

## Mexican Energy Reform Aims To Increase Production

The country's widespread reform act will include more transparency and better data.

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

Every industry has its list of developments or changes that are always "close" to being undertaken, but somehow never seem to come to fruition. In the energy industry, these include the development of Alaska's North Slope, the conversion of America's service trucks from gasoline to electric or natural gas, and, of course, the Mexican government ending the state-owned oil monopoly. The North Slope is still some ways off of development and the conversion of light- and heavy-duty trucks to compressed natural gas (CNG) or liquefied natural gas (LNG) is in its infancy, but 2013 was the year that the Mexico actually did end Pemex's stranglehold on the domestic oil industry.

Pemex will continue to be a large player in the country's energy industry, but the doors will now be open for other public and private investors through service contracts, profit sharing contracts, production sharing contracts and licenses in the E&P, refining, petrochemical and midstream sectors.

The most impressive aspect of Mexico's energy reforms was the speed with which they occurred. Indeed, as late as this fall there was still widespread skepticism that President Enrique Pena Ni-



**New Age I** Mexico can become an energy powerhouse through its new reforms, according to Enrique Ochoa Reza (left), the country's undersecretary of hydrocarbons. (Courtesy: Atlantic Council)

eto's government would not be able to follow through with its goal of opening up its oil and gas industry to foreign investors. Yet by mid-December, that is exactly what happened.

Although Mexico has one of the largest reserves of crude oil, the country has experienced a decline in production for the past eight years, and it is hoped

➔ Continued on  
**Page 14**

### HIGHLIGHTS FROM TODAY'S EDITION



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#### Heavy NGL Price Make Gains

As 2013 came to a close NGL prices were supported by increased crude demand.

**PAGE 3**

#### Big Moves

Regency Energy Partners signed two acquisitions that will enhance its midstream portfolio.

**PAGE 7**



#### Fracing Saves Water

A new study claims that fracing actually saves more water in the long run.

**PAGE 13**

#### More Optionality

Kinder Morgan acquired two marine shippers to expand its transportation services.

**PAGE 8**

#### Another Black Eye

An accident that saw a soybean train collide with a crude tanker is more bad news for crude by rail.

**PAGE 9**

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## NGL PRICES & FRAC SPREAD | Week in Review

### Heavy NGLs Make Strong Price Gains To Close 2013

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

The final two weeks of 2013 saw butane and isobutane prices return to strength after they had fallen behind a surge in propane value at both Conway and Mont Belvieu the week of December 16. By the holiday season, it was heavy natural gas liquids (NGL) prices, including butane and isobutane, surging while propane held firm at both hubs.

The impetus for the turnaround in butane and isobutane was the uptick in crude prices caused by lower inventory levels, record winter refinery runs and increased demand. "Adding to the bullishness are expectations that the economy is improving and that demand growth

CURRENT FRAC SPREAD (CENTS/GAL)				
January 6, 2014	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	19.40		32.44	
Shrink	29.11		28.77	
<b>Margin</b>	-9.71	6.10%	3.67	53.61%
Propane	144.06		126.82	
Shrink	40.21		39.75	
<b>Margin</b>	103.85	5.58%	87.07	2.07%
Normal Butane	150.64		138.10	
Shrink	45.52		45.01	
<b>Margin</b>	105.12	-2.24%	93.09	2.26%
Isobutane	152.80		138.94	
Shrink	43.72		43.23	
<b>Margin</b>	109.08	-0.33%	95.71	2.90%
Pentane+	220.50		216.66	
Shrink	48.69		48.13	
<b>Margin</b>	171.81	2.38%	168.53	1.86%
NGL \$/Bbl	47.28	1.27%	45.75	0.87%
Shrink	16.04		15.85	
<b>Margin</b>	31.24	2.92%	29.90	2.73%
Gas (\$/mmBtu)	4.39	-1.79%	4.34	-2.47%
Gross Bbl Margin (in cents/gal)	72.59	3.21%	69.49	2.76%
NGL Value in \$/mmBtu (Basket Value)				
Ethane	1.07	0.52%	1.79	1.72%
Propane	5.00	3.42%	4.40	0.60%
Normal Butane	1.63	-2.11%	1.49	0.67%
Isobutane	0.95	-0.75%	0.86	1.16%
Pentane+	2.84	1.43%	2.79	0.87%
Total Barrel Value in \$/mmbtu	11.49	1.49%	11.34	0.89%
<b>Margin</b>	7.10	3.63%	7.00	3.10%

NGL PRICES						
Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Dec. 25 - 31, '13	32.44	126.82	138.10	138.94	216.66	\$45.75
Dec. 18 - 24, '13	31.89	126.06	137.18	137.34	214.80	\$45.36
Dec. 11 - 17, '13	29.37	130.42	132.34	132.48	208.64	\$44.69
Dec. 4 - 10, '13	26.89	128.42	139.12	140.24	214.36	\$45.02
December '13	29.77	127.36	136.86	137.70	213.70	\$45.11
November '13	24.74	118.38	142.70	145.93	207.80	\$43.39
4th Qtr '13	26.76	119.81	142.56	145.02	210.66	\$44.03
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
Dec. 26, '12 - Jan. 1, '13	24.90	87.98	176.73	181.83	222.60	\$43.54
Conway, Group 140	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Dec. 25 - 31, '13	19.40	144.06	150.64	152.80	220.50	\$47.28
Dec. 18 - 24, '13	19.30	139.30	153.88	153.96	217.40	\$46.68
Dec. 11 - 17, '13	19.00	142.44	134.30	133.62	204.86	\$44.59
Dec. 4 - 10, '13	18.30	130.92	138.58	136.28	208.62	\$43.65
December '13	18.84	137.56	143.70	143.56	212.33	\$45.25
November '13	18.37	119.53	141.53	143.76	200.04	\$42.08
4th Qtr '13	20.19	122.54	144.49	147.58	205.01	\$43.33
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
Dec. 26, '12 - Jan. 1, '13	20.58	82.23	206.37	182.50	221.00	\$43.85

(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.

will continue. ... Eventually refinery utilization rates will back down in the first quarter for winter turnarounds that usually peak in March ...," according to En\*Vantage's *Weekly Energy Report* for December 28. The company is forecasting crude prices to settle in the mid-\$90 per barrel (bbl.) level in the first quarter before averaging \$100 per bbl. level for the rest of 2014.

In addition to improved crude prices, butane also benefited from increased petrochemical and export demand. Butane gained 6 cents per gallon at Mont Belvieu, closing the year at \$1.38 per gallon. This was its highest price in a month. The Conway price gained 17 cents the final two weeks of 2013, closing the year at \$1.51 per gallon, its highest price since it was \$1.53 per gallon the week of October 16.

## NGL PRICES & FRAC SPREAD | Week in Review

Isobutane posted similar gains at both hubs with the Mont Belvieu price closing at \$1.39 per gallon, its highest price in a month. The Conway price increased to \$1.53 per gallon, its highest level since it was \$1.64 per gallon the week of October 16.

Despite having a smaller relationship with crude prices than in years past, C<sub>5+</sub> prices still experienced large gains the final two weeks of the year as they hit their highs for the quarter. The Mont Belvieu price improved to \$2.17 per gallon and the Conway price increased to \$2.21 per gallon.

While crude prices were slightly stronger to close out 2013 than they were at the end of 2012, C<sub>5+</sub> prices were off their pace from the previous year. According to En\*Vantage this is because of stronger completion from the end-use market from condensates.

Pentanes-plus (C<sub>5+</sub>) stock levels at natural gas processing plants moved from 1 million bbl. in September 2012 down to 644,000 bbl. in September 2013, according to the Energy Information Administration (EIA). The high was 1.08 million bbl. in May 2013 with a low of 383,000 bbl. in December 2012. The December 2012 level was the lowest EIA

publicly released and recorded data since it began recording in January 1993. The all-time reported high was 2.6 million bbl. recorded in September 1994.

Ethane rejection seemed to finally have a noticeable impact on prices at year-end. Stock levels fell from 1.3 million bbl. in September 2012 to 517,000 bbl. in September 2013. This helped the Mont Belvieu price improve to its yearly high of 32 cents per gallon the final week of 2013. The Conway price continued to slowly improve, but there are still concerns due to an extreme lack of volatility in the market.

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / January 3, 2014	
Gas Hub Name	Current Price
Carthage, TX	4.26
Katy Hub, TX	4.25
Waha Hub, TX	4.31
Henry Hub, LA	4.32
Perryville, LA	4.30
Houston Ship Channel	4.25
Agua Dulce, TX	N/A
Opal Hub, Wyo.	4.37
Blance Hub, NM	4.31
Cheyenne Hub, Wyo.	4.39
Chicago Hub	4.83
Ellisburg NE Hub	3.56
New York Hub	13.37
AECO, Alberta	3.81

Source: Bloomberg

Overall demand still remains low, and it will take a bit longer for prices to fully feel the positive effects of the lower supplies.

Interestingly, propane had the strongest turnaround of any NGL as the year came to close, but had one of the largest increases in supply levels heading into the fall. According to the EIA, stock levels rose from 1.8 million bbl. in September 2012 to 2.4 million bbl. in September 2013. This was the third-largest stock level since 2001.

RESIN PRICES – MARKET UPDATE – JANUARY 3, 2014					
TOTAL OFFERS: 9,115,776 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Inj	705,552	0.73	0.77	0.7	0.74
LDPE - Film	607,736	0.75	0.81	0.74	0.78
PP Copolymer - Inj	388,460	0.78	0.835	0.8	0.84
HDPE - Blow Mold	352,736	0.74	0.74	0.68	0.72
PP Homopolymer - Inj	307,460	0.785	0.86	0.79	0.83
LDPE - Inj	176,368	0.78	0.78	0.72	0.76
LLDPE - Film	44,092	0.75	0.75	0.67	0.71
HDPE - Inj			0.865	0.68	0.72
HMWPE - Film			0.775	0.71	0.75
Total Spot: 2,582,404 lbs					

Source: Plastics Exchange – www.theplasticsexchange.com

This situation bodes well for propane's 2014 outlook as the price should still experience gains even as heating demand dwindles. Export demand remains strong and the product should experience improvements as supplies continue to be worked off. The final week of 2013 saw propane prices hold firm at \$1.27 per gallon at Mont Belvieu and improve 3% to \$1.44 per gallon at Conway.

The theoretical NGL bbl. price improved 1% at both hubs with the Mont Belvieu price finishing at \$45.75 per bbl. with a 3% gain in margin to \$29.90 per bbl. The Conway price increased to \$47.28 per bbl. with a 3% gain in margin to \$31.24 per bbl.

The most profitable NGL to make at both hubs remained C<sub>5+</sub> at \$1.69 per gallon at Mont Belvieu and \$1.72 per gallon at Conway. This was followed, in order, by isobutane at 96 cents per gallon at Mont Belvieu and \$1.09 per gallon at Conway; butane at 93 cents per gallon at Mont Belvieu and \$1.05 per gallon at Conway; propane at 87 cents per gallon at Mont Belvieu and \$1.04 per gallon at Conway; and ethane at 4 cents per gallon at Mont Belvieu and negative 10 cents per gallon at Conway.

Heating demand was very strong the week of December 20, the most recent data available from the EIA. According to the data, natural gas storage levels fell 177 billion cubic feet to 3.071 trillion cubic feet (Tcf) from 3.248 Tcf the previous week. This was 16% below the figure of 3.662 Tcf posted last year at the same time and 9% below the five-year average of 3.384 Tcf.

This demand should remain strong the week of January 6 as the National Weather Service is forecasting colder-than-normal temperatures in the Northeast. However, normal winter temperatures are expected in much of the rest of the country, which could temper the withdrawal levels from gas in storage.

## NGL PRICES & FRAC SPREAD | Week in Review

CURRENT FRAC SPREAD (CENTS/GAL)				
December 30, 2013	Conway	Change from Start of Week	Mont Belvieu	Last Week
Ethane	19.30		31.89	
Shrink	29.64		29.50	
<b>Margin</b>	-10.34	-19.53%	2.39	63.72%
Propane	139.30		126.06	
Shrink	40.95		40.76	
<b>Margin</b>	98.35	-5.65%	85.30	-7.14%
Normal Butane	153.88		137.18	
Shrink	46.35		46.15	
<b>Margin</b>	107.53	18.09%	91.03	2.65%
Isobutane	153.96		137.34	
Shrink	44.52		44.32	
<b>Margin</b>	109.44	18.84%	93.02	2.73%
Pentane+	217.40		214.80	
Shrink	49.57		49.35	
<b>Margin</b>	167.83	5.81%	165.45	2.16%
NGL \$/Bbl	46.68	4.70%	45.36	1.50%
Shrink	16.33		16.26	
<b>Margin</b>	30.35	3.41%	29.10	-0.70%
Gas (\$/mmBtu)	4.47	7.19%	4.45	5.70%
Gross Bbl Margin (in cents/gal)	70.33	2.55%	67.62	-1.21%
Gross Bbl Margin (in cents/gal)				
Ethane	1.06	1.58%	1.76	8.58%
Propane	4.84	-2.20%	4.38	-3.34%
Normal Butane	1.66	14.58%	1.48	3.66%
Isobutane	0.96	15.22%	0.85	3.67%
Pentane+	2.80	6.12%	2.77	2.95%
Total Barrel Value in \$/mmbtu	11.32	3.73%	11.24	1.35%
<b>Margin</b>	6.85	1.59%	6.79	-1.32%

NGL PRICES						
Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Dec. 18 - 24, '13	31.89	126.06	137.18	137.34	214.80	\$45.36
Dec. 11 - 17, '13	29.37	130.42	132.34	132.48	208.64	\$44.69
Dec. 4 - 10, '13	26.89	128.42	139.12	140.24	214.36	\$45.02
Nov. 27 - Dec. 3, '13	25.92	119.90	138.73	142.13	213.30	\$43.82
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Dec. 4 - 10, '13	18.30	130.92	138.58	136.28	208.62	\$43.65
Nov. 27 - Dec. 3, '13	18.20	119.83	136.50	136.57	206.63	\$42.08
November '13	18.37	119.53	141.53	143.76	200.04	\$42.08
October '13	21.12	110.53	147.71	154.40	201.90	\$42.19
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
Dec. 19 - 25, '12	20.18	74.23	204.10	179.55	217.75	\$42.41

(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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## NEWS &amp; TRENDS | Up To Date

## Eagle Rock Sells Its Midstream Business To Regency Energy Partners

BY **FRANK NIETO** | EDITOR, MIDSTREAM MONITOR,  
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Eagle Rock Energy Partners LP entered into a definitive agreement to sell its midstream business to Regency Energy Partners LP for total consideration of up to \$1.3 billion.

Eagle Rock's midstream assets include approximately 8,100 miles of gathering pipeline and over 800 million cubic feet per day of processing plants and its cash flows are supported by large, long-term acreage dedications. The combined system is expected to provide significant synergies, increase efficiencies on Regency's current system, and enhance services for its customers.

Highlights of the transaction, which has been unanimously approved by the board of directors, include the following:

- Eagle Rock will receive total consideration of up to \$1.3 billion, subject to certain closing conditions, consisting of \$200 million of newly issued Regency common units and a combination of cash and assumed debt; and
- Regency will conduct an offer to exchange Eagle Rock's \$550 million of outstanding senior unsecured notes into an equivalent amount of Regency senior unsecured notes with the same tenor, coupon and a comparable covenant package. The cash portion of the purchase price will be reduced by the amount of notes exchanged subject to a 10% adjustment factor such that if all \$550 million of bonds are exchanged, the total consideration will equal \$1.27 billion (\$1.325 billion less \$55 million) consisting of \$200 million in Regency units, \$550 million of assumed debt and \$520 million of cash proceeds.

Following the consummation of the transaction, which is expected to close in the first half of 2014, Eagle Rock will be a pure-play upstream master limited partnership (MLP) with a strong balance sheet and ample liquidity for future growth. The partnership intends to use the cash proceeds from the contribution of its midstream business to pay down borrowings under its revolving credit facility.

"This transaction is consistent with our stated goals of simplifying our structure and reducing our debt balances," said Joseph A. Mills, Eagle Rock's chairman and chief executive. "We are excited to announce this transformative transaction for Eagle Rock, which unlocks the value of our midstream business and positions the Partnership for future growth as a pure-play upstream MLP."



**Making Moves** | Regency Energy continued to grow by reaching agreements to acquire both Eagle Rock and Hoover Energy's midstream assets.

Regency also announced plans to purchase the midstream assets of Hoover Energy Partners LP. The acquisition, valued at approximately \$290 million, will complement Regency's existing footprint in the southern portion of the Delaware basin and expands its crude and water-gathering services to producers.

Hoover's midstream services include crude oil gathering, transportation and terminaling, condensate handling, natural gas gathering, treating, processing and water gathering and disposal services. The Perry Ranch Station is a major destination for crude gathered by a customer in the region and is backed by a 20-year dedication. In addition, Hoover's Delaware Water System is the only open-access water gathering and disposal system in the Delaware basin.

"This acquisition further extends Regency's presence in the Delaware basin in West Texas and supports our goal of diversifying our service offerings to our customers by adding crude and water gathering services," Jim Holotik, executive vice president and chief commercial officer of Regency, said in a release. "Hoover's geographic footprint enhances our existing Permian Basin service capabilities and expands our strategic presence in the developing Bone Spring, Wolfcamp and Wolfbone producing areas."

Regency expects the acquisition to be accretive in 2014 and plans to finance the acquisition by issuing approximately \$98 million of Regency common units to Hoover. The remaining portion of the consideration will be funded from borrowings under Regency's revolving credit facility. The acquisition is expected to close in the first quarter of 2014 and is subject to customary closing conditions.

## NEWS &amp; TRENDS | Up To Date

## MarkWest, EMG Announce JV With Gulfport Energy

MarkWest Energy Partners LP and The Energy & Minerals Group (EMG), announced the execution of definitive agreements with Gulfport Energy Corp. to provide stabilization services and potential gathering services for condensate produced within an area that includes Belmont, Harrison, Guernsey, Noble and Monroe counties, Ohio.

Gulfport is rapidly developing its acreage within the wet gas, retrograde condensate and oil windows of the emerging Utica shale and currently has over 147,000 net acres under lease. In conjunction with these agreements, MarkWest and EMG will form Ohio Condensate Co. LLC, a new joint venture (JV) related to the development of facilities and services to support the rapid growth of condensate production occurring in the liquids-rich areas of the Utica shale. Discussions regarding the JV's condensate solutions are also under way with numerous other Utica producers.

Initial infrastructure development will consist of a new condensate stabilization facility, with associated logistics and storage terminal capabilities to be constructed in Harrison County, Ohio, and placed in service by the third quarter of 2014. The facility will have initial stabilization capacity of 23,000 barrels (bbl.) per day and an immediate 30,000 bbl. per day expansion is anticipated. The facility will be co-located and fully integrated with condensate storage and a truck and rail loading terminal will be constructed and operated by a subsidiary of Toledo, Ohio-based Midwest Terminals that will exclusively serve the JV.

Raw condensate will be delivered by truck and stabilized at the facility. Once stabilized, the condensate will be transported by truck and rail to local refinery markets and Canadian export markets. In the future, a condensate gathering system and regional pipelines may be constructed to support additional deliveries to the facility. Furthermore, the facility will serve as the origin for MPLX LP's Cornerstone Pipeline, a condensate pipeline project that will terminate near Canton, Ohio, and is scheduled to become operational by late 2016.

## Kinder Morgan To Acquire Two Jones Act Shippers

BUSINESS WIRE



**Increased Options** | Kinder Morgan expanded its transportation division through the acquisition of two liquids marine tanker companies.

Kinder Morgan Energy Partners LP (KMP) entered into a definitive agreement to acquire American Petroleum Tankers (APT) and State Class Tankers (SCT) from affiliates of The Blackstone Group and Cerberus Capital Management for \$962 million in cash. APT and SCT are engaged in the marine transportation of crude oil, condensate and refined products in the U.S. domestic trade, commonly referred to as the Jones Act trade.

APT's fleet consists of five medium-range Jones Act qualified product tankers, each with 330,000 barrels (bbl.) of cargo capacity. With an average vessel age of approximately four years, the APT fleet is one of the youngest in the industry. Each of APT's vessels is operating pursuant to long-term time charters with high quality counterparties, including major integrated oil companies, major refiners and the U.S. Navy. These time charters have an average remaining term of approximately four years, with renewal options to extend the initial terms by an average of two years. APT's vessels are operated by Crowley Maritime Corp.

SCT has commissioned the construction of four medium-range Jones Act qualified product tankers, each with 330,000 bbl. of cargo capacity. The vessels are scheduled to be delivered in 2015 and 2016.



## NEWS &amp; TRENDS | Up To Date

and are being constructed by General Dynamics' NASSCO shipyard. Upon delivery, the SCT vessels will be operated pursuant to long-term time charters with a major integrated oil company. Each of the time charters has an initial term of five years, with renewal options to extend the initial term by up to three years. Kinder Morgan will invest approximately \$214 million to complete the construction of the SCT vessels.

"This is a strategic and complementary extension of our existing crude oil and refined products transportation business," said John Schlosser, president of KMP's Terminals segment. "Product demand is growing and sources of supply continue to change, in part due to the increased shale activity. As a result, there is more demand for waterborne transportation to move these products. We are purchasing tankers that provide stable fee-based cash flow through multi-year contracts with major credit worthy oil producers."

The transaction, which is subject to standard regulatory approvals, is expected to close in the first quarter of 2014, at which time it will be immediately accretive to cash available to KMP unitholders. APT currently generates about \$55 million of annual EBITDA. After completion of construction of the four SCT vessels, KMP expects combined annual EBITDA of approximately \$140 million, which is an EBITDA multiple of 8.4 times. The general partner of KMP, Kinder Morgan Inc., has agreed to waive its incentive distribution amounts of \$16 million in 2014 and \$19 million in 2015 and \$6 million in 2016 to facilitate the transaction.

## Energy Transfer Completes Sale Of New England Gas Co. Assets

BUSINESS WIRE

Energy Transfer Partners LP (ETP) completed the sale of the assets of New England Gas Co. to Liberty Utilities Corp. for a total purchase price of \$60 million, with approximately \$40 million in cash proceeds and the assumption by Liberty of approximately \$20 million in debt. New England Gas Co. is a division of Southern Union Co., a wholly owned indirect subsidiary of ETP.

The sale by Southern Union of the New England Gas Co. assets and sale of Missouri Gas Energy assets, which closed September 1, 2013, demonstrates ETP's efforts to streamline and integrate its asset portfolio through the divestiture of non-core assets and continue to deliver on its promise to simplify and to enhance unitholder value.

## Soy Train Derailment Causes Oil Tanker Explosion In North Dakota

BLOOMBERG

A BNSF Railway Co. train carrying oil caught fire after a grain train derailed and collided with a crude oil tanker in North Dakota, causing a series of explosions that prompted police to urge local residents to evacuate the area.

There were no injuries to the train crews involved, Berkshire Hathaway Inc.'s BNSF said in a statement. The accident occurred on December 30 at 2:10 p.m. local time near Casselton, about 25 miles west of Fargo and 21 railcars were ablaze as of 9:20 p.m. Central Standard Time, it said.

"There is still a small blaze out there, it's still controllable right now," Sergeant Dean Haaland of the Cass County Sheriff's Office said by phone. "We are waiting for sunrise to evaluate whether they will go in and extinguish the fire, or if it will burn itself out."

The accident is the fourth major North American derailment in six months involving trains transporting crude. Record volumes of oil are moving by rail as shale plays from North Dakota to Texas have spurred U.S. output to the most since 1988 and pipeline capacity has failed to keep up.

"A westbound train carrying soybeans derailed just west of Casselton just after 2 p.m., and then an eastbound train carrying oil hit that derailed train, causing a series of explosions and then a subsequent fire," Cecily Fong, a spokeswoman for the state Emergency Services Department, said by telephone.

BNSF didn't provide an estimate for when the tracks will reopen. Berkshire's Burlington Northern Santa Fe railroad carried about 500,000 barrels (bbl.) of oil a day in March, Chief Executive Officer Warren Buffett said at the time.

Oil produced in North Dakota's Bakken formation for delivery at Clearbrook, Minnesota, was unchanged at a discount of \$8.25 a bbl. versus U.S. benchmark West Texas Intermediate crude December 30, data compiled by Bloomberg show. WTI crude fell 27 cents, or 0.3%, to \$99.02 a barrel at 10:23 a.m. London time.

"If it happened in a bad place, maybe a junction where trains need to get through to go south or east, this could become a big problem for both the Bakken market and for oil refiners in the east," David Hackett, president of Stillwater Associates, an oil markets consulting firm in Irvine, California, said by telephone. "It wouldn't surprise me if the railway could move trains around all this and reroute."

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**NEWS & TRENDS | Up To Date**


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Residents in Casselton and those living within five miles to the south and the east were advised to leave on concern a plume of smoke from the blaze would envelop the area, Captain Judy Tollefson of the Cass County Sheriff's Office said by phone.

The train carrying crude was made up of 106 cars, BNSF said. About half of the cars detached from the wreck and the rest were involved in the accident, Fong said.

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## Kinder Morgan, Targa Resources To Expand Fractionation Capacity In Texas

Kinder Morgan Energy Partners LP (KMP) and Targa Resources Partners LP signed a letter of intent to form a joint venture to construct new natural gas liquids (NGL) fractionation facilities at Mont Belvieu, Texas, to provide services for producers in the Utica and Marcellus shale resource plays in Ohio, West Virginia and Pennsylvania.

In order to allow producers and shippers sufficient time to assess their Gulf Coast fractionation and pipeline needs, a binding open season is currently under way for the Utica Marcellus Texas Pipeline (UMTP), a proposed joint venture between MarkWest Utica EMG, L.L.C. and KMP, will be extended until February 28, 2014.

The UMTP will involve the abandonment and conversion, subject to Federal Energy Regulatory Commission approval, of more than 1,000 miles of KMP's existing Tennessee Gas Pipeline system, currently in natural gas service, from Mercer, Pennsylvania, to Natchitoches, Louisiana, and building approximately 200 miles of new pipeline from Natchitoches to Mont Belvieu for fractionation. The facilities will be located adjacent to Targa's existing fractionation facilities at Mont Belvieu and will provide fractionation services for customers of UMTP of up to approximately 150,000 barrels (bbl.) per day, and potentially serve up to 400,000 bbl. per day of maximum pipeline capacity over time.

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## Devon Wins Regulatory Approval Of \$6 Billion Deal

BY **DARREN BARBEE** | HART ENERGY

Devon Energy Corp. passed regulatory muster for its \$6 billion Eagle Ford deal and its plans to create a new midstream business.

Devon also secured a \$2 billion senior unsecured loan from Morgan Stanley Senior Funding that will only be used in connection with its Eagle Ford purchase, according to documents filed with the Securities and Exchange Commission on December 16.

The loan is split into two \$1 billion chunks, one with a three-year term and the other with a five-year term. In the event that the acquisition fails to close, the loan will be terminated.

Devon announced it had been cleared by the Federal Trade Commission (FTC) for its previously announced purchase of Eagle Ford assets from GeoSouthern Energy. The acquired assets include production of 53,000 barrels of oil equivalent (Boe) per day on 82,000 net acres with 1,200 undrilled locations.

FTC records show the premerger notification was terminated early, on December 16.

Devon's development program on the Eagle Ford assets is self-funding, and the transaction is immediately accretive to cash flow per debt adjusted share. The company will fund the transaction through a combination of cash and borrowings and is expected to close in first quarter 2014.

Fourth quarter net production is expected to be 54,000 barrels of oil equivalent (Boe) per day. Devon plans to spend \$1.3 billion and run 19 rigs with a goal of 230 wells.

Production will consist of:

- 56% oil
- 20% natural gas liquids
- 24% gas

Devon's oil production is fully hedged at more than \$90 per barrel.

Devon also has cleared the legal hurdles that will allow it to create a midstream business with Crosstex Energy Inc. and Crosstex Energy LP.

Authorities did not protest the new business has not been challenged in the waiting period required by the Hart-Scott-Rodino Act. The act established the federal premerger notification program, which provides the FTC and the Department of Justice with information about large mergers and acquisitions before they occur.

The midstream business will consist of two publicly traded entities: the master limited partnership and a general partner entity in which Devon will have a 70% stake.

Devon is contributing assets valued at \$4.8 billion to the transaction. The new company is expected to have adjusted EBITDA of about \$700 million in 2014, before synergies.

Devon is working to sell several non-core assets representing 150,000 Boe per day. They include its Canadian conventional, Rockies, Arkoma Woodford and Groesbeck/Gulf Coast holdings.

## NEWS &amp; TRENDS | Up To Date

## Howard Energy Partners Begins Work On Two Major Liquid-Handling Facilities

BUSINESS WIRE

Howard Midstream Energy Partners LLC (HEP) began construction on two major liquid-handling facilities, the Live Oak Stabilizer, an off-spec liquids stabilizer facility near Three Rivers, Texas, and the Brownsville Liquids Terminal, a bulk liquid-storage facility within the Port of Brownsville, Texas. Both projects are expected to be completed by mid-2014.

### Live Oak Stabilizer

With a capacity of up to 10,000 barrels (bbl.) per day, the Live Oak Stabilizer will provide off-spec liquids stabilization, and a firm field-level sales point and processing outlet for both on-spec and off-spec liquids out of the Eagle Ford shale and other producing basins in the South Texas area. Off-spec liquids are produced liquids that do not meet market pipeline specifications.

The Live Oak Stabilizer will be equipped with six truck racks with direct access off of Highway 281 to receive incoming, trucked liquids with a vapor pressure up to 205 pounds per square inch. The facility will take the off-spec liquids received via trucks and have the ability to produce three separate, marketable products—condensate with a Reid vapor pressure of 9-11 pounds per square inch, y-grade natural gas liquids (NGLs) and rich gas. The Live Oak Stabilizer will feature access to multiple outlets for the produced condensate, as well as pipeline connections for the y-grade NGLs and rich gas. Located adjacent to HEP's Live Oak Railroad Park, the facility also creates potential opportunities to blend produced condensate with other crude products or ship it via rail to other markets.

HEP has executed definitive agreements with Enbridge Liquids Transportation & Marketing LP (ELTM) for 50% of the capacity of the Live Oak Stabilizer and is actively seeking additional commitments. ELTM purchases on-spec and off-spec liquids and condensate in the Eagle Ford area and has a fleet of trucks and trailers to reliably transport Eagle Ford liquids and condensate to the new facility.

### Brownsville Terminal

Located within the Port of Brownsville, Texas, in Foreign Trade Zone #62, the Brownsville Terminal will consist of 21 tanks providing a

total of up to 225,000 bbl. of bulk liquid storage for upstream, mid-stream and downstream hydrocarbons and other bulk liquids requiring custom terminal services. This modern and automated terminal includes access to a Panamax-class dock with ocean-going vessel and inland barge capabilities, a three-bay truck rack with on-scale loading capabilities, an 11 railcar loading and unloading facility, steam heating, real-time product monitoring and control systems and specialized infrastructure for commodity blending.

The Port of Brownsville is the largest and closest deep-water port to Monterrey, Nuevo Leon, Mexico, a major industrial center in the Republic of Mexico. The port provides customers with unparalleled access to efficient transportation systems to Mexico as well as other world markets. Additionally, the Brownsville Terminal will provide customers with interstate access via Interstate 69 and Toll Road 550, rail access via the Brownsville Rio Grande Railroad and Union Pacific Railroad, inland marine vessel access via the intercostal waterway, and deep water marine access via the Liquid Cargo Dock.

## Strobel Starostka Transfer To Operate Crude Rail Terminal In Wyoming

Strobel Starostka Transfer (SST) was selected to operate Eighty Eight Oil's new crude oil unit train facility near Guernsey, Wyoming. The recently completed facility, which accommodated its first unit train this week, is the first rail terminal in the area capable of loading multiple crude types, including crude from the Bakken, Powder River basin, Niobrara, Southwest Wyoming, Big Horn Basin and Canada.

SST was selected to provide all operations and logistics at the facility including the hiring and training of all personnel, rail integration and all other logistics such as facility maintenance and infrastructure inspection. SST currently employs more than 20 at the terminal, with plans to increase to a total of 60 employees in 2014.

SST's affiliate, Strobel Starostka Construction, served as Eighty Eight Oil's design build partner for the project and broke ground on the facility in May 2013. Located on BNSF's main line near the Guernsey crude oil pipeline hub, the facility features three loop tracks with universal entry and exit from each direction. The terminal has an initial throughput capacity of up to 80,000 barrels (bbl.) per day and includes two designated loading tracks with separate racks—allowing two trains to be loaded simultaneously with the same or different crude types.

## NEWS & TRENDS | Up To Date

The new rail terminal is directly connected to Eighty Eight Oil's existing Guernsey crude oil terminal, which has 2 million bbl. of storage capacity and access to multiple crude types, including Bakken crude, Wyoming sweet, Wyoming sour, Wyoming asphaltic and all pipeline-quality Canadian grades.

Unlike many other rail facilities of its kind, this facility was custom-designed with one-of-a-kind engineering and operations capabilities that allow it to handle varying crude types through the facility, while maintaining the quality of each one.

### El Paso Pipeline Partners Announces Phase II Of Elba Island LNG Terminal

El Paso Pipeline Partners LP announced that Shell US Gas & Power LLC (Shell), a Royal Dutch Shell plc subsidiary, has given notice to Elba Liquefaction Company LLC to move forward on Phase II of the jointly owned natural gas liquefaction project at Southern LNG Company's Elba Island LNG Terminal, near Savannah, Georgia. EPB's Southern Liquefaction Company unit owns 51% of Elba Liquefaction Co.

Capacity to be added in Phase II will range from 70 million cubic feet (MMcf) per day (0.5 million tonnes per year) up to 140 MMcf per day (1.0 million tonnes per year). The estimated capital expenditure of Phase II at the maximum volume of 140 MMcf is approximately \$500 million.

Phase I of the project, consisting of six liquefaction units, will provide approximately 210 MMcf per day of export capacity. It is anticipated to be in service in late 2016 or early 2017. Phase II, covering two additional liquefaction units, has an expected in-service in 2017-2018.

If the maximum volume for Phase II is elected, the Elba liquefaction project is expected to have a total capacity of approximately 350 MMcf per day (2.5 million tonnes per year) of LNG.

"We are pleased that this liquefaction project, which will cost approximately \$1.5 billion at full development, continues to advance," said Kimberly S. Watson, president, Natural Gas Pipelines East Region for Kinder Morgan. "This project will further enhance what has become an abundant natural gas resource in the United States and will result in development of new international markets without straining the availability or cost of natural gas supply to U.S. markets. Moreover, the Elba Liquefaction Project will be a positive factor in the overall balance of trade between the U.S. and other countries, as well as generate local and state benefits."

The project was initially announced in early 2013 and will use Shell's innovative small-scale liquefaction units, which will be integrated with the existing Elba Island facility and enable rapid construction compared to traditional large-scale plants.

The project is currently in the Federal Energy Regulatory Commission (FERC) review process, which is conducted in accordance with the National Environmental Policy Act. Site construction will begin after FERC issues an Authorization to Proceed and Construct.

### PAA Unveils Eagle Ford Expansion Plans

BUSINESS WIRE

Plains All American Pipeline LP (PAA) is constructing a new natural gas liquids (NGL) fractionator and is expanding its existing condensate stabilization facility in the Eagle Ford area of South Texas. The new fractionator is supported by long-term third-party commitments and will have a capacity of up to 15,000 barrels (bbl.) per day of natural gas liquids (NGL) y-grade and off-spec y-grade product. The new fractionator, condensate stabilization expansion and related infrastructure enhancements are expected to require a total investment of approximately \$120 million and are expected to be in service in the second quarter of 2015.

The fractionator will be located near existing PAA assets in Gardendale (La Salle County), including its condensate stabilization facility and rail and truck loading/unloading facilities. The facility is designed to fractionate NGL y-grade and to treat and fractionate off-spec y-grade sourced from PAA's South Texas Gathering System and throughout the Eagle Ford producing region. Purity products expected to be produced include international refrigerant specification grade LE propane, EPA non-commercial grade butane and international specification natural gasoline. These products can be transported from PAA's adjacent rail and truck loading facilities, providing access to premium markets for each purity product.

PAA's existing Gardendale truck and rail infrastructure are being enhanced to facilitate loading, unloading and transporting y-grade and purity products, and PAA will build approximately 80,000 bbl. of pressurized storage to accommodate y-grade and purity products. PAA is also adding a third condensate stabilization train that will provide approximately 40,000 bbl. per day of incremental capacity to the existing condensate stabilization facility, bringing the total capacity to approximately 120,000 bbl. per day.

## SNAPSHOT | Industry Insight

# Report: Fracing Saves Water In Aggregate

BY KRISTIE SOTOLONGO | HART ENERGY

Contrary to the conventional beliefs of many environmentalists, hydraulic fracturing, or “fracing,” has at least one major environmental benefit: saving water, new research shows.

Most Americans are generally unfamiliar with fracking, but it is arguably an issue of critical importance—not only with respect to the environment but also in foreign policy and the economy.

The debate is typically framed around “priorities.” Those who care more about the environment typically oppose fracing. Those who care more about U.S. energy independence and domestic economic opportunities are usually fracing proponents.

However, a new study—published December 20 by the University of Texas at Austin (UT-Austin)—disrupts the usual dichotomy. At a time when climate-change scientists are increasingly concerned about the effects of drought, the UT-Austin research shows that the water-intensive fracing method of extracting natural gas actually saves water in the aggregate.

Texas experienced the most extreme drought on record in 2011, with up to 100 days of triple-digit temperatures resulting in record electricity demand and historically low reservoir levels.

Electricity produced using natural gas combustion turbines and natural gas combined-cycle generators requires roughly 30% of the water needed for coal-power plants. The study estimates that the amount of water saved by shifting a power plant from coal to natural gas is up to 50 times the amount of water lost in fracing to extract the natural gas from underground shale formations.

UT-Austin researchers estimate that for every gallon of water used to frac for natural gas, Texas saved 33 gallons of water by using that gas for electricity generation rather than producing the same amount of power with coal.

“During the 2011 drought, if Texas’ natural gas-fired power plants had generated electricity with coal, the state would have consumed an additional 32 billion gallons of water, or enough to supply about 870,000 people with water, accounting for water used for fracing,” according to the study.

The analysis quantified water and electricity demand and supply for all 423 of the state’s power plants during the drought relative to 2010 (baseline).



**Controverting Claim** | A new report from the University of Texas at Austin asserts that rather than cause increased water usage, fracing results in the use of less water than coal does for electric generation.

“Drought raised electricity demands/generation by 6%—increasing water demands/consumption for electricity by 9%,” according to the study “Reductions in monitored reservoir storage <50% of capacity in 2011 would suggest drought vulnerability, but data show that the power plants were flexible enough at the plant level to adapt by switching to less water-intensive technologies.

“Natural gas—now ~50% of power generation in Texas—enhances drought resilience by increasing the flexibility of power-plant generators, including gas-combustion turbines to complement increasing wind generation and combined-cycle generators with ~30% of cooling-water requirements of traditional steam-turbine plants,” researchers wrote. “These reductions in water use are projected to continue to 2030 with increased use of natural gas and renewables.”

Commenting on the new report, Bridget Scanlon, senior research scientist at UT’s Bureau of Economic Geology and lead author of the study, said: “The bottom line is that hydraulic fracturing, by boosting natural gas production and moving the state from water-intensive coal technologies, makes our electric-power system more drought-resilient.”

**LEAD STORY** | From The Front

Continued from **Page 1** that the large foreign E&P companies can help turn around this decline.

“We have put money into the oil fields, but have come up short with production. This decline has been offset by price increases, but remains a huge concern,” Enrique Ochoa Reza, undersecretary of hydrocarbons, Mexican Ministry of Energy, said at a recent program hosted by the Atlantic Council in Washington, D.C.

“Gas production is not much better. In the last 15 years, we have gone from a situation where domestic production matched demand, to a situation where we are now importing a third of our gas supplies, largely from the U.S., to meet demand despite having a large reserve base,” he continued. Additionally, the country is also importing approximately 50% of its gasoline despite a strong refining capacity and 65% of its petrochemicals. “These numbers don’t seem to tell the story of a strong hydrocarbons-producing country. So we needed reform.”

Pemex will have 90 days after President Nieto has signed the reform legislation into law to present to the Ministry of Energy areas in which it wishes to continue working. The Ministry of Energy and the Hydrocarbons National Commission will then have 180 days to review these plans and decide in which areas Pemex will continue working and which areas will be open for new investors.

“Pemex will maintain exploration entitlement in those areas where it has made some commercial discoveries or exploration investments, and we will allow them a period between three and five years to do so,” Reza said. The company will also retain entitlements in fields in which they are currently producing oil and gas.

The National Hydrocarbons Commission will provide technical assistance to the Ministry of Energy to determine what blocks will be open for investment. Mexico will own the natural resources under the subsoil but will allow ownership of volumes extracted from the subsoil to be owned by the private sector. The Ministry of Finance will design the fiscal terms of these contracts, and the National Hydrocarbons Commission will select and oversee the implementation of the winning bids.

The funds from these bids will be overseen by the Mexican Petroleum Fund, a committee overseen by the Minister of Finance that will also include the Minister of Energy and the Central Bank governor along with four independent members nominated by the president.

This fund will pay the contractors with income above 4.7% of total GDP going into a savings fund operated by the Central Bank to support the bank as well as the country’s universal pension fund, scholarships, connective enhancement projects and regional industry development. “The idea of this fund is that the money that comes through the Mexican oil and gas reform goes mostly to long-term projects,” Reza said.

The bidding itself is designed to improve transparency with the bidding rounds being public and contracts including transparency clauses along with full disclosure of all payments associated with these contracts. This directive will also extend to the operation of the Mexican Petroleum Fund with payments being public with external audits to supervise cost recovery and accounting. The Mexican Congress will also have the authority to establish special anti-corruption legislation.

Perhaps nothing truly exemplifies the country’s goal of openness and transparency better than its directive to make Pemex’s closely guarded geological data available to the public through its bidding process when areas the company has operated in are selected for auction. Not only will this provide more accurate information on the country’s reserves, but it will also help increase interest and investments.

“We are also giving the Hydrocarbons Commission responsibility to contract the private sector and universities to perform seismic studies for blocks that only have two-dimensional studies. We need to increase the quality of the studies that we have due to technology advances, and Pemex is a little bit behind on that front,” he said. This data will also be made available to the public, Reza added.

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