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MIDSTREAM Monitor

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FEATURE

Chesapeake's McClendon Discusses Next Line Of Liquids-Rich Plays

Chesapeake Energy Corp. remains one of North America's largest natural gas and liquids producers with significant holdings in the most prolific basins on the continent, and the company continues to eye growing liquids plays for future growth.

These include the Mississippi Lime in northern Oklahoma and southern Kansas, the Cleveland and Tonkawa tight sands in the Anadarko basin and the Utica shale in eastern Ohio.

Although Chesapeake discovered the Mississippi Lime in April 2007, it has been slow to develop the play because it was discovered at the same time as the Colony Granite Wash, according to the company's Chairman and Chief Executive Aubrey McClendon.

"Because we were unsure of the ultimate size of the Mississippi Lime play and unsure of how predictable the rocks would be, we ended up developing our Granite

Wash assets more quickly. However, in the past year, it has become more clear that we have a major play on our hands in the Mississippi Lime, and so we ramped up our leasing and drilling efforts quite significantly," he said during a conference call to discuss Q2 2011 earnings.

Chesapeake now owns the most acreage in the play at 1.1 million net acres and is using six rigs to develop leaseholds. McClendon stated that it is anticipated that this rig count will increase to 10 by the end of the

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INSIDE LOOK AT PROCESSING

Enterprise Growth To Include Marcellus Ethane Takeaway Project

"Led by shale gas and shale oil, we're in a period of tremendous growth for the entire midstream sector. Benchmarks by which we always measured industry performance in the past are now in unchartered territory," Jim Teague, executive vice president and COO of Enterprise Products Partners LP, said during a conference call to discuss Q2 2011 earnings.

Such activity spurred strong results for the company in the quarter, as Enterprise reported records for net income, EBITDA (earnings before interest, taxes, depreciation and amortization) and gross operating margin for the second straight quarter.

Gross operating margin rose 14% to $923 million from the previous quarter, which led to adjusted EBITDA increasing to $916 million with $449 million in net income. "We surpassed the records we set last quarter as our diversified and integrated midstream assets continued to perform well and we continued to benefit from increased demand for NGLs by the U.S. petrochemical and international markets," said Mike Creel, president and chief executive.

These earnings will allow the company to continue to fund future growth projects as it retained $491 million, or approximately one-third, of its $1.5 billion distributable

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Regency Energy To Continue Growth Through Lone Star NGL JV

Increased gathering and processing volumes helped Regency Energy Partners LP improve its earnings by 40% to $103 million in Q2 2011 from the previous year's quarter and 13% over Q1 2011 earnings.

This increase was largely driven by the company's acquisitions of a 49.9% interest in the Midcontinent Express Pipeline and of Zephyr Gas Services, a contract treating business, and its 30% interest in the Lone Star NGL LLC joint venture that all helped to its fee-based revenue.

The 30% interest in Lone Star NGL LLC, an NGL storage, fractionation and transportation business in west Texas, is also a growth vehicle for the company. This company, which is also owned by Energy Transfer Partners (ETP), is undertaking two projects in the region that are designed to address high demand for NGL transportation and processing. These include a $350 million to $375 million, 100,000 barrels per day (b/d) NGL fractionation facility in Mont Belvieu that is set to come online in 2013. Terms call for Regency to incur $110 million of these costs.

The second project is a 530-mile NGL pipeline that will cost up to $700 million and will run from Winkler County, Texas, to ETP's Jackson County, Texas, natural gas processing plant. This is also targeted for an in-service date in 2013 with Regency's costs being approximately $210 million.

"We are very excited about Lone Star, which adds a significant strategic NGL platform, complements our existing asset base, expands our abilities to provide full-service capabilities for our producers in the midstream space and positions Regency for further significant growth over the years to come," Mike Bradley, Regency's president and chief executive, said during a conference call to discuss Q2 2011 earnings.

He anticipates production will continue to focus on liquids-rich plays, which will benefit the company immensely once these projects come online. "Average pricing has improved across all liquids as record high cracking margins have driven U.S. petrochem exports up, increasing demand for NGLs ... High NGL demand and lower natural gas pricing have driven frac spreads to an all-time high. The high NGL frac spreads have led to increased NGL production over the last several years, and NGL production in the U.S. is expected to surpass 2.2 million b/d in 2012. The Lone Star joint venture is well-positioned to provide additional infrastructure necessary for increased NGL production."

The company's growth is also reflected in its move from the NASDAQ Stock Market to the New York Stock Exchange under the symbol "RGP" on Aug. 9. "We are excited to make this move to the New York Stock Exchange, which is a leading venue for energy companies. Many of our energy industry peers, including our general partners, ETE, are listed on the NYSE," Bradley said.

Additionally, Regency's gathering and processing volumes rose 6% to 1.1 million Btus per day (MMBtus/d) from Q2 2010, largely due to increased production from Regency's south and west Texas systems. These regions will continue to grow during the next few years, especially south Texas because of a $450 million expansion Regency is planning in the Eagle Ford.

This project includes a 400-mile wellhead gathering system on approximately 150,000 dedicated acres located in the play's liquids-rich section as well as the associated compression.

"In addition, as part of the agreement, Regency purchased certain existing midstream assets. The assets began generating revenue on June 1 of this year. For the month of June, Regency gathered approximately 100,000 MMBtus/d of gas through these assets, and we expect this volume to continue to ramp up over the next few years as we continue to build out the system," Bradley said.

– Frank Nieto

Rockies Pipeline Panels Spotlight Completed Projects, Future Issues

In spite of 2010-2011 construction delays from an unusually snowy winter and rainy spring in the west and detours because of a protected western sage grouse habitat, El Paso's Ruby pipeline was completed and began delivering gas in July 2011. Ruby is a 680-mile, 42-inch gas transmission pipeline that begins at the Opal Hub in southwestern Wyoming and terminates near Malin, Oregon. Ruby has an initial design capacity of up to 1.5 billion cubic feet per day. The project has four compressor stations--one near the Opal Hub; one south of Curlew Junction, Utah; one at the mid-point of the project, north of Elko, Nevada; and one in northwestern Nevada. Ruby will offer Rockies producers a direct route to the West's premium market, Pacific Gas & Electric Citygate in Northern California, and is predicted to provide one of the most low-cost routes out of the Rockies.

At the recent Colorado Oil and Gas Association's annual conference in Denver,

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Energy Epicenter, Matt Marshall, senior energy analyst at Bentek Energy, addressed lower rates from Ruby flowing west out of the Rockies:“The net price spreads slightly favor Canadian supply at Malin and Rockies suppliers need to reduce their prices about 10¢ from current levels.”

For the Uinta Basin, John Davis of Williams Northwest Pipeline said that the planned Opal Market Link, the 180-mile, 24- and 30–inch pipeline system will provide significant takeaway capacity for natural gas liquids and unprocessed natural gas. The proposed Opal Market Link will include construction of up to 145 miles of 24-inch diameter pipeline originating near Vernal, Utah, and extending north to the Opal Hub. Williams Northwest is also offering gathering service in the Uinta Basin to interconnect with the Opal Market Link project, as well as gas processing services at the Opal plant.

The initial design capacity of the Opal Market Link is planned to be approximately 400,000 dekatherms per day, which can be easily increased through compression or larger diameter pipe. According to Davis, “Uinta Basin gas production has significant growth potential and the project will provide producers with low-cost transportation service and access to a vast array of natural gas and natural gas liquids markets.” The project is expected to be completed in the third quarter of 2015.

Williams Northwest is also planning the Jordan Cove-Pacific Connector to provide gas to an LNG import terminal that will be located in Coos Bay, Ore. The Jordan Cove facility will be capable of receiving LNG supplies (primarily from Asia and Africa) from specially-designed marine vessels, storing the natural gas in liquid form, and re-delivering the natural gas through interconnecting pipelines to the Pacific Northwest and adjacent markets.

The Pacific Connector Gas Pipeline Project is a proposed 234-mile, 36-inch diameter pipeline designed to transport up to 1 billion cubic feet of natural gas per day from the Jordan Cove LNG terminal to markets in the region. The Pacific Connector project includes interconnects to Williams´ Northwest Pipeline near Myrtle Creek, Ore.; Avista Corporation´s distribution system near Shady Cove, Ore.; Pacific Gas and Electric Company´s gas transmission system; Tuscarora Gas Transmission´s system and Gas Transmission Northwest´s system, all located near Malin, Ore.

John Eagleton of Kinder Morgan discussed the Pony Express Pipeline’s gas-to-oil pipeline conversion for a portion of the system from Freeman, Mo., to Guernsey, Wyo. “There’s more oil from Bakken and Niobrara than there is gas and we have the gas capacity. We’re converting a run to Cushing, Okla., for oil processing and this could be completed in 2014.”

The Pony Express Pipeline extends from gathering systems in the Wind River Basin of central Wyoming through Colorado, Nebraska and Kansas to the Freeman Hub, south of Kansas City. It has access to more than 6 trillion cubic feet of Rocky Mountain gas reserves.

According to Todd Kremer of Kern River Gas Transmission Co., the Apex Expansion Project will increase natural gas transported on the Kern River system by about 266 million cubic feet per day. When the Apex expansion is completed in November 2011, the Kern River system will be able to transport more than 2.14 billion cubic feet of natural gas per day. Kern River plans to install approximately 28 miles of new 36-inch diameter pipeline through the Wasatch Mountains in northern Utah, add 78,000 incremental horsepower of compression at one new compressor station and three existing compressor stations, and replace a compressor unit at one existing station.

Shelley Wright of Questar Pipeline described the Overthrust Pipeline as a 255–mile, mostly 36-inch diameter pipeline located in southwestern Wyoming. The Overthrust is capable of a total daily capacity of 2 billion cu. ft. per day for Wyoming’s Overthrust, Green River and Wamsutter producers. The Overthrust has interconnects to several major pipeline systems including Ruby, Rockies Express pipeline, Kern River and Wyoming Interstate Company.

Questar is working on a Uinta Basin transportation project that could deliver 110,000 dekatherms per day. Questar is also reconfiguring compression facilities and piping modifications at its Fidlar Compressor Station in Utah and hopes to deliver up to 25,000 dekatherms per day of additional capacity to the White River Hub from receipt points at Fidlar, Utah, or upstream of Fidlar.

According to Skip York of Wood Mackenzie Consulting, lighter crude from the Rockies is creating a glut at refineries in Cushing, Okla., which are currently geared towards refining heavier and cheaper crude from the Gulf Coast. One of the current activities to alleviate the glut is that Bakken crude is shipped via railcar to a Tesoro Corp. refinery in Anacortes, Wash. Tesoro currently takes delivery of about 1,000 to 2,000 barrels per day of Bakken crude which will eventually be sent to a West Coast refinery. Oil traders and shipping companies are building rail terminals in North Dakota and other northern or mid-continent locations in a race to move crude south due to a dearth of pipelines to do the job. “Pipeline tariffs remain cheaper than rail, but the boom period for crude-by-

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rail could last until at least 2013, when new pipelines between the Midwest and Gulf Coast regions enter into play.

"I believe that the imbalance will ultimately be resolved by the oil market. I don't see the situation quickly changing but the level of discount will decrease as infrastructure improves," York concluded. – Larry Prado

Chesapeake's McClendon... *(continued from page 1)*

year and reach 30-40 rigs by the end of 2014 or early 2015.

"To date we have drilled 56 Mississippi Lime horizontal wells and have found an average of 415,000 barrels of oil equivalent per well at an average finding cost to date of approximately $11 per barrel. Obviously very, very attractive results to date," he said.

In the years to come, Chesapeake will drill up to 6,750 net wells in the play that will create roughly 2.2 billion barrels of unrisked oil equivalent impact to the company.

He added that Chesapeake will seek to monetize its assets in the play by seeking a joint venture partner in the region in the first half of next year similar to its JVs in other plays.

The company has been able to undertake such JVs due to its large holdings in North American unconventional plays. This sort of position is also the case in the company's holdings in the Cleveland and Tonokawa tight sands plays. "One reason that you've not heard too much about these plays is that Chesapeake's 720,000 net acres leasehold position across these plays is so dominant that no other public E&P company has been able to build a meaningful competing interest and talk up the play," McClendon said.

Such a position was made possible due to the company's history in the Anadarko, where is has built the largest holding from 2001 to 2007 as part of its "long on natural gas" strategy.

"Because of this unmatched leasehold position in the Anadarko basin, Chesapeake possesses unique informational and operational advantages which have enabled us to discover several large new plays in the region. The Anadarko basin is today one of the two premier liquids-focused basins in the U.S. with the Permian basin being the other," he said.

To date the company has drilled 116 horizontal wells in the Cleveland and Tonkawa plays combined with gross estimated pro forma reserves of approximately 600,000 barrels of oil equivalent per well, and finding and development costs of approximately $12 per barrel. Currently, the company has 16 rigs combined in the two plays and anticipates increasing this to 25-30 rigs throughout the next few years.

New Play In The Utica

The newest of these four liquids-rich plays comes from the Utica shale in eastern Ohio and it is one that McClendon envisions being more important to the company than its other major unconventional discoveries of the past four years: the Granite Wash, Haynesville, Tonkawa Sand and Mississippi Lime.

"In some respects, the play reminds us of the Haynesville shale in the fact that we worked undercover for more than a year to develop the basic geological and petrophysical model. We built the largest leasehold position in the play and then drilled the first discovery wells. This is certainly also the case with the Utica, where we started working on the play one-and-a-half years ago, started buying leases shortly thereafter and today quietly and efficiently have built the largest leasehold position in the play," he said.

McClendon added that this advantage is even more important because the economics of this new play are similar, and likely superior, to the Eagle Ford. "The similarity is that we expect the Utica to have three phases -- a dry gas phase on the eastern side of the play, a wet phase in the middle and an oil phase on the western side. The difference is we believe the Utica will be economically superior to the Eagle Ford because of the quality of the rock and the location of the asset."

He declined to discuss the company's IP rates or reserve estimates just yet. However, he stated that based on the nine vertical wells, six horizontal wells and 3,200 feet of proprietary core the company has analyzed, he thinks that the company's 1.25 million net acres in

KEY NORTH AMERICAN HUB PRICES	
2:30 PM CST / AUGUST 11, 2011	
Gas Hub Name	Current Price
Carthage,TX	3.92
Katy Hub, TX	4.03
Waha Hub, TX	4.01
Henry Hub, LA	4.06
Perryville, LA	4.00
Houston Ship Channel	4.01
Agua Dulce TX	4.67
Opal Hub, Wyo.	3.85
Blance Hub, NM	3.92
Cheyenne Hub, Wyo.	3.89
Chicago Hub	4.15
Ellisburg NE Hub	4.38
New York Hub	4.28
AECO , Alberta	3.68

Source: Bloomberg

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the Utica will be worth $15 billion to $20 billion to the company's shareholders through a future monetization effort.

"That's a big number to be sure, but we believe we understand the hydrocarbon potential under our acreage, and we also know a fair amount about how to create and extract value from a play such as this. I might also add that in the Utica as in the Mississippi Lime, we have been approached with a number of alternative monetization ideas that we believe will be quite competitive with the standard industry JV process," he said.

New Plays Represents Growth Opportunities For Midstream

Chesapeake's MLP, Chesapeake Midstream Partners, also stands to benefit from the development of the new Utica shale play as the midstream needs in the region will be large, according to McClendon.

"There will be gathering needs, processing needs and further downstream transportation needs out of the basin. The way our model works is that we develop greenfield assets in our Chesapeake Midstream Development subsidiary and then, over time, we look to drop those assets down into the MLP," he said.

One of the advantages for producers and midstream companies in the Utica is that there is plenty of water in the region, according to McClendon.

"The topography is much less challenging than in West Virginia, eastern Pennsylvania. We're in a part of Ohio that is ground zero for what used to be known as the manufacturing belt of America and unfortunately in the last 30 years has been the rust belt. We think that our activity can help rejuvenate this area and we're actually quite pleased with the quality of the workforce, the size of the workforce. We think there are great transportation alternatives and we're pretty close to the Ohio River, so if we need to barge out some oil, we can do that.

"It's pretty much the most ideal place I could think of in America for a new big play to develop, and we are excited about it and recognize that our activity is going to create a lot of logistical challenges. But we'll meet them all and create tens of thousands of jobs while we do it," McClendon said.

– Frank Nieto

Dominion To Construct New Natural Gas Processing, Liquids Separation Facility

Dominion, Richmond, Va., has reported that it is proceeding with its next major project in the Marcellus and Utica Shale regions -- the construction of a large natural gas processing and fractionation plant along the Ohio River in Natrium, W.Va.

The first phase of construction includes facilities that can process 200 million cubic feet of natural gas per day and fractionate 36,000 barrels of natural gas liquids per day. This phase of the project is more than 90% contracted and is expected to be in service by December 2012.

"We are working to secure additional producer commitments for a second phase of the project," said Thomas F. Farrell II, chairman, president and chief executive of Dominion. "Once those contracts are finalized, efforts to expand the Natrium facility to process a total of 400 million cubic feet of natural gas per day and fractionate 59,000 barrels of natural gas liquids per day will be under way."

The new facility is a response to the need for additional processing and fractionation capacity in the region. The rising price of oil and the low price of natural gas have shifted drilling activity in the region from the dry gas to the wet gas areas as producers look to capture the economic value of natural gas liquids.

"The Natrium site is an ideal location," said Gary Sypolt, chief executive of Dominion Energy. "We will have the capability to access production in both the Marcellus and Utica Shale regions, and ship products via barge, rail, truck and pipe, thus offering significant value to producers."

"I want to thank Dominion for its commitment to expanding our nation's energy independence by investing here in West Virginia," Gov. Earl Ray Tomblin said. "The employment and economic expansion expected from the construction and operation of the Natrium plant in Marshall County confirms the strength of West Virginia's natural gas industry. Investments like this will lead America forward on the path toward energy independence."

"I want to applaud Dominion for their responsible use of our vast natural gas resources to create jobs for West Virginia and move us closer to energy independence," said Congressman David B. McKinley, P.E., who represents West Virginia's District 1. "Discovery of Marcellus Shale has already created hundreds of jobs in northern West Virginia, and we must protect those jobs for the people of our state. I am pleased that Dominion has recognized West Virginia is full of hard-working and determined people. This is a good move for our state."

Dominion has exercised its option with PPG Industries to purchase land and

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locate the new plant adjacent to PPG's Natrium facility in Marshall County, about 9 miles north of New Martinsville, W.Va. It will connect to Dominion Transmission's TL-404 pipeline, an existing pipeline in Ohio and West Virginia that was recently converted to handle wet gas.

"Natrium will be a world-class facility," said Paul Ruppert, senior vice president of Dominion Transmission. "It is being constructed to the latest industry standards to be an extremely reliable plant, which should be appealing to producers looking to capture the greatest value. Dominion has 100 years of experience in operating processing plants, has a proven track record and understands this business."

Wet gas from West Virginia and Ohio will be delivered to the TL-404 by Dominion Transmission, Dominion's interstate natural gas pipeline and storage subsidiary, and by Dominion East Ohio, Dominion's natural gas distribution subsidiary in Ohio.

"The emerging Utica Shale play will also have access to Natrium's services through the large diameter, high-pressure pipelines of Dominion East Ohio that are already connected to TL-404," said Anne Bomar, senior vice president and general manager of Dominion East Ohio.

Besides bringing new development to the area, the site is expected to employ 40-50 people when fully completed. It will encourage local natural gas production by allowing producers to get their products, both liquids and dry gas, processed and separated for marketing.

The largest customer is Chesapeake Energy Marketing Inc., a wholly-owned subsidiary of Chesapeake Energy Corp., which has contracted for 100 million cubic feet per day and has an option for capacity on the second phase. Dominion has retained CB&I to be the engineering, procurement and construction contractor for the first phase.

Dominion's existing processing and liquids separation facility, the Hastings Extraction Plant in Pine Grove, W.Va., has been the site of pioneering in the natural gas industry. The first compressor station was constructed there in 1902. In 1913, it became the site of the first oil-absorption processing plant in the U.S., separating natural gasoline from the natural gas stream. Today, Hastings is a leading Appalachian basin supplier of propane, butane, isobutane and natural gasoline.

NEWS & TRENDS

Enbridge To Build TX Panhandle Processing Plant

Enbridge Energy Partners L.P. will construct a 150 million cubic feet per day (MMcf/d) cryogenic natural gas processing plant on its Anadarko gas-gathering system near Wheeler, Texas. The $230 million Ajax plant -- strategically located to serve the rapidly growing Granite Wash play -- will add much-needed natural gas processing capacity to its Anadarko system and is expected to be in-service by early 2013.

"The Ajax natural gas processing plant is the latest in a series of major investments to serve producers in the Granite Wash," said Mark Maki, president of the partnership's management company. "In the last year, we have invested or committed more than $1 billion in this region to serve the needs of our customers, and we continue to explore opportunities for other organic growth and expansion investments in the Granite Wash. This new plant will bring our total Anadarko System processing capacity to 1.2 billion cubic feet per day."

The Enbridge Partners Anadarko system consists of approximately 2,800 miles of natural gas gathering and transportation pipelines in southwest Oklahoma and the Texas Panhandle, one natural gas treating plant, and 12 natural gas processing plants, including the planned Ajax and previously announced Allison plants.

Inergy To Create Publicly Traded MLP

Inergy LP (NYSE: NRGY) announced plans to create a publicly-traded MLP that will consist of its natural gas storage and transportation assets in the Northeast and operate under the name Inergy Midstream LP. It is anticipated that the MLP will help the company enhance its plans for future growth by lowering its cost of capital. The IPO is expected to take place no earlier than the end of this year.

This company's holdings will consist of roughly 41 billion cubic feet of storage capacity and 825 million cubic feet per day of transportation capacity through the Stagecoach storage facility and its related pipelines, the Steuben and Thomas Corners storage facilities, the Seneca Lake storage facility and its East and West pipelines, the Finger Lakes NGL storage facility, as well as the proposed Marc I pipeline.

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PwC: Shale Plays, Midstream Assets, Foreign Investments Drove Q2 M&A Activity

Ongoing interest in shale acreage, deals for midstream assets and increased investments from foreign buyers in the U.S.oil and gas industry helped drive domestic oil and gas mergers and acquisitions value to $39 billion in the second quarter of 2011, according to PwC US.

In the second quarter of 2011, there were 51 deals with values greater than $50 million, compared to 61 announced deals totaling $41 billion in the same period last year. While the volume and value of transactions dipped slightly in the second quarter of 2011, when compared to the same period last year, average deal value for deals over $50 million jumped to $765 million in the second quarter 2011, a 14 percent increase over the same period last year when average deal value was $672 million.

"There continues to be steady M&A activity in the oil and gas sector with strong competition for prized assets, which has maintained the deal momentum throughout the first half of the year. The second half of the year has already kicked off with one mega deal announced, and we expect that deal momentum to continue," said Rick Roberge, principal in PwC's energy M&A practice. "Foreign and private equity interest in North American oil and gas assets remains very high and will likely be a driver of ongoing activity."

Foreign buyers announced 18 deals valued at over $50 million or more in the second quarter of 2011, which contributed $36.2 billion or 72 percent of total deal value, vs. 27 deals valued at $24.2 billion in the same period last year.

For deals valued at more than $50 million, there were 11 midstream deals that accounted for $19.9 billion, or 51 percent of total deal value, compared to six deals worth $3.4 billion in the same period last year. Transactions in the upstream space led all oil and gas subsectors with 26 deals, or 51 percent of volume in the second quarter.

According to PwC, seven of the top 10 deals by value in the second quarter of 2011 were related to shale plays, including four upstream deals and three transactions in the midstream and oil field services space. For all deals greater than $50 million, there were 10 shale-related transactions totaling $7.5 billion, or 19 percent of total deal value, including two deals involving the Marcellus shale totaling $2.3 billion.

"Shale-gas assets continue to be very attractive acquisition targets as multinationals look to gain technical know-how and exploit the long-term value and opportunities from rising energy needs," said Steve Haffner, a Pittsburgh-based partner with PwC's energy practice. "At the same time, there is tremendous activity developing around natural gas infrastructure, which is necessary to move the extracted gas to market. The U.S. 'shale gale' continues to attract the attention of global companies."

There were five financial sponsor-backed transactions over $50 million, representing $6.1 billion, or 16 percent of total deal value, compared to 10 financial sponsor deals contributing $6.2 billion during the same period last year. During the first six months of 2011, there were 16 financial sponsor deals contributing $20.6 billion, a whopping 129 percent increase in deal value, compared to the first half of 2010 when there were 15 financial sponsor-backed deals, valued at $9.0 billion.

"Private equity funds continue to make a very strong push in the oil and gas sector," added Roberge. "The private equity deal-makers, who used to largely play in the midstream space, are now heavily involved in exploration and production (E&P), shale plays, and oil-field services and equipment sector. However, along with the great opportunities and rewards of investing in oil and gas, there is still risk in this space -- and new entrants need to understand the pitfalls before trying to exploit these possible opportunities."

For deals with values greater than $50 million, there were 18 corporate transactions totaling $26.8 billion or 69 percent of total second-quarter deal value, compared to 22 deals that accounted for $25.9 billion in deal value in the same period last year. Thirty-three asset deals for a combined total of $12.2 billion were announced in the second quarter of 2011, versus 39 deals totaling $15.1 billion in the same period last year. However, when comparing the first six months of 2011 to the first half of 2010, the number of corporate transactions increased by

RESIN PRICES – MARKET UPDATE – AUGUST 12, 2011					
TOTAL OFFERS: 12,429,776 lbs		SPOT		CONTRACT	
Resin	Total lbs	Low	High	Bid	Offer
HDPE - Inj	2,762,048	0.68	0.80	0.66	0.70
PP Homopolymer - Inj	1,766,736	0.81	0.97	0.84	0.88
LLDPE - Film	1,763,680	0.70	0.80	0.66	0.70
HDPE - Blow Mold	1,567,288	0.64	0.74	0.64	0.68
PP Copolymer - Inj	1,069,000	0.82	1.00	0.86	0.90
HMWPE - Film	980,460	0.72	0.77	0.67	0.71
LDPE - Film	799,104	0.78	0.88	0.75	0.79
GPPS	696,000	0.82	0.93	0.83	0.88
HIPS	570,000	0.96	0.98	0.92	0.97
LLDPE - Inj	366,368	0.71	0.71	0.69	0.73
LDPE - Inj	89,092	0.75	0.76	0.71	0.75

Source: Plastics Exchange – www.theplasticsexchange.com

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three deals to 35 transactions, while total corporate deal value jumped 26 percent to $59.7 billion in 2011 from $47.6 billion in 2010.

Another potential driver for M&A activity is the desire from some oil companies to sell assets and break apart key lines of business, according to PwC.

"We believe that another factor to keep a close eye on throughout the year, which may add to the already robust M&A activity we're seeing, is the trend of integrated oil companies looking at the various options to unlock shareholder value through separating their E&P businesses," said Roberge. "While this trend could be a very positive driver of M&A activity, these are highly complex transactions with potential consequences around tax considerations, valuations and financial reporting. Companies should consider the risk with these types of transactions as every potential scenario needs to be thoroughly and diligently evaluated to succeed."

PwC's Oil & Gas M&A analysis is a quarterly report of announced U.S. transactions with value greater than $50 million analyzed by PwC using transaction data from John S. Herold Inc.

Enterprise Growth… *(continued from page 1)*

cash flow through the first six months of 2011. "We continue to pursue projects that meet customer needs but also complement our existing assets," Teague said.

These projects include the Rocky Mountains leg of its Mid-America pipeline system, which recently completed a successful open season with shippers executing 10-year ship-or-pay transportation agreements for initial commitments of 38,500 barrels per day (b/d). Creel noted that capacity commitments have increased to 50,000 b/d with shippers having until the end of the year to exercise an option to further increase this capacity commitment to 85,000 b/d.

"We expect that will happen given the significant increase in new NGL takeaway capacity out of the Rockies. We hope to receive FERC approval for the project [in August] and expect it to begin service in the third quarter of 2014," Creel said.

Enterprise is also continuing to increase its fractionation capacity at Mont Belvieu, which recently added a fourth frac unit in Q4 2010 with a nameplate capacity of 75,000 b/d. The company is in the process of adding a fifth fractionator that is expected to be in-service by the end of the year and will begin construction on a sixth fractionator to handle increased liquids production from the Eagle Ford shale. Once all of these fractionators are online, the company will have more than 450,000 b/d of gross NGL fractionation capacity at Mont Belvieu and 940,000 b/d of gross NGL fractionation on a system-wide basis.

This growth is supported by strong economics for both producers and consumers, Teague said. "Ethane prices are low enough that cracker operators have all but maxed out consumption of this feedstock, which not only topped 1 million b/d at the start of the year, but also topped the 1 million b/d mark [in July]. On the flip side, NGL prices are also high enough that producers continue to maximize drilling in NGL-rich plays."

He also noted that propane is also benefiting from strong fundamentals that have increased extraction at processing plants to a record high 620,000 b/d in May. This is largely due to increased demand for propane exports, which has resulted in Enterprise taking on an expansion of its propylene fractionation capacity at Mont Belvieu.

Another capital project that the company is exploring involves helping to solve the ethane takeaway issue in the Marcellus and Utica shales by transporting ethane from this region into the Gulf Coast, where it will be absorbed by the petrochemical hub there.

This project would include a header system that would run 550 miles from Corpus Christi to the Mississippi River and be backed by the company's 100 million barrel NGL storage facility in Mont Belvieu.

"This impressive project can be accomplished by utilizing existing pipes and adding a modest amount of new pipe [only about 30% of the pipes will be new]. Our Marcellus project would connect into this new header allowing Marcellus ethane to flow throughout the Gulf Coast," Teague said.

– Frank Nieto

Penn Virginia Agrees To Sell $30.5M In Non-Core Arkoma Basin Assets

Penn Virginia Corp. (NYSE: PVA) entered into a definitive agreement to sell substantially all of its Arkoma basin properties, together with certain other Mid-Continent properties, to an undisclosed buyer for $30.5 million in cash. This sale is expected to close by the end of August and is subject to customary closing conditions and purchase-price adjustments.

The properties being sold include the Hartshorne coalbed methane and Woodford Shale formations, as well as a number of conventional natural gas play types. The properties are currently

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producing, on a net basis, approximately 7.8 million cubic feet of natural gas equivalent (MMcfe) per day, approximately 97 percent of which is natural gas. As a result of the divestiture, PVA's 2011 production will decrease by an estimated 0.9 billion cubic feet of natural gas equivalent (Bcfe). Estimated proved reserves associated with the divested properties, as determined by PVA's third party engineers at year-end 2010, were 42.5 Bcfe, 78 percent of which were proved developed. PVA intends to use the net proceeds from this sale to fund, in part, its 2011 capital expenditure plan, as well as for general corporate purposes. RBC Richardson Barr served as PVA's financial advisor in connection with the transaction.

H. Baird Whitehead, president and chief executive, stated, "Our strategy to shift the focus of our capital spending to oil and natural gas liquids made our Arkoma and other Mid-Continent assets appropriate divestiture candidates. The increase in liquidity generated by the sale of these properties will give us further flexibility to help fund investment in our liquids-rich plays, such as the Eagle Ford Shale, that generate higher rates of return and also improve our growth and profitability going forward."

Magellan Midstream To Shutter Wisconsin Oil Terminal

Magellan Midstream Partners announced it will cease to distribute petroleum from its Kronewetter, Wisc., terminal beginning on Aug. 12 due to the facility underperforming throughout the past few years.

The seven-tank terminal has a capacity to store 220,000 barrels of gasoline and diesel fuel from Chippewa Falls and will be maintained by the company in order to either be restarted or sold to a third-party at a later date, according to a company spokesperson.

The facility was the site of a pipeline spill in 2009, which released 35,000 gallons of gasoline and cost approximately $3 million to clean up.

PIPELINES & TECHNOLOGY

FERC To Study Environmental Impact Of Proposed $40B North Slope Pipeline

Officials with the Federal Energy Regulatory Commission (FERC) announced plans to study the potential environmental impact of the proposed $40 billion Alaska Pipeline Project from TransCanada Corp. and ExxonMobil Corp. that would transport natural gas from the North Slope of Alaska to the Lower 48 states.

However, the study will not include a proposed liquefied natural gas (LNG) pipeline that would transport gas from the North Slope into Valdez, Alaska, due to a lack of information. This is likely due to a lack of bidders for the project, according to Larry Persily, the federal coordinator for Alaska natural gas transportation projects.

"The customers determine where it gets built, and obviously there weren't enough customers out there willing to commit their balance sheet, their assets, their checkbooks for an LNG line," he told Alaska's KTUU.

The FERC study will require TransCanada and ExxonMobil to submit 11 studies on the project to them by the end of the year with hearings scheduled in both Alaska and Washington, D.C., in January. The companies have budgeted $200 million on the studies in 2011. Should the partnership receive a positive decision, they will have until October 2012 to formally apply for a license to build the project.

Despite the positives going forward, Persily told the TV station that he remained pessimistic to the project eventually getting built. "Am I optimistic that this is going to get built? Has something transcendentally been changed in the last two weeks? No."

Shell Considers Reversing Houma-To-Houston Pipeline

Shell Pipeline is considering reversing the Houma-to-Houston pipeline in order to provide pipeline access to additional crudes across the 300 miles of the U.S. Gulf of Mexico refining complex. Those crudes include the domestic crude oil production increases in Texas and the mid-continent, including the Barnett, Eagle Ford and Bakken shale plays, as well as the growing crude supplies in the Cushing, Okla., area. The project, dubbed the Ho-Ho Reversal, would complement the new pipeline infrastructure that is currently being built to the Houston area.

Shell Pipeline's project would reverse the existing Ho-Ho service to connect the Houston and Port Arthur, Texas, markets with the Louisiana markets. The Ho-Ho Reversal could enable the distribution of approximately 300,000 barrels per day of crude across the region depending

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upon crudes types shipped. Subject to customer commitments and regulatory approval, the Ho-Ho Reversal is expected to begin service by early 2013.

Additionally, Shell Pipeline continues to determine interest for a new pipeline from Louisiana to the Golden Triangle area of Texas. , This potential new pipeline would enhance access for U.S. Gulf of Mexico refiners to the anticipated increased domestic production and foreign crude available at St. James, La.

Blue Dolphin Energy Completes Sale Of Buccaneer Pipeline Assets

Blue Dolphin Energy Co. (OTCQB: BDCO) announced that its wholly-owned subsidiary, Blue Dolphin Pipe Line Co., sold its 831/3% interest in the Buccaneer Pipeline to Sunoco Partners Marketing & Terminals LP for net proceeds of approximately $3.6 million in cash.

Assets in the sale included the two-mile, onshore Buccaneer Pipeline, above-ground storage tanks, a barge-loading terminal, pumping station and related equipment. These assets consist of the onshore oil storage and marketing portion of the system that gathers and transports oil and natural gas to a barge loading terminal in Freeport, Texas, for sale to third parties. The company expects to book a gain of approximately $3 million in the third quarter as a result of the sale.

"Over the past year, we have been evaluating strategies to improve Blue Dolphin's balance sheet," said Ivar Siem, chairman and chief executive. "The sale of these underutilized assets generates a significant amount of cash while retaining our revenue producing natural gas operations and preserving our oil marketing capabilities. We will continue to gather and transport oil and natural gas from various offshore fields in the Gulf of Mexico through the Blue Dolphin Pipeline; however, onshore transportation and facilities services, such as storage, will be handled by Sunoco."

Tanglewood Capital Partners LLC, a Houston-based investment banking firm, served as exclusive financial advisor to Blue Dolphin throughout the transaction.

Parnon Gathering Announces Great Salt Plains Pipeline

Parnon Gathering Inc., a wholly owned subsidiary of Parnon Holdings Inc., announced the construction of its crude oil pipeline in central Oklahoma. The project includes laying approximately 109 miles of new eight-inch pipeline from Cherokee, Okla., to Cushing, Okla., and is designed to move 18,000 barrels per day (b/d) of crude oil with an option to up rate to 35,000 b/d. The pipeline, to be named Great Salt Plains Pipeline, will transport production from central and western Oklahoma and interconnect with Parnon's crude-oil tanks located at Cushing.

With right-of-way negotiations well advanced and pipe order confirmed, the line is scheduled to commission in March 2012. In response to interest from producers with acreage in western Oklahoma, plans are being prepared to extend the Great Salt Plains Pipeline (Phase II) further west to serve the Granite Wash and other new tight sands plays. As sufficient interest and commitment to this extension is confirmed, the second phase of the project will run concurrently with Phase 1 and could commission as soon as mid-year 2012.

NGL PRICES

NGL Prices Fall, But Value Relative To WTI Increase

The collapse felt throughout the financial markets did not fail to effect natural gas liquid (NGL) prices, but they weren't hit quite as hard as crude oil prices. The exceptions are C5+, due to its strong relationship with crude, and ethane, which has lost its status as the most preferred ethylene feedstock because of its lower price, thanks to the drop in WTI prices.

"Overall, NGL prices have not dropped proportionally with the collapse in crude prices. That does not mean NGL prices have not weakened, but they have gained considerable value relative to WTI prices. The composite NGL barrel is now selling at 62.3% of WTI. Just two weeks ago the NGL barrel was at 57% of WTI, and one year ago it was at 46.5%. There is one downside and that is the recent collapse in WTI prices has made naphtha a more preferred feedstock than ethane. Therefore, ethane prices could be under more pressure as its relative value to WTI needs to fall from 35% to 38% of WTI to the 25%-35% range so that it can regain its preferred status over naphtha," according to En*Vantage.

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The company noted that ethylene producers typically balance ethane prices in such a way by slightly favoring another feedstock to put pressure on ethane prices. While naphtha is now a more favored feedstock than ethane, crackers haven't significantly reduced their ethane consumption and they are currently operating at a 96% rate of nameplate capacity. Because of this, En*Vantage does not anticipate a long-term collapse in the ethane market unless WTI prices continue to fall and the economy enters another recession.

However, on a short-term basis ethane has already suffered at both Conway and Mont Belvieu. The Mont Belvieu price was down 8% to 76¢ per gallon (/gal), its lowest price since the week of June 29. The Conway price dropped even further, as it was down 14% from the previous week to 48¢/gal, its lowest price since the week of June 1.

Pentanes-plus (C5+) prices also fell at a similar rate the week of Aug. 3, with the Mont Belvieu price down 8% to $2.27/gal and the Conway price down 14% to $1.90/gal. The price in Texas was the hub's lowest price since it was also $2.27/gal the week of June 22. The Kansas price was the lowest since the week of Nov. 17, 2010, when it was $1.86/gal.

Propane's price drop at both hubs was less severe than those experienced by other NGLs during the week due to inventory levels remaining low and export demand remaining high. The Mont Belvieu price dropped 3% to $1.51/gal, the hub's lowest price since it was $1.49/gal the week of June 29. The Conway price fell 2% to $1.41/gal, the lowest price at the hub since the week of June 1, when it was $1.40/gal.

The NGL with the lowest price drop for the week of Aug. 3 was Mont Belvieu isobutane, which fell 1% to $2.07/gal. This was one of the highest prices at the hub this year. The Conway price was the opposite as it had one of the largest price drops at the hub for the week at 6%. The price of $1.85/gal was the lowest it has been since it was $1.81/gal the week of June 29.

NGL PRICES

Mont Belvieu	Eth	Pro	Norm	Iso	Pen+	NGL Bbl
Aug. 3 - 9 '11	76.06	150.98	182.72	207.23	227.25	$60.23
July 27 - Aug. 2 '11	82.33	155.66	193.08	210.25	245.92	$63.64
July 20- 26 '11	80.33	152.83	189.37	210.53	248.62	$62.99
July 13- 19 '11	79.60	152.58	187.92	204.20	247.20	$62.51
July '11	79.50	152.47	187.05	203.97	246.50	$62.38
June '11	74.07	151.89	181.94	198.54	235.24	$60.30
2nd Qtr '11	75.14	149.59	186.75	202.07	248.23	$61.42
1st Qtr '11	63.74	137.32	175.07	186.15	228.46	$55.82
4th Qtr '10	59.07	126.07	162.01	168.24	198.89	$50.59
3rd Qtr '10	44.99	106.98	138.23	143.25	171.45	$42.37
Aug. 4 - 10, '10	45.13	110.58	142.70	146.80	179.15	$43.67
Conway, Group 140	**Eth**	**Pro**	**Norm**	**Iso**	**Pen+**	**NGL Bbl**
Aug. 3 - 9 '11	47.73	140.70	160.20	184.90	190.25	$50.83
July 27 - Aug. 2 '11	55.52	143.92	168.84	196.00	222.23	$55.41
July 20- 26 '11	55.70	143.33	169.80	199.64	226.52	$55.81
July 13- 19 '11	55.22	143.78	172.60	193.30	228.26	$55.88
July '11	55.57	143.17	169.35	193.79	227.52	$55.66
June '11	51.43	141.46	164.86	183.38	223.52	$53.99
2nd Qtr '11	52.63	139.38	170.76	192.47	236.00	$55.34
1st Qtr '11	46.30	128.26	164.69	186.06	225.91	$51.80
4th Qtr '10	47.01	120.80	157.16	161.69	193.86	$47.80
3rd Qtr '10	31.16	101.46	132.39	141.93	163.91	$39.04
Aug. 4 - 10, '10	29.10	104.46	137.42	145.60	173.05	$40.05

Data Provided by Intercontinental Exchange. Individual product prices in cents per gallon. NGL barrel in $/42 gallons | Source: Frank Nieto

Isobutane's sister product, butane, experienced a 5% price drop at both hubs during the week as the Mont Belvieu price dropped to $1.83/gal and the Conway price fell to $1.60/gal. The Mont Belvieu price was the lowest it has been since it was $1.76/gal the week of June 29, while the Conway price was the lowest at the hub since it was $1.59/gal the week of Feb. 9.

– Frank Nieto

FRAC SPREAD

Frac Spread Margins Tumble Along With Gas, NGL Prices

Frac spread margins fell across the board this week as both natural gas liquid (NGL) and natural gas feedstock prices dropped at both hubs in light of the unstable nature of the public markets for much of the past week.

The largest drop in margin was for ethane, which fell 24% from the previous week at Conway and 9% at Mont Belvieu. This was followed by C5+, which had the next largest price drops at both hubs due to the drop in crude oil prices. For the week of Aug. 3, the Conway margin was down 17% while the Mont Belvieu margin dropped 8%.

The rest of the margin drops for the various NGLs were less dramatic with butane having the third-largest decrease

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at 5% at both hubs. The margin for isobutane at Mont Belvieu and Conway were quite different with the Conway margin down 6% from the previous week and the Mont Belvieu margin down less than 1%. This was due to the Conway price dropping 6% and the Mont Belvieu falling only 1% for the week of Aug. 3.

Propane had the smallest drop in margin at 2% at both hubs because of greater export demand and lower inventories.

The theoretical NGL barrel price was down 8% to $50.83 per barrel (/bbl) with a 10% drop in margin to $36.14/bbl at Conway, and the Mont Belvieu price down 5% to $60.23/bbl with a 5% drop in margin to $45.54/bbl.

Despite the substantial drops in prices and margins, the most profitable NGL to make at both hubs remained C5+ at $1.46 per gallon (/gal) at Conway and $1.83/gal at Mont Belvieu. This was followed, in order, by isobutane at $1.45/gal at Conway and $1.67/gal at Mont Belvieu; butane at $1.19/gal at Conway and $1.41/gal at Mont Belvieu; propane at $1.04/gal at Conway and $1.14/gal at Mont Belvieu; and ethane at 21¢/gal at Conway and 49¢/gal at Mont Belvieu.

Natural gas in storage for the week of Aug. 5, the most recent data available from the Energy Information Administration, increased 25 billion cubic feet to 2.783 trillion cubic feet (Tcf) from 2.758 Tcf the previous week. This was 7% below the 2.980 Tcf storage level reported last year at the same time and 3% below the five-year average of 2.863 Tcf. This week's storage injection remained low due to strong cooling demand from continued heat waves throughout the country.

Such weather should continue throughout the next week with the Midwest, Gulf Coast and parts of the Southwest expected to experience hotter than normal temperatures, according to the National Weather Service. This forecast also anticipates the Carolinas and Georgia, as well as parts of the West Coast, experiencing cooler than normal summer temperatures.
– Frank Nieto

Current Frac Spread (Cents/Gal)

August 12, 2011	Conway	Change from Start of Week	Mont Belvieu	Start of Week
Ethane	47.73		76.06	
Shrink	26.65		26.65	
Margin	21.08	-23.84%	49.41	-8.76%
Propane	140.70		150.98	
Shrink	36.82		36.82	
Margin	103.88	-1.49%	114.16	-2.20%
Normal Butane	160.20		182.72	
Shrink	41.69		41.69	
Margin	118.51	-5.41%	141.03	-5.35%
Iso-Butane	184.90		207.23	
Shrink	40.04		40.04	
Margin	144.86	-6.04%	167.19	-0.43%
Pentane+	190.25		227.25	
Shrink	44.58		44.58	
Margin	145.67	-17.07%	182.67	-8.11%
NGL $/Bbl	50.83	-8.27%	60.23	-5.36%
Shrink	14.69		14.69	
Margin	36.14	-9.80%	45.54	-5.35%
Gas ($/mmBtu)	4.02	-4.29%	4.02	-5.41%
Gross Bbl Margin (in cents/gal)	83.81	-9.24%	106.62	-5.15%
NGL Value in $/mmBtu				
Ethane	2.63	-14.03%	4.19	-7.62%
Propane	4.88	-2.24%	5.24	-3.01%
Normal Butane	1.73	-5.12%	1.97	-5.37%
Iso-Butane	1.15	-5.66%	1.29	-1.44%
Pentane+	2.45	-14.39%	2.93	-7.59%
Total Barrel Value in $/mmbtu	12.85	-7.99%	15.62	-5.33%
Margin	8.83	-9.58%	11.60	-5.30%

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. Source: Frank Nieto

SNAPSHOT

Panhandle Eastern Delivers Oklahoma Gas Into The Midwest

Panhandle Eastern Pipeline is one of the largest natural gas pipelines owned by Southern Union Co. with a length of 6,376 miles and 24 compressor stations. The pipeline's 2.8 billion cubic feet per day (Bcf/d) capacity is aimed at delivering volumes from the panhandle region of Oklahoma and Texas into the Midwest.

The delivery points include Chicago, Dayton and Cincinnati, and interconnections make it possible for this gas to reach the East Coast. According to the company, the pipeline's customers include some of the largest utility and industrial natural gas users in the country.

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According to Hart Energy Mapping and Data Services, ProLiance Energy LLC is the largest transport customer on the pipeline with 457,000 dekatherms per day (Dth/d) of capacity; followed by Amerencips at 119,000 Dth/d. The rest of the top 10 are Consumers Energy Co. with 100,000 Dth/d; Amerenue with 95,000 Dth/d; Amerenip with 90,000 Dth/d; PSEG Energy Resources & Trade LLC with 88,000 Dth/d; KCP&L Greater Missouri Operations with 86,000 Dth/d; Northern Indiana Public Service Co. with 79,000 Dth/d; PCS Nitrogen Ohio, And Lima Refining with 71,000 Dth/d; and Amerencilco with 65,000 Dth/d.

The top storage customers on the pipeline are ProLiance Energy with a combined 30.91 Bcf; Amerenue at 5.33 Bcf; Northern Indiana Public Service at 5.02 Bcf; and Amerencips at 4.23 Bcf. In addition, the pipeline provides access to 74 billion cubic feet of storage capacity.

The top receipt point on Panhandle Eastern is Panhandle Bourbon Delivery, followed by Rex Audrain County – Rockies Express Pipeline. Its top delivery point is Indiana Gas, followed by Lebanon Lateral, according to Hart Energy Mapping and Data Services.

The pipeline will soon have new ownership as Southern Union entered into an $8.9 billion merger agreement with Energy Transfer Equity LP (ETE) last month. This improved offer from ETE followed an acquisition offer from the Williams Companies.

– Frank Nieto

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