MIDSTREAM Monitor

May 15, 2015 | Volume 33 | Issue 19

FEATURE

Williams Swallows Up MLP In $13.8 Billion Merger

By Emily Moser, Hart Energy

After one successful merger, Williams Cos. Inc. (WMB) is back for seconds, bringing Williams Partners LP (WPZ) into the fold to form a midstream powerhouse in North America, the companies said May 13.

Combined, the company is anticipated to be one of the largest and fastest-growing high-dividend paying C-Corps in the energy sector with an industry-leading dividend growth rate. Since its merger with

subsidiary Access Midstream Partners LP, Williams already moves 30% of the nation's natural gas through its pipelines.

The $13.8 billion Williams for Williams Partners deal is structured as a stock-for-unit transaction. The merger will expand Williams' dominion in the Marcellus, Utica, Eagle Ford, Haynesville, Barnett, Niobrara and other plays.

"This transaction simplifies our corporate structure, streamlines governance and positions Williams for strong investment-grade credit ratings," said Alan Armstrong, Williams' president and CEO, in the release.

By 2016, the combined entity is expected to generate adjusted EBITDA of about $5.4 billion. In April, prior to the deal, Williams' guidance forecasted $5.3 billion in EBITDA in 2016. However, EBITDA greatly increases a few years in to the merger.

Under terms of the deal, Williams will acquire all of the 247 million public outstanding units of Williams Partners at a fixed exchange ratio of 1.115 Williams shares for each public unit of Williams Partners. Following similar large-scale mergers, Williams Partners unitholders will receive a 14.5% premium to the 10-trading day average closing price of Williams Partners.

In total, Williams will issue 275.4 million shares in connection with the proposed transaction, representing about 27% of the total shares outstanding of the combined entity.

Similar transactions have helped forge corporate deals since the downturn began in 2014.

Recent Stock-For-Unit Deals, 2015				
Announced	**Buyer**	**Acquired**	**Value ($B)**	**Transaction Type**
May	Williams	Williams Partners LP	13.8	Stock, Units
May	Noble Energy Inc.	Rosetta Resources	3.9	Stock
May	Crestwood Equity Partners LP	Crestwood Midstream Partners LP	7.5	Units
April	Vanguard Natural Resources LLC	LRR Energy LP	0.539	Units
April	Royal Dutch Shell Plc	BG Group Plc	70	72% Stock
Source: Company filings, A-Dcenter.com				

In November, for instance, Baker Hughes Inc. (BHI) agreed to a $34.6 billion buyout by Halliburton Co. (HAL). About 75% of the deal will be paid with Halliburton stock at a 41% premium to Baker Hughes' closing price as of Oct. 10. Since then, several large-scale transactions have used stock or MLP traded units to get deals done.

"In our view, the [Williams] transaction promotes a simplified corporate structure and could lead to perhaps a more efficient and focused organization," said Mark Reichman, director in research, Simmons & Co. International, in a report.

Reichman said more importantly he expects the transaction to be accretive to Williams cash available for dividends.

Armstrong said the lower cost of capital and improved tax benefits expected from this transaction boosts the company's confidence in extending the duration of its expected 10-15% dividend growth rate through 2020.

Williams' dividend for third-quarter 2015 is expected to increase to $0.64, or $2.45 annualized, in connection with the merger closing. The expected quarterly dividend increases are subject to quarterly approval of the company board of directors.

Williams Partners is a MLP with operations across the natural gas value chain in major U.S. basins including the Marcellus, Utica, Piceance, Four Corners, Wyoming, Eagle Ford, Haynesville, Barnett, Midcontinent and Niobrara. It owns natural gas pipelines, including Transco, Northwest and Gulfstream and also offers oil and natural gas gathering services in the Deepwater Gulf of Mexico.

In February, Williams Partners merged into a subsidiary of Access Midstream and Access changed its name to Williams Partners. Williams owns the general partner of and controlling interest in the merged entity. The companies, headquartered in Tulsa, Okla., own and operate more than 33,000 mile of pipeline systems.

While EBITDA is initially flat on the deal, Armstrong said the roster of large-scale, fully contracted infrastructure projects of the combined company will grow EBITDA to $6.8 billion in 2018, or by $1.4 billion from earnings expected in 2016.

Williams attributed the Access merger with increasing EBITDA by 19% in the first quarter of 2015. Williams' 2015 projected EBIDTA is $4.5 billion.

"This strategic transaction will provide immediate benefits to Williams and Williams Partners investors," he said. "We continue to see an expanding portfolio of projects to connect the best supplies of natural gas and natural gas products to the best markets."

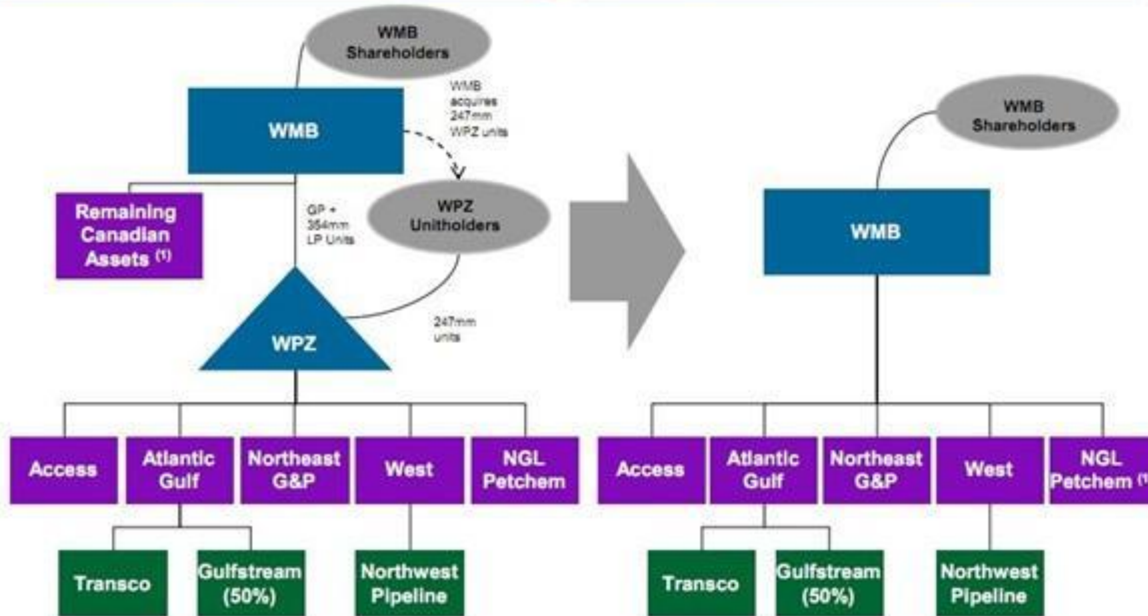
He said he anticipates significant market valuation upside and lower cost of capital for new fee-based growth projects along with incremental growth through strategically aligned M&A activities.

The transaction has been approved by Williams' board of directors and Williams Partners' board and conflicts committee.

The merger requires approval of Williams' shareholders. The deal is expected to close in the fall of 2015.

Barclays was financial adviser and Gibson Dunn provided legal advice to Williams. Evercore was financial adviser and Baker Botts LLP was legal adviser to Williams Partners' conflicts committee.

The transaction will be taxable to Williams Partners unitholders. Williams will receive the tax benefits from the asset step-up, to be realized over a 15-year period. Following closing, Williams Partners will become a wholly owned subsidiary of Williams.


Williams' Simplified Organization Structure
WMB Status Quo
WMB Pro Forma
WMB Shareholders
WMB
WMB acquires 247mm WPZ units
Remaining Canadian Assets (1)
GP + 354mm LP Units
WPZ Unitholders
247mm units
WPZ
Access
Atlantic Gulf
Northeast G&P
West
NGL Petchem
Transco
Gulfstream (50%)
Northwest Pipeline
WMB Shareholders
WMB
Access
Atlantic Gulf
Northeast G&P
West
NGL Petchem (1)
Transco
Gulfstream (50%)
Northwest Pipeline
(1) Remaining Canadian Assets will reside at the NGL Petchem operating area in WMB Pro Forma.
May 13, 2015
© 2015 The Williams Companies, Inc. All rights reserved.

Williams.

EXCLUSIVES

Analysis: Midstream Carries The A&D Load In Shale Deals

By Darren Barbee, Hart Energy

Prices took their toll in the oil and gas deal market in first-quarter 2015, with buyers indifferent to assets and the upstream shale market in particular.

The first quarter also marked the first time that corporate deals surpassed asset deals since 2010. Corporate deals accounted for nearly 90% of all first-quarter 2015 transactions' value.

The corporate transaction trend continued May 11, as Noble Energy Inc. (NBL) and Rosetta Resources Inc. (ROSE) reached a merger agreement. The all-stock deal, worth $3.9 billion, gives Noble entry to the Eagle Ford and Permian Basin. Included in the price tag is $1.8 billion to assume Rosetta's debt.

In first-quarter 2015, mergers and acquisitions (M&A) were in freefall. Values and volumes fell compared to fourth-quarter 2014, as low oil prices continued to alter E&P growth strategies, according to a May 7 report by PwC US.

During the first three months of 2015, 39 oil and gas deals were struck that each had values greater than $50 million. The deals were worth $34.5 billion total. That was a dramatic dip from fourth-quarter 2014, as 70 deals worth $103.5 billion were made.

"The declines in deal activity that we saw in the last two months of 2014, particularly in the upstream space as a result of the drop in oil prices, continued in the first quarter of 2015," said Doug Meier, PwC's

U.S. energy sector deals leader. “The velocity and magnitude of the decline in oil prices have caused companies to focus internally on cost reduction and productivity enhancement activities, which have taken attention away from M&A as a growth vehicle.”

Still, low commodity prices may present opportunities for potential acquirers who have the balance sheets to finance deals and the investing horizon to see through the current lows of the business cycle, Meier said.

PwC said it is working with companies to develop programs to help cope with the downtime and be ready for the upcycle.

Nevertheless, first-quarter 2015 managed to fare better than the same quarter in 2014, when the market generated just $26.4 billion in deals.

Deal Dynamics, First-Quarter 2015

	Deals	Value ($B)
Corporate deals	26	$30.4
Asset deals	13	$4.1
Upstream deals	12	$3.6
Midstream deals	22	$29
1Q15 Total	39	$34.5
1Q14 Total	60	$26.4

Source: PwC US

Midstream deals accounted for a whopping 398% growth in value compared to first-quarter 2014. Nearly half of MLP transactions were dropdowns and affiliate transactions totaling $5 billion.

The number and value of oilfield services deals decreased, with three transactions worth $384 million, down 94% compared to the same period in 2014. The total number of downstream deals remained the same at two while total deal value decreased 26% compared to first-quarter 2014.

Overall, there were four megadeals worth $23 billion, representing 67% of total deal value, PwC said.

Shale plays continued to attract interest, though the number of transactions and volume faltered. Compared to the first quarter of 2014, values were down 71%.

“The drop in shale deal activity in the first quarter was highlighted by the low oil price environment as E&P companies looked to strategically realign their business objectives and investments in order to cut overall costs,” said John Brady, a Houston-based partner with PwC’s energy practice. “As the uncertain

environment has continued, E&P companies have been working to capture more value from their land organizations following previous acquisitions."

Overall, shale plays saw nine deals with values greater than $50 million in first-quarter 2015 worth $5.3 billion. Though deals were down nearly one-third, values were up 8% compared to first-quarter 2014.

The real strength in deal values came from the midstream sector, generating $4.6 billion—a 160% increase compared to first-quarter 2014. Upstream deals, by contrast, made up just 16% of deals in the first quarter.

The most active area for deals, the Permian Basin, saw four deals generate $1.5 billion in value. The Eagle Ford contributed three deals worth $1.2 billion, and in the Marcellus two transactions totaled $567 million. The Bakken and Haynesville each generated one deal, though the Bakken transaction was worth $3 billion.

Financial investors continued to show interest in the oil and gas industry with 11 transactions worth $4.5 billion, a slight decrease in total deal volume compared to 12 deals worth $3.6 billion during the same period in 2014.

"Financial investors will continue to look for distress opportunities during this period of commodity price uncertainty and will be prepared to deploy capital more extensively once we achieve a period of commodity prices stability," said Rob McCeney, PwC U.S. energy and infrastructure deals partner.

Foreign buyers announced four deals, accounting for $1.3 billion in value, a 33% decrease in deal volume and a 67% in value compared to the same period last year.

LNG, Gas Producers Keep Eyes On Asia

By Velda Addison, Hart Energy

HOUSTON — South Korea-based SK E&S imported less than 1 billion tons of LNG to China last year. That number is expected to quadruple by 2020.

The figure, given by Shaun Parvez, president of SK E&S Americas, is part of the reason why the company, an affiliate of conglomerate SK Group, has joined oil and gas companies targeting the Asia-Pacific region as the destination for gas and LNG. The energy and services division of SK Group—which has more than 80 affiliates focusing on energy and chemicals, telecommunications, semiconductors and more—is working to capture the entire energy value chain.

Oil may be dominating talk today, but gas—including that for oil-price-linked LNG—is on people's minds, too. Companies across the world have sought shale gas assets in recent years, especially in the U.S. where technology has led to abundant supplies. SK is among them. The recent downturn, marked by lower oil prices and supply-outpaced demand, might have caused unease among some companies but not all.

Some Asian companies are probably discouraged by lower oil and gas prices, said Mayer Brown partner Toshi Yoshida, but others are motivated. They see opportunity with lower exploration risks.

"Those who are in the LNG import business or LNG tolling facilities, they need feedstock gas for their tolling facilities," Yoshida said, before mentioning how Asian companies bought into shale plays years ago to gain fracking knowledge.

Tapping Gas Assets

SK is working with Oklahoma-based Continental Resources to tap shale gas in the Woodford Shale. The two formed a joint venture last year to develop Northwest Cana Woodford gas assets, which include 37 producing wells, in a $360 million deal. SK has 49.9% interest.

In 2012, SK acquired a 37.5% interest in the Barossa-Caldita gas fields offshore Australia's Northern Territory in the Timor Sea. The Bonaparte Basin assets, which will be developed as an LNG project, are operated by ConocoPhillips. Santos is a partner.

"Through our LNG strategy we'll be roughly doubling our net income for the next five years," Parvez said May 13 during Mayer Brown's Global Energy Conference. "We look at LNG from beginning to end."

The company has gone from being a traditional consumer or purchaser of LNG from an integrated supplier like a BP or a Shell.

"We are [also] sourcing gas or LNG through contracts in Indonesia. We now also have liquefaction capacity in Freeport, and we are about to finish construction of a re-gas and receiving terminal in Korea," Parvez said. "We're now trying to integrate that value chain internally."

Destination: Asia

In all, SK has eight production projects, including the Camisea LNG project in Peru, and 20 exploration projects with liquefaction capacity at Freeport LNG, Peru LNG, Yemen LNG, Ras Laffan LNG and Oman LNG, totaling 29 MTPA, and six LNG carriers.

"China is going to be a huge LNG market. How that pans out … remains to be seen," he added, posing lingering questions. How will the contracting structure look? Will the Chinese go directly to the U.S. for gas or LNG? Will they work through large buyers in Japan and Korea?

Regardless, "You can't discount how important China is going to be in this LNG market," Parvez said.

In addition, LNG needs will be great in Korea and Japan, where Yoshida said there is little domestic hydrocarbon production and heavy reliance on imported crude and gas (LNG) for the primary energy supply. The Toyko Electric Power Co.-Chubu Electric Power Co. alliance in October 2014 created the world's largest LNG purchaser. But Japan's LNG needs could be impacted if nuclear power plants restart.

Unlike Japan and Korea, China has options and could develop its own energy resources, Yoshida said. In addition to conventional resources, China has 1,115 trillion cubic feet of technically recoverable shale gas resources, according to the U.S. Energy Information Administration (EIA). That is more than any other country in the world. China, however, lowered its shale gas target after running into technical difficulties. Still, expectations remain high with several hundred wells already drilled, he said.

China tops others in the world when it comes to coal production, consumption and imports as well as net petroleum imports, according to the EIA. Gas and LNG use and imports are also rising as China works to lower coal use and diversify energy supplies.

In the long-run, the Chinese government thinks the U.S. has the cheapest source of LNG, Yoshida said. The EIA forecasts that gas production in the U.S. will average a record 72.4 Bcf/d in 2015.

Exporting LNG

Meanwhile, the number of companies gaining permission to export LNG to countries with and without a Free Trade Agreement (FTA) with the U.S. continues to grow.

The latest came May 12 when the U.S. Department of Energy said it gave the Corpus Christi Liquefaction Project permission to export domestically produced LNG, up to the equivalent of 2.1 billion standard cubic feet per day of gas for 20 years, to countries without an FTA.

U.S. Corpus Christi Liquefaction is a subsidiary of Cheniere Energy.

The Combo: Crestwood's NGL, Midstream MLPs Plan $7.5 Billion Merger

By Darren Barbee, Hart Energy

Crestwood Equity Partners LP (CEQP) and Crestwood Midstream Partners LP (CMLP) aim to merge into a single company with an enterprise value of $7.5 billion, the companies said May 6.

The combination seeks to simplify their corporate structure. The new company will be a single, publicly-traded partnership. The deal has been approved and signed by the board. Crestwood Equity owns Crestwood Midstream's general partner.

Under the terms of the merger, CMLP unitholders would receive 2.75 units of CEQP per unit of CMLP held, or about $18.37, a 17% premium to CMLP's closing price of $6.68 on May 5.

Crestwood Holdings LLC will continue to own the general partner of Crestwood Equity, and will continue to be listed on the New York Stock Exchange.

Darren Horowitz, analyst, Raymond James, said the strategic merger immediately improves cost of capital, thereby increasing competitiveness for growth.

The merger should result in reductions to general and administrative (G&A) expenses and offer a simplified partnership structure with a broader appeal to investors, Horowitz said.

Crestwood Equity is an MLP that operates an NGL supply and logistics business that serves customers in the U.S. and Canada. Crestwood Midstream, also an MLP, owns and operates several midstream businesses in unconventional shale resource plays across the U.S.

Strategic Highlights:

Greater growth and stability in distributions: Pro forma for the transaction, Crestwood Equity is immediately able to cover the current $0.55 per unit distribution and provide for longer-term distribution increases to all unitholders;

Drives unified corporate strategy by eliminating perceived conflicts of interest arising from financial complexity; and

Reduced administrative costs: Crestwood estimates $5 million of incremental cost savings can be achieved and added to the $25- to $30 million run-rate savings identified as a part of its 2015 cost reduction initiatives.

“Through all market cycles, particularly during periods of challenging commodity price cycles like we are currently enduring, cost of capital remains a critical driver of competitive positioning in the marketplace,” said Robert G. Phillips, chairman, president and CEO of Crestwood. “We have visibility to greater than $3 billion of investment opportunities around our asset footprint largely focused on the majority of the premier shale plays in North America.”

The permanent elimination of incentive distribution rights improves future costs of capital and better positions Crestwood to capture opportunities, Phillips said.

Crestwood Midstream reported $124.7 million in first-quarter 2015 EBITDA, a 26% increase compared to $98.9 million in the first quarter of 2014. Crestwood Equity reported EBITDA of $141.9 million, a 22% increase compared to $116.6 million in first-quarter 2014.

However, Crestwood Equity’s standalone EBITDA of $17.2 million was 36% less than Baird Energy’s estimates.

Citigroup Global Markets Inc. was exclusive financial adviser to Crestwood, and Andrews Kurth LLP and Simpson Thacher & Bartlett LLP were its legal counsel.

Evercore Partners was exclusive financial adviser to the conflicts committee of Crestwood Equity's board and provided a fairness opinion on the proposed transaction and Locke Lord LLP was its legal counsel.

Tudor, Pickering, Holt & Co. was exclusive financial adviser to Crestwood Midstream and Paul Hastings LLP was its legal counsel.

The transaction is expected to close in the third quarter of 2015 and is subject to customary closing conditions, including approval of a majority of the unitholders of Crestwood Midstream.

FRAC SPREAD

NGL Prices Fail To Keep Up With Crude, Gas Improvements

By Frank Nieto, Hart Energy

West Texas Intermediate (WTI) crude oil prices continued to trade in the $60 per barrel (/bbl) range the week of May 6. Though the price was down slightly from the previous week, crude fundamentals showed improvements with domestic demand increasing as production and stock levels are slowly falling.

Though prices are improving along with fundamentals, according to Barclays Capital there are still chances of more volatility in the market. The investment firm stated in a May 11 research note that though production cuts are occurring, they are not fast enough to restore balance any time soon. In fact, stock levels reached a record 62 million bbl at Cushing, Okla., though there are indications that growth at this hub is slowing.

CURRENT FRAC SPREAD (CENTS/GAL)				
May 15, 2015	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	14.90		18.94	
Shrink	18.10		18.63	
Margin	-3.20	-112.35%	0.31	0.00%
Propane	43.10		50.04	
Shrink	25.01		25.74	
Margin	18.09	-20.12%	24.30	-16.99%
Normal Butane	54.08		61.40	
Shrink	28.31		29.14	
Margin	25.77	-17.58%	32.26	-12.83%
Isobutane	61.06		63.16	
Shrink	27.19		27.99	
Margin	33.87	-4.61%	35.17	-10.71%
Pentane+	124.64		129.26	
Shrink	30.28		31.16	
Margin	94.36	-0.62%	98.10	-3.20%
NGL $/Bbl	20.51	-3.83%	22.56	-3.56%
Shrink	9.97		10.26	
Margin	10.54	-10.09%	12.29	-8.39%
Gas ($/mmBtu)	2.73	3.80%	2.81	2.93%
Gross Bbl Margin (in cents/gal)	23.07	-11.06%	27.66	-8.98%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.82	-6.47%	1.04	4.58%
Propane	1.50	-7.79%	1.74	-7.81%
Normal Butane	0.58	-7.62%	0.66	-6.00%
Isobutane	0.38	-1.04%	0.39	-5.14%
Pentane+	1.61	0.42%	1.67	-1.79%
Total Barrel Value in $/mmbtu	4.89	-4.47%	5.50	-3.43%
Margin	2.16	-13.21%	2.69	-9.28%

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.

"Although there has been some slowing in the rate of U.S. supply growth and a rapid decline in the rig count, offsetting that is the fact OPEC production has risen 500,000 bbl per day (bbl/d) since the start of the year…If OPEC maintains that output level through Q2, then even with a further slowing in U.S. oil production, the oil balances of the major forecasting agencies indicate that global oil stocks will … continue climbing through to year-end at least," Barclays Capital said.

In addition, the investment firm noted that U.S. crude production could ramp up as prices recover. EOG Resources announced that if WTI prices stabilized at $65/bbl, it would be prepared for "strong double digit" output growth next year. This could also lead to drilled, but uncompleted wells being brought

online. “Neither the current trajectory of oil prices nor production looks sustainable … in such a scenario. Something will have to give,” Barclays said.

So far heavy NGL prices have yet to keep up with WTI crude movements, as prices fell at both hubs. This wasn’t much different than the story for light NGL prices, which also fell with the exception of Mont Belvieu ethane.

NGL PRICES						
Mont Belvieu	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
May 6 - 12, '15	18.94	50.04	61.40	63.16	129.26	**$22.56**
April 29 - May 5, '15	18.11	54.28	65.32	66.58	131.62	**$23.39**
April 22 - 28, '15	17.62	56.02	65.30	67.42	131.48	**$23.54**
April 15 - 21, '15	17.03	56.70	65.66	68.16	134.28	**$23.76**
April '15	17.06	54.84	64.36	66.38	127.64	**$22.97**
March '15	18.15	54.72	64.30	65.48	119.85	**$22.57**
4th Qtr '14	20.22	76.90	96.73	98.28	149.25	**$30.10**
3rd Qtr '14	23.19	103.92	123.69	128.39	212.20	**$40.27**
2nd Qtr '14	29.26	106.55	124.12	130.23	222.81	**$42.31**
1st Qtr '14	34.50	129.51	137.62	141.49	212.60	**$46.16**
May 7 - 13, '14	28.91	104.22	120.48	124.96	218.50	**$41.35**
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
May 6 - 12, '15	14.90	43.10	54.08	61.06	124.64	**$20.51**
April 29 - May 5, '15	15.93	46.74	58.54	61.70	124.12	**$21.32**
April 22 - 28, '15	16.60	48.36	58.88	62.42	123.48	**$21.62**
April 15 - 21, '15	15.15	49.56	60.26	64.42	123.60	**$21.66**
April '15	15.75	48.18	59.30	63.67	119.72	**$21.26**
March '15	17.81	49.99	61.09	72.97	110.31	**$21.52**
4th Qtr '14	18.69	78.64	102.72	113.19	146.37	**$30.77**
3rd Qtr '14	20.38	104.99	123.51	140.07	207.90	**$40.18**
2nd Qtr '14	26.26	105.44	121.26	163.00	221.62	**$42.62**
1st Qtr '14	25.46	169.48	132.08	147.10	216.86	**$49.93**
May 7 - 13, '14	26.76	102.20	117.30	169.60	214.00	**$41.77**

Ethane prices were largely flat this week with Mont Belvieu ethane gaining 1 cent/gal and Conway ethane losing 1 cent/gal from last week. The Gulf Coast increase was a result of improved natural gas prices based on the U.S. Energy Information Administration’s (EIA) revised projection for power generation demand. The organization forecasts gas consumption in the power generation sector to increase by 13% in 2015 before falling by 2% in 2016.

“Low natural gas prices in recent months have significantly increased the use of natural gas rather than coal for electricity generation. EIA expects natural gas generation in April and May will almost reach the level of coal generation, resulting in the closest convergence in generation shares between the two fuels since April 2012,” according to EIA’s Short-Term Energy Outlook for May. This forecast helped improve gas prices rise 9% at Mont Belvieu to $2.63 per million Btu (/MMBtu) and 6% to $2.73/MMBtu at Conway.

Ethane margins remain challenged, but the combination of improved gas prices and continued rejection is having a positive impact on the market. Though there is light at the end of the tunnel for ethane, there are dark days ahead for propane, which is the most challenged NGL.

RESIN PRICES – MARKET UPDATE – MAY 15, 2015					
TOTAL OFFERS: 16,727,348 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
LLDPE - Film	3,625,980	0.65	0.75	0.64	0.68
HDPE - Inj	2,999,164	0.64	0.72	0.63	0.67
HDPE - Blow Mold	2,497,324	0.66	0.73	0.62	0.66
PP Homopolymer - Inj	1,879,220	0.61	0.72	0.63	0.67
LDPE - Film	1,848,668	0.68	0.78	0.66	0.7
LLDPE - Inj	1,234,576	0.63	0.76	0.64	0.68
LDPE - Inj	1,102,300	0.61	0.77	0.66	0.7
HMWPE - Film	1,071,840	0.605	0.74	0.65	0.69
PP Copolymer - Inj	468,276	0.7	0.78	0.65	0.69

Source: Plastics Exchange – www.theplasticsexchange.com

The lack of transport capacity and an oversupplied market is hurting propane in the Marcellus-Utica, Bakken and Edmonton, where it is now trading below natural gas' Btu value. Since production out of these regions is primarily sent to other hubs, it is helping to further drive prices down around the U.S. Prices at both Conway and Mont Belvieu were down 8% and it is likely that this oversupply situation will grow until the winter heating and crop-drying seasons begin in late 2015.

Overall the NGL bbl fell 1% at both hubs with the Mont Belvieu price down to $23.39/bbl with a 5% drop in margin to $13.42/bbl while the Conway price fell to $21.32/bbl with a 9% decrease in margin to $11.72/bbl.

The most profitable NGL to make at both hubs was C5+ at $1.01/gal at Mont Belvieu and 95 cents/gal at Conway. This was followed, in order, by isobutane at 39 cents/gal at Mont Belvieu and 36 cents/gal at Conway; butane at 37 cents/gal at Mont Belvieu and 31 cents/gal at Conway; propane at 29 cents/gal at Mont Belvieu and 23 cents/gal at Conway; and ethane at nil at Mont Belvieu and negative 2 cents/gal at Conway.

The EIA reported that natural gas storage levels increased by 111 billion cubic feet to 1.897 trillion cubic feet (Tcf) the week of May 8. This was 66% above the 1.145 Tcf posted last year at the same time and 2% below the five-year average of 1.935 Tcf.

Cooling demand should increase in parts of the U.S. based on the National Weather Service's forecast for the week of May 20. The forecast anticipates warmer-than-normal temperatures in the Southeast and parts of the Northeast and Pacific Northwest.

NEWS

Global Oil Supply And Demand Are Imbalanced

Oil bulls who've cheered a rebound of 40 percent from a six-year low should take heed: Unless demand accelerates, the rally is in danger.

The omens aren't good. The U.S. government expects global consumption to grow next year at less than half the rate of 2010, when the world was emerging from a previous recession. The growth is insufficient to close the gap with rising supply, according to Royal Dutch Shell Plc, Europe's biggest energy producer.

The last time oil crashed, during the 2008 financial crisis, China's appetite for commodities seemed insatiable, and powered prices higher. This time, Chinese fuel use is growing at half the rate of the past decade, and sliding U.S. shale output could reverse as prices rise, smothering the gains.

"The recent rally appears driven by investors looking at catching the bottom of the market and the expectation that U.S. oil production has reached a turning point," said Harry Tchilinguirian, BNP Paribas SA's London-based head of commodity markets strategy. "But fundamentals, notably in the U.S., have not changed much."

West Texas Intermediate crude, the U.S. benchmark, has climbed more than $17 a barrel from a six-year low of $43.46 on March 17. WTI for June delivery fell 25 cents to end at $60.50 a barrel on the New York Mercantile Exchange.

Global oil demand will grow just 1.3 million barrels a day to 94.58 million next year, the Energy Information Administration said Tuesday. It jumped 2.89 million in 2010 after the previous price crash.

In the U.S., consumption will increase 0.4 percent next year to 19.44 million barrels a day, leaving it at a lower level than in 2008.

"There are pockets of strength, but the days where we saw greater than 1.5 percent oil demand for a year are probably largely behind us," said Michael D. Cohen, an analyst at Barclays Plc in New York.

Consumption growth is not enough to bridge the divide with supply, Simon Henry, Shell's chief financial officer, said April 30 on a conference call. "The supply overhang is potentially quite a bit higher for some time to come."

China's fuel demand will grow by 3.1 percent next year to 11.34 million barrels a day, according to the EIA. That compares with an 11 percent jump in 2010 that helped boost crude prices by 15 percent. Annual growth has averaged 5.2 percent in the past 10 years.

China's economy will expand by 6.8 percent this year, the International Monetary Fund forecast last month. That would be the slowest pace since 2008.

"The Chinese economy is faltering and the government is scrambling to keep it growing," John Kilduff, a partner at Again Capital LLC, a New York-based hedge fund that focuses on energy, said by phone. "If these interventions don't work as hoped, the economy will slow further and with that will be a decline in oil demand."

Global oil production will rise 1.7 percent to 95.1 million barrels a day this year, while demand will increase 1.5 percent to 93.9 million, according to Goldman Sachs Group Inc.

"Despite this perception of improving fundamentals, our updated supply and demand balance points to a still well oversupplied market in 2015," Goldman analysts including Jeffrey Currie said in an e-mailed report dated May 11. "While low prices precipitated the market rebalancing, we view the recent rally as premature."

The drop in oil prices since last summer is boosting the demand outlook, EIA Administrator Adam Sieminski said Tuesday. Global production will still be more than consumption in 2015 and 2016, the EIA said. That will increase inventories by 1.8 million barrels a day in the first half and 900,000 in the second.

U.S. oil production will grow each year through 2020, rising a total of 14 percent from this year, according to the EIA's Annual Energy Outlook. Petroleum demand will gain less than 3 percent during the same period.

The record drop in rigs drilling for oil in the U.S. could bottom out this month, with operators already reviving operations in parts of Eagle Ford and Permian in Texas, Morgan Stanley said. The rig count dropped to 668 in the week ended May 8, the lowest since 2010, according to Baker Hughes Inc.

U.S. monthly production will decline in the third quarter from the second but will increase again in the last three months of this year, EIA forecasts.

"We'll see some demand recovery because of lower prices over the long term, but demand is not going to grow as fast as supply," said Michael Lynch, president of Strategic Energy & Economic Research in Winchester, Massachusetts. - **BLOOMBERG**

Keystone Delays 'Frustrating,' Canada's Finance Minister Oliver Says

Delayed approval of TransCanada Corp.'s Keystone XL pipeline is "frustrating" and puts off any economic benefit from the project, according to Canada's Finance Minister.

Speaking today in New York, Joe Oliver praised the trading relationship between the two countries and said "candor is not out of place when we believe matters could be handled a trifle better."

The Finance Minister spoke after the U.S. Ambassador to Canada, who said the relationship between the two countries is about more than pipelines.

“To take full advantage of our energy wealth, we need to access markets, which implies the construction of pipelines,” Oliver said. “And that is why Canada finds it frustrating that it is still awaiting presidential approval on the Keystone project. It is easily one of the most studied energy projects in the world and has been vetted repeatedly by the U.S. State Department, which said it would not pose environmental risk.”

Keystone “means greater energy security for America” and reducing American dependence on Venezuelan oil, Oliver told a securities conference. It also would offer an alternative to transporting crude by rail, a method that has surged in recent years.

“We know that building Keystone is the right way forward. We hope it will be approved so Canada and America can move forward together,” Oliver said Wednesday at a Canada-U.S. securities summit hosted on Wall Street by the Securities Industry and Financial Markets Association and the Investment Industry Association of Canada.

Bruce Heyman, the U.S. Ambassador to Canada, also outlined trade figures between the nations, referring to the Keystone pipeline in one of his final points.

“I can assure you the U.S. government is fully aware of Canada’s position on the KXL pipeline, but pipelines do not define our relationship,” Heyman said. “I think it’s important to step back and think of the relationship in the broader and incredibly positive context that I’ve hopefully laid out here today.” - **BLOOMBERG**

JP Energy Partners Closes Southern Propane Acquisition

JP Energy Partners LP completed the acquisition of Southern Propane Inc.’s assets for $14.9 million, the company said May 11.

The acquisition of the industrial and commercial propane distributor was financed through JP Energy’s revolving credit facility and the issuance of about 267,000 common units.

“We are pleased to complete this acquisition which strategically extends our current operations,” said J. Patrick Barley, CEO of JP Energy. “We will continue to evaluate bolt-on acquisitions that are accretive for our unit holders and create value for our customers.”

Domestic midstream-focused JP Energy Partners LP is based in Irving, Texas. – **BUSINESS WIRE**

Kinder Morgan Receives FERC Approval For Palmetto

Kinder Morgan Inc. received Federal Energy Regulatory Commission (FERC) approval regarding the rates, terms and conditions of service for the proposed Palmetto Pipeline, the company said May 7. The approval came May 1, the company added.

Palmetto will transport petroleum products from Louisiana, Mississippi and South Carolina to parts of South Carolina, Georgia and Florida.

Baton Rouge, La., Collins and Pascagoula, Miss., and Belton, S.C., are cities where the petrochemicals will ship from. North Augusta, Ga., and Jacksonville, Fla., are where they will end up.

Palmetto will handle 167,000 barrels per day of capacity.

Expansion capacity will be leased from Plantation Pipe Line Co., which is between Baton Rouge and Belton. A new 360-mile pipeline from Belton running to Jacksonville will also be built for the system.

"We are pleased to receive FERC approval, which allows us to advance the development of this important infrastructure project supporting distribution of domestically produced petroleum products," Ron McClain, president of Kinder Morgan Products Pipelines.

Kinder Morgan said southeastern consumers could save as much as 6 cents per gallon when Palmetto is in service. – **BUSINESS WIRE**

Goldman Sees Oil Dropping As Price Rally Makes Crude Too Costly

Oil prices are set to slide as their rally to the highest level this year threatens to prolong a global glut, according to Goldman Sachs Group Inc., Bloomberg reported May 12.

Crude is now expensive relative to current and forecast fundamentals, analysts including Jeffrey Currie said in an e- mailed report dated May 11. Rising fuel inventories in the U.S. will erode refining margins and weigh on prices, while the reduction in drill rigs is not big enough to lead to persistently lower production, according to the bank.

Oil has rebounded 36% from a six-year low in March amid speculation a drop in U.S. drilling rigs to the fewest since September 2010 will slow output and ease a supply glut. West Texas Intermediate (WTI) futures settling above $60 a barrel (bbl) will eventually lead producers to increase activity and cut their well backlog, Goldman said.

"While low prices precipitated the market rebalancing, we view the recent rally as premature," the Goldman analysts wrote.

WTI climbed to as high as $62.58/bbl last week on the New York Mercantile Exchange, and traded at $59.72 at 4:46 p.m. Singapore time. Prices advanced 25% in April, the most since May 2009.

Crude inventories will fall only gradually in 2016 as an increase in output from low-cost producers such as Saudi Arabia and Iraq offset growth in demand, Goldman said. U.S. stockpiles are near the highest level since since 1930, according to monthly data from the Energy Information Administration (EIA) dating back to 1920.

Market Oversupply

Benchmark crude fell almost 50% last year as a shale boom drove U.S. production to the highest level in more than three decades while Saudi Arabia and other members of OPEC chose to protect market share over cutting output to boost prices.

The plunge in prices led to the steepest and most prolonged retreat in drilling from U.S. fields on record. Output from shale formations such as North Dakota's Bakken and Texas's Eagle Ford Shale will slide 54,227 bbl/d this month, based on EIA estimates. It'll fall another 86,000 bbl in June to a five-month low of 5.56 million, the agency said May 11.

"The oil market focus has dramatically shifted over the past month, from fearing a breach of U.S. crude oil storage capacity to reflecting a well under way oil market rebalancing," the Goldman analysts said in the report. "We view this shift in sentiment and positioning as excessive relative to still weak fundamentals."

Goldman predicts the global oil market will be oversupplied by 1.9 MMbbl/d in the second quarter of 2015. – **BLOOMBERG**

Contact Information:

FRANK NIETO Senior Editor
fnieto@hartenergy.com

Contributing Editors: Velda Addison, Darren Barbee, Nissa Darbonne, Deon Daugherty, Rhonda Duey, Caroline Evans, Bethany Farnsworth, Dale Granger, Leslie Haines, Mary Hogan, Paul Hart, Susan Klann, Caryn Livingston, Mike Madere, Joseph Markman, Richard Mason, Emily Moser, Jack Peckham, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Bryan Sims, Kristie Sotolongo, Steve Toon, Theresa Ward, Scott Weeden, Peggy Williams

Graphic Designer: Felicia Hammons

ORDER TODAY!

Call: **1-212-608-9078** | Fax: **1-212-608-9357**

HARTENERGY

1616 S. Voss, Suite 1000 • Houston TX 77057-2627 • USA

Copyright 2015. All rights reserved. Reproduction of this newsletter, in whole or in part, without prior written consent of Hart Energy is prohibited. Federal copyright law prohibits unauthorized reproduction by any means and imposes fines up to $100,000 for violations. Permission to photocopy for internal or personal use is granted by Hart Energy provided that the appropriate fee is paid directly to Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923. Phone: 978-750-8400; Fax 978-646-8600; E-mail: info@copyright.com.