mont Belvieu price rising to $44.56 per bbl. with a 5% increase in margin to $31.23 per bbl.

The most profitable NGL to make at both hubs remained C_{5+} at $1.68 per gallon at Conway and $1.75 per gallon at Mont Belvieu. This was followed, in order, by isobutane at $1.27 per gallon at Conway and $1.19 per gallon at Mont Belvieu; butane at $1.15 per gallon at Conway and $1.16 per gallon at Conway; propane at 77 cents per gallon at Conway and 83 cents per gallon at Mont Belvieu; and ethane at negative 4 cents per gallon at Conway and 2 cents per gallon at Mont Belvieu.

DCP Midstream's O'Connor Processing Plant Now In Operation

DCP Midstream Partners LP announced that its O'Connor Plant, formerly known as the LaSalle Plant, is now in commercial operation.

The O'Connor Plant is a deep-cut cryogenic, natural gas processing plant located near Kersey, Colorado, in the rapidly expanding, liquids-rich DJ basin that is part of the growing Niobrara shale formation. The new name honors Tom O'Connor, chairman of the board of DCP Midstream Partners, and former chief executive and chairman of DCP Midstream LLC.

The O'Connor Plant is part of an eight-plant super-system owned and operated by the DCP enterprise, with approximately 600 million cubic feet (MMcf) per day of total capacity. The plant has an initial capacity of 110 MMcf per day. Expansion to 160 MMcf per day is expected to be completed in the first half of 2014.

Third And Long: How The Quarter May Play Out For Shale Operators

BY **DARREN BARBEE** | HART ENERGY

The third quarter was barely over when the fourth got going with an Aubrey McClendon-sized bang.

McClendon is in the Utica with $1.7 billion in his wallet.

How companies performed in the third quarter will be a test of the stability of the shale revolution. A topsy-turvy political environment rocked and then halted parts of the country. And federal regulators seemed determined to control aspects of the hydraulic-fracturing process already overseen by states.

Still, the shale plays continue to produce, and even with a damper on natural gas, the Utica was on fire.

Most operators in the shale plays are performing nicely as wells continue to provide steady production, Gabriele Sorbara, an E&P and energy analyst for Topeka Capital Markets told Hart Energy.

Sorbara breaks down the plays as follows:

Bakken/Three Forks

Focus has centered on downspacing, reaching deeper benches of the Three Forks, evolving completion methods and Bakken price differentials, which have widened out since mid-September.

Steady | Despite headwinds, shale plays continue to perform strongly and are expected to generate solid profits in their third quarter earnings.

"While Oasis Petroleum Inc. will have a light update in terms of new results/data points, as it is in the process of integrating the recent acquisitions, we expect continued execution with third quarter production closer to the upper end of guidance," Sorbara said.

Marcellus shale

Heading into the third quarter, focus remained on natural gas differentials and continued execution. Sorbara recommended buying Cabot Oil & Gas Corp. stock, "as we believe pricing concerns may be overblown, and pricing may improve heading into the winter months."

Sorbara noted that the Marcellus/Utica names will be re-rated higher — Cabot in particular — which is in line to post the strongest multiple compression into 2015.

Niobrara (Wattenberg)

Bonanza Creek Energy Inc. and PDC Energy Inc. should continue to post success in the Niobrara benches.

"However, current valuations skew the risk/reward out of favor, in our view," Sorbara said.

Noble Energy's update may also be on the light side, since they deferred a detailed update for their analyst day in December.

Utica shale

The shale is in a wet-gas phase. Magnum Hunter Resources is currently drilling on the Noble/Washington county line and PDC Energy's Garvin No.1H and Neill No.1H wells are in Washington County.

"We believe Gulfport Energy Corp. may announce results from its first dry gas Utica well, the Irons 1-4H well, in Belmont County. We like Magnum, as shares are trading at less than one-third of Antero Resources' valuation."

Wolfcamp shale

In the Delaware basin portion of the Wolfcamp, expect incremental well results/data-points from Energen Corp., EOG Resources Inc. and Concho Resources Inc.

Well results should be announced soon from SM Energy Co. in the Midland Basin area of the Wolfcamp shale, and SM Energy is expected to have a peak 30-day rate of more than of 1,000 barrels of oil equivalent per day, based on data reported to the Texas Railroad Commission.

Diamondback Energy Inc. should also release results on a 9,000-foot lateral Wolfcamp well in Midland County – its first horizontal Clearfork well in Andrews County – and a non-operated Middle Spraberry well.

"We see the greatest value with Energen and Diamondback," Sorbara added.

Other stones made big ripples in the E&P pond.

McClendon's American Energy will run one rig in the Utica by year's end and 12 rigs throughout the next two to three years. The company is believed to have 110,000 net acres in the play, according to Brian Uhlmer, an analyst with Global Hunter Securities (GHS).

Dresser-Rand Group Inc. sold its three power plants, but it will continue to provide long-term operations and maintenance services. However, the company hinted the sale was likely on its recent quarterly conference call and then got the deal done, giving it a $40-million working-cap release.

Belgium's Solvay agreed to buy Chemlogics for $1.3 billion. By adding Chemlogics, a privately held U.S. chemicals producer specializing in friction reducers, non-emulsifiers and extraction technologies, Solvay becomes a player in stimulation, cementing, production and water-management chemicals.

The third quarter felt an awful lot like third-quarter 2012, when analysts at GHS suggested investors ignore service companies and instead pay attention to E&Ps.

With earnings starting to trickle out and some announcements of negative details to come, the third quarter shapes up fairly well, Uhlmer wrote in a report on oilfield services and equipment.

Quebec Train Fire Prompts New Oil Railway-Shipping Costs

BLOOMBERG

New rules will boost costs to transport crude by rail in North America as trains are forecast to carry as much as 2 million barrels (bbl.) a day, about equal to daily output from Norway.

"You're going to see a massive flood of spending to get ahead of these government regulations," Jerry Swank, managing partner at Dallas-based Swank Capital, said during the recent Bloomberg Link Oil & Gas Conference in Houston.

Regulators in Canada and the U.S. imposed emergency requirements and may seek stiffer rules after a runaway train carrying crude derailed and exploded on July 6 in Lac-Megantic,Quebec, killing 47 people.

Transport Canada issued emergency directives for transporting hazardous cargoes after the July derailment of a train operated by Montreal, Maine & Atlantic Railway Ltd. in Quebec, including requiring two train operators, locks on cabins and ensuring that brakes are properly applied.

On October 17, it imposed stricter labeling requirements. The department will now require anyone importing or transporting crude to do tests to classify the type of fuel involved and update safety data sheets with the government, Lisa Raitt, the transport minister, said.

Increased Costs | New safety regulations are expected to be added to rail transportation of oil, which will increase costs for operators, according to Swank Capital.

The move follows a recommendation from the Transportation Safety Board investigating the Quebec crash that regulators in the U.S. and Canada review processes for identifying and labeling dangerous goods. The crude carried on the train that crashed in Quebec should have been labeled as being more dangerous, the board said last month.

The U.S. Pipeline and Hazardous Materials Safety Administration in September also proposed using tank cars less prone to rupture.

Rail shipments of oil from Western Canada are forecast to quadruple by the end of next year from 224,000 bbl. a day as new loading terminals are built to get oil-sands crude on trains, according to a report by Peters & Co., a Calgary-based investment bank. The amount of rail-shipped Bakken crude to the east and west coasts is poised to jump fourfold this year, according to an analysis by Wood Mackenzie.

Refiners have used rail to take advantage of U.S. domestic oil that was about 15% cheaper than imports for more than two years since the start of 2011, according to figures compiled by *Bloomberg*. Accessing cheaper inland supplies through rail made it more profitable to pay transportation costs that are higher than by pipeline.

Continental Resources Inc. (CLR), the most active driller in the Bakken shale, is transporting 75% of its crude in rail cars, Harold Hamm, chief executive of the Oklahoma City-based company, said at the Houston conference. The company boosted its reliance on rail because of a lack of pipeline capacity in North Dakota, according to a U.S. filing.

"The good thing about it is it goes to the market faster and directly where you want it and it doesn't have to go the pipeline route," Hamm said.

The attractiveness of trains over pipelines wanes as differences between oil prices across the continent narrow, Swank said. "Spreads have never been this volatile," he added.

Rail will be a "long-term phenomenon," as producers seek flexibility and pipelines will remain dominant transporters of crude, said Robert Pacha, senior managing director at Evercore Partners Inc. (EVR), a New York-based investment bank and fund manager.

Facing increasing competition from rail, pipeline companies have scrapped or delayed proposals for new lines as operators struggled to secure long-term contracts from shippers, including the cancellation announced May 31 by Kinder Morgan Energy Partners LP of its Freedom pipeline to connect California refineries with oil from West Texas.

Pipelines remain the least risky way to transport crude, Pacha said. Railways suffer spills 2.7 times more often than pipelines, according to the Washington-based Association of American Railroads.

Railroads are moving more oil partly because pipelines are taking longer to get approved, Alex Pourbaix, president of energy and oil pipelines at TransCanada, told reporters at an October 16 conference in Calgary.

"I do not believe if you care about the environment, if you care about safety, if you care about the cost of transportation, none of that makes any sense, long term," Pourbaix said. TransCanada's $5.3 billion Keystone XL line has faced delays amid a U.S. review that has stretched more than five years.

Future regulations for moving crude by rail probably won't be a "nail in the coffin" for rising shipments, as operators implement their own safety procedures in advance of the rules, Evercore's Pacha said at the Houston conference.

PAA Natural Gas Storage To Merge With Plains All American Pipeline

PAA Natural Gas Storage LP will merge with Plains All American Pipeline LP in an agreement that will see PNG become a wholly-owned subsidiary of Plains All American Pipeline through a unit-for-unit exchange. Under the terms of the merger agreement, PNG's public unitholders will receive 0.445 common units of PAA per PNG common unit surrendered pursuant to the merger agreement, plus cash in lieu of any fractional common units of PAA otherwise issuable in the merger.

The transaction is expected to result in approximately 14.7 million additional common units being issued by PAA.

TransCanada Expects U.S. Ruling On Keystone XL By 1Q 2014

BLOOMBERG

TransCanada Corp. expects a U.S. decision on the Keystone XL pipeline in the first quarter of 2014.

The partial U.S. government shutdown isn't causing a "material delay" in the State Department's review of the US$5.3-billion pipeline, according to an October 16 *Bloomberg* report citing Alex Pourbaix, TransCanada's president of energy and oil pipelines.

The company expects a final environmental-impact statement from the department "this fall," he was quoted as saying.

Decision Time | After a cloudy and uncertain path, U.S. regulators are finally expected to rule on the Keystone XL Pipeline in early 2014.

"It does appear a lot of the work is getting done at the agencies," Pourbaix said.

Keystone XL would link rising oil-sands production in Alberta to U.S. Gulf Coast refineries. The project has become a lightning rod for environmental opponents seeking to slow oil-sands development. Trade groups and the Canadian government have rallied behind the line, calling it a job creator, the report noted.

U.S. President Barack Obama first rejected the line in January 2012, citing threats posed by its route through ecologically sensitive lands in Nebraska, and invited TransCanada to re-apply.

The company split the project into two parts last year, proceeding with the southern leg that doesn't require a permit, and reapplied for approval of the northern portion with a new Nebraska route, *Bloomberg* reported.

According to Pourbaix, the 2014 mid-term elections in the U.S. pose a larger threat to a Keystone XL decision than the government shutdown.

"Obviously this is a political file," he added. "Sometimes, big important issues get tabled in elections."

Enbridge Inc. is Canada's largest pipeline company by market value, according to the report.

Petronas Invest $35 Billion For Canadian LNG Project

BLOOMBERG

Malaysia's state oil firm Petronas recently became Canada's largest foreign direct investor with its $35 billion plan to develop shale gas assets and build an LNG export terminal in British Columbia.

Malaysian Prime Minister Najib Razak hailed the company's plans, announced last year, at a press conference October 5 with Canadian Prime Minister Stephen Harper in Putrajaya, outside of Kuala Lumpur. "This is a very significant landmark decision by Petronas, done in the wake of our friendly relationship," Najib said.

Petronas completed the $5.1 billion takeover of Canada's Progress Energy Resources Corp. in 2012, after Harper's government initially blocked the deal. Najib confirmed in April that he wrote a letter to his counterpart giving assurances of minimal state interference in the oil.

The acquisition gave the Southeast Asian group ownership of the second-biggest stakeholder in the Montney shale-gas area of British Columbia, and full control of three Progress Energy fields in which Petronas previously held stakes.

The Petronas terminal will be located in Prince Rupert, British Columbia. It'll process natural gas extracted by Progress Energy and shipped through a pipeline built by TransCanada Corp. , according to the project's website.

The $35 billion figure includes Petronas' cost of acquiring Progress Energy, building the terminal and the pipeline, and completing upstream activities such as drilling wells, said Greg Kist, president of Pacific NorthWest LNG, the Petronas-owned company that will operate the LNG terminal. Shipments are expected to begin in 2018, he said.

EXCO Resources To Sell TGGT Holdings LLC To Azure Midstream

EXCO Resources Inc.'s wholly-owned subsidiary, EXCO Operating Company LP and an affiliate of BG Group plc will sell 100% of the equity interest in TGGT Holdings LLC to Azure Midstream Holdings LLC for $910 million. This includes $875 million cash, with the remaining portion coming in the form of an approximate 8% equity interest in Azure split equally between EXCO and BG Group.

EXCO expects to receive net cash proceeds of approximately $230 million after TGGT pays off its credit agreement and net of transaction costs and closing adjustments. Cash proceeds will be used to reduce the asset sale tranche under EXCO's credit agreement. EXCO anticipates completing the transaction in the fourth quarter.

Magnolia LNG Project Files For Additional Export Approvals

Liquefied Natural Gas Ltd. announced that its subsidiary Magnolia LNG applied to the U.S. Department of Energy (DOE) for additional export approvals.

Magnolia LNG applied to the DOE to:

- Export up to 8 million tons per year (tpa) of liquefied natural gas (LNG) from the proposed Magnolia LNG Project in Lake Charles, Louisiana, to non-free trade agreement (FTA) countries
- Export an additional 4 million tpa of LNG to countries that currently, and in the future, may have an FTA with the U.S..

The DOE granted Magnolia LNG authorization to export up to 4 million tpa of LNG to FTA countries last February.

The company's managing director, Maurice Brand, said that "discussions being held with potential new tolling parties have increased LNG demand from Magnolia LNG to over 8 million tpa. The increased level of DOE approvals being sought will allow Magnolia LNG to progress tolling agreements for the additional two LNG trains, each of 2 million tpa."

"These applications do not affect the timing to financial close of the Magnolia LNG phase 1 development of 4 million tpa, which is on schedule for the first half of 2015. Should these additional approvals be authorized, it will provide Magnolia LNG with increased flexibility to supply LNG to a greater number of countries. The overall development plan remains at 8 million tpa and the project development approvals being sought with the U.S. Federal Energy Regulatory Commission are consistent with that volume of exports," said Brand.

Phillips 66 Pipeline Holds Open Season For Cross-Channel Pipeline

Phillips 66 Pipeline LLC launched an open season on October 17 to assess firm customer interest to transport refined petroleum products from refineries and terminals on the south side of the Houston Ship Channel to the Magellan Midstream Partners and Kinder Morgan Energy Partners systems on the north side of the channel at Galena Park and East Houston. Interested customers must submit binding commitments by November 18.

As part of this Cross-Channel Connector project, Phillips 66 is proposing to reactivate an idle section of 20-inch diameter pipeline under the Houston Ship Channel and expand an existing 20-inch diameter active line in Pasadena, Texas. This pipeline system is expected to increase access to products from refineries in the Houston-area as well as inbound supply from Magellan's Texas City pipeline system and Kinder Morgan's Pasadena terminal.

Subject to sufficient and timely market commitments and receipt of the necessary permits and regulatory approval, the potential Cross-Channel Connector could be fully operational mid-2014.

Air Products To Build New Hydrogen Plant For Canadian Refinery

Pennsylvania-based Air Products plans to build, own and operate a new world-scale hydrogen-production plant adjacent to Shell Canada's Scotford facility, northeast of Edmonton, Alberta.

The Air Products plant will be designed to produce more than 150 million standard cubic feet per day f hydrogen and be connected to its existing Heartland hydrogen-pipeline system, which supplies refiners, upgraders, chemical processors and other industries in the Alberta Industrial Heartland region.

Pending regulatory approval, the Air Products Canada hydrogen plant will be commissioned in the second half of 2015.

The EFA provides a template for all future industrial-gas contracts between Air Products and Shell.

Open Season Extended For Colorado City Crude Line

Navigator Energy Services announced that, due to shipper interest, it is extending the binding open season for its new crude oil pipeline system, Big Spring Gateway System (BSG System), from the previous October 18 deadline. The BSG System will provide additional crude oil takeaway capacity for growing production in the North Midland Basin. Originating near Big Spring, Texas, the BSG System will provide shippers with access to multiple third-party takeaway pipelines at Colorado City, Texas, through which production can ultimately be delivered to markets on the Texas Gulf Coast and at Longview, Texas.

The BSG System, with a targeted in-service date in fourth-quarter 2014, will consist of approximately 190 miles of new crude oil gathering and transmission pipelines to be located in Howard, Martin, Mitchell, Borden and Glasscock counties in Texas. Shippers will have the option to deliver to the BSG System via gathering lines at central delivery points and/or via four truck injection stations. Overall, the BSG System is expected to have an initial capacity of approximately 75,000 barrels (bbl.) of crude oil per day for redelivery to downstream pipelines originating at the Colorado City Tank Farm in Scurry County, Texas.

In addition, Navigator controls a 500-acre site along the Union Pacific Railroad near Big Spring, where it will locate its central terminal for aggregation of crude oil deliveries, operational storage and potential unit-train operations with Union Pacific. The BSG System will have operational storage capacity of approximately 250,000 bbl. with an additional 200,000 bbl. of planned storage capacity available for lease by third parties.

British Columbia Nears Land Deal For Sinopec LNG Export Project

BLOOMBERG

The British Columbia government is close to completing an accord for land needed by China Petrochemical Corp. for a proposed liquefied natural gas (LNG) export project in Canada's westernmost province according to *Bloomberg*.

Asia's largest refiner, known as Sinopec Group, is interested in sourcing Canadian LNG supplies to help meet a near-term import target of about 30 million metric tons a year, Rich Coleman, British Columbia's minister of natural gas development, said on a call. Coleman met with Sinopec executives during an eight-day trip that ended October 22 to promote the province's LNG industry, he told reporters.

"Sinopec wants to be an early mover and we will shortly be in a position to finalize the arrangements with them with regards to their land needs in B.C.," Coleman said of Sinopec.

Epic Midstream To Complete Rail Expansion Project In December

Epic Midstream is expected to complete in mid-December its $2 million rail expansion project at its 870,000 barrel (bbl.) oil products terminal at Savannah, Georgia.

Epic is adding a new rail spur with a 10 rail car loading and unloading capacity, which will enhance the terminal's transit volume for imports and exports between the terminal and the marine docks.

The new rail spur will be served by the Golden Isles Short Line, which provides access to both the Norfolk Southern and CSX.

The new rail access will serve the east tank farm providing the optionality to import and export product through the Savannah Port with the use of rail and the facility's recently renovated 38-foot draft ship berth.

Epic Midstream acquired the Savannah terminal in 2011, but it was only handling petrochemical and lubes until earlier this year when Glencore delivered its first diesel cargo to that terminal in February.

Both Western and Glencore announced in September 2012 that they would begin to use the oil products storage tanks owned by Epic at Savannah. The storage capacity designated for oil products was pegged at 450,000 bbl. per day.

There are 27 tanks at Savannah terminal, which is served by ship, barge, truck and rail. Savannah is the only water-based terminal for Epic.

T.D. Williamson Introduces Remote-Controlled Pipeline Clamp Installation Tool

T.D. Williamson introduced the Clamp Installation Tool (CIT), a new remote-controlled system that makes it possible to install any proprietary clamps or fittings on subsea pipelines in need of repair or to prepare for tie-ins to new pipelines.

The lightweight CIT is operated via remote control through a laptop by an experienced technician onboard a platform or a diving support vessel (DSV). As a result, operational safety is enhanced, and control over clamp installation operations is greatly improved.

TDW was keen to remove divers from the process and provide a remote-controlled diverless solution. The development of the CIT and the Subsea 1200RC Tapping Machine is the culmination of a concerted effort by TDW to provide a safer, more efficient method. Subsea hot tapping is necessary to facilitate tie-ins, pipeline repair, and flow assurance.

Making Purity Profits From Y-Grade

BY **PETER COOPERMAN** | SPECIAL TO HART ENERGY

Producers have attracted more midstream participants that hope to capitalize on a growing supply of y-grade. As an aggregate of several purity products, a barrel (bbl.) of y-grade is valued by what its components are worth. In its natural state, y-grade has no dedicated market or known use. It must undergo processing before its true value is proven. Fractionation yields varying amounts of five NGLs: ethane (C_2), propane (C_3), iso-butane (I-C_4), butane (N-C_4), and natural gasoline (C_{5+}), and each have their own uses and dedicated markets.

Succeeding in midstream markets means properly managing the complete lifecycle from the time y-grade is purchased to the time when each purity product is sold. Bringing NGLs to market requires physical and financial contract management, while navigating an extremely complex supply chain. It is also necessary to monitor five highly volatile markets to accurately determine the value of an initial purchase and forecasted selling prices. Risks are everywhere when dealing with NGLs. Technology provides the best means of succeeding in turning y-grade into purity profit by providing the tools needed to overcome the challenges that exist in these markets.

The current infrastructure for gathering, processing, and transporting y-grade in the U.S. is limiting the majority of y-grade gathering and NGLs production to the middle of the country. Shale formations in the Eagle Ford, the Texas side of the Granite Wash, and crude plays in the Anadarko and the Permian basins are positioned in regions with access to pipelines that can transport y-grade to fractionation plants located on the Gulf, namely Mont Belvieu and others in the area. Once fractionation occurs, individual NGLs can be distributed by way of vessel or pipelines. But even producers in these sought-after areas are not without risks, such as plant shutdowns (even when planned) and pipeline maintenance schedules that may delay processing and delivery of purity products.

Meanwhile, other regions in the country are limited by a lack of fractionation facilities and pipelines capable of handling y-grade or NGLs. Some turn to methods designed for transporting liquefied natural gas (LNG); however, most gas and crude oil producers are simply injecting y-grade back into drill sites until they have an economical means of transporting or fractionating it.

Relief is coming, according to recent industry news. Numerous companies have made commitments to developing infrastructure throughout the country. In the Marcellus region, Sunoco Inc. is one of several companies that announced projects aimed at repurposing pipelines and bringing dormant facilities back online to fractionate NGLs and take advantage of the y-grade opportunity.

Renewed Focus | NGLs are a big moneymaker for producers, but require the ability to monitor the market to achieve maximum profits, according to Triple Point Technology's Peter Cooperman. (Courtesy: Triple Point Technology).

Petrochemical companies and refineries are also investing in expansion projects and in building new facilities to take advantage of the growing supply of NGLs. These industries use NGLs as feedstock and are expected to have a positive impact on demand as their facilities come online. Increasing demand, along with improved transportation and infrastructure for processing create greater opportunity for midstream participants.

Managing supply chain begins with accurately plotting the projected physical movement of y-grade from gathering points to fractionation facilities and estimating the costs associated with doing so. As infrastructure changes and more participants join the market, optimizing available pipelines and fractionation facilities will become increasingly difficult. Creating a visual representation of potential transport routes is valuable because it promotes quick decision-making and helps participants avoid obstacles that may create supply interruptions. Once y-grade goes through fractionation, the challenge increases fivefold. Ethane and C_{5+}, for example, have entirely different transportation requirements than each other.

Supply chain management plays a large role in a participant's ability to succeed in NGLs because every y-grade acquisition must relate back to a contract of sale and a delivery schedule for each individual purity product. Keeping track of the location, processing phase, volume, and purity of each NGL, along every stage of the supply chain, allows for advanced planning. It also creates opportunities to blend different supply stocks to ensure that end product quality is optimized to meet contractual commitments, reduce settlement fees, and increase profits.

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LEAD STORY | From The Front

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The boards of directors of both Devon and Crosstex have unanimously approved the transaction. Until the transaction is closed, Devon's midstream business and Crosstex will continue to operate as separate, independent companies.

"The combined company's midstream assets and expertise greatly accelerate the value proposition of Devon's previously announced standalone master limited partnership in a manner that is highly accretive to our shareholders," Richels said.. "Additionally, this transaction provides Devon a market-based valuation for these assets on a go forward basis."

The midstream assets that will be held by this new company includes gathering and transportation pipelines, processing, fractionation and logistics, which provides the new company with diversification and scale, along with an enhanced liquids-oriented growth profile. These assets are located in the Barnett shale, Permian basin, Cana and Arkoma Woodford, Eagle Ford, Haynesville, Gulf Coast, Utica and Marcellus. The combined company will have approximately 7,300 miles of gathering and transportation pipelines, 13 processing plants with 3.3 billion cubic feet per day of net processing capacity, six fractionators with 165,000 barrels (bbl.) per day of net fractionation capacity, as well as barge and rail terminals, product storage facilities, brine disposal wells and an extensive crude oil trucking fleet.

"The combination of our expansive gathering, processing, fractionation, transportation and logistics assets will more than double the size of Crosstex today," Davis said. "Devon's midstream assets will be combined with Crosstex's to create a geographically diverse portfolio of midstream assets that provide an increasing focus on growth in the liquids business."

Under the terms of the definitive agreements, in exchange for a controlling interest in both the new GP and the MLP, Devon will contribute its equity interest in a newly formed Devon subsidiary, Devon Holdings, and $100 million in cash. Devon Holdings will own Devon's midstream assets in the Barnett shale in North Texas, the Cana and Arkoma Woodford shales in Oklahoma and Devon's interest in Gulf Coast fractionators in MontBelvieu, Texas. The MLP and the GP will each own 50% of Devon Holdings. Current stockholders of Crosstex Energy, Inc. will receive one unit in the GP entity for each share of Crosstex Energy Inc. they own, as well as a one-time cash payment at closing of approximately $2per share or $100 million in aggregate. Devon's contributed assets are valued at $4.8 billion in the transaction.

Sign Of The Times | The Devon, Crosstex agreement is the latest example of consolidation in the midstream. (Courtesy: Crosstex Energy Services).

"We will grow our NGL transportation, fractionation and storage capabilities with facilities spanning from Mont Belvieu to the Louisiana River Market. Our fractionation facilities will have 237,000 bbl. per day of total capacity after our Cajun-Sibon expansion is complete later this year," Davis said.

Over time, the potential exists for the GP to drop-down its 50% interest in Devon Holdings to the MLP, further enhancing growth for unitholders.

Crosstex officials told *Midstream Monitor* that this agreement will help to position the new company for sizable organic development along with providing additional acquisition opportunities that will further help to drive growth.

"Size, scale and diversification matter in our industry…This combination enables us to become a stronger, more competitive company," Davis said.

B of A Merrill Lynch acted as financial advisor and Vinson & Elkins LLP acted as legal advisor to Devon. Greenhill & Co., LLC acted as financial advisor and Baker Botts LLP and Richards, Layton & Finger, P.A. acted as legal advisor to Crosstex. Citigroup Global Markets Inc. acted as financial advisor to Crosstex Energy Inc. Evercore acted as financial advisor and Potter Anderson Corroon LLP acted as legal advisor to the Special Committee of the Crosstex Energy Inc. board of directors. Simmons & Company International acted as financial advisor and Morris, Nichols, Arsht & Tunnell LLP acted as legal advisor to the Conflicts Committee of the Crosstex Energy GP, LLC board of directors.

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