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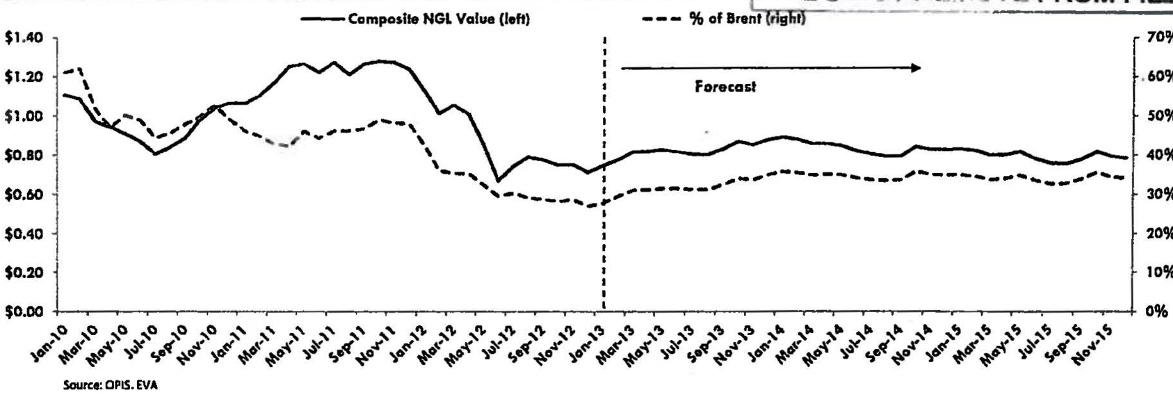
Quarterly Natural Gas Liquids Report

Energy Ventures Analysis, Inc.

First Quarter 2013

MT. BELVIEU COMPOSITE NGL PRICES ($/GAL)

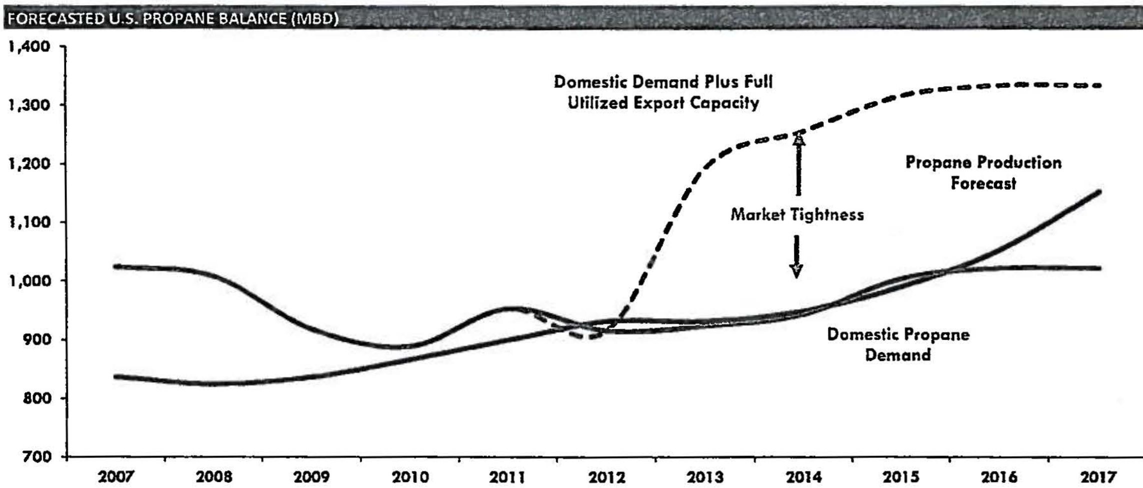


Source: OPIS. EVA

Composite NGL prices to be pushed down by ethane, but buoyed by propane

As domestic gas producers continue to focus on liquids rich plays such as the Eagle Ford and southwestern Marcellus, Y-grade composite NGL prices took a substantial drop in 2012. While EVA believes that there will be some rebound in the gas price through 2015, the future inability for producers and processors to reject ethane in the Marcellus (due to the installation of new ethane pipelines, such as ATEX), is expected to create a glut of ethane in the U.S. Gulf Coast. This will create substantial downward pressure on both NGL prices and fractionation spreads – especially as the Gulf is expected to see installation of more than a dozen new fractionators over the next 12-18 months. The brightest spot in the NGL market in the short to medium term will be propane, as the installation of new propane export facilities and propane dehydrogenation (PDH) units will create rapidly growing market tightness. The focus of this issue of the Quarterly NGL report will be on this propane phenomenon as well as the rapidly growing infrastructure that will have a substantial impact on Gulf Coast NGL pricing dynamics.

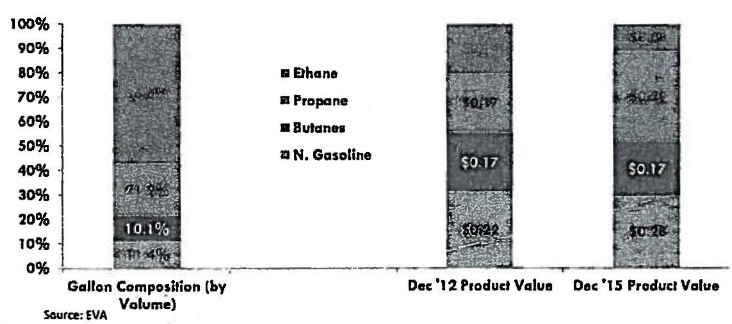
FORECASTED U.S. PROPANE BALANCE (MBD)



FUELCAST

As ethane continues to remain a low-value product due to oversupply, propane is expected to comprise a substantially larger component of the overall product value. The chart on the right, using a rich Marcellus NGL gallon composition, shows that by 2015 ethane will comprise only 10% of the overall value of NGL composite - this is despite making up more than 56% of the actual volume.

NGL COMPOSITION BREAKDOWN AND PRODUCT VALUE



Source: EVA

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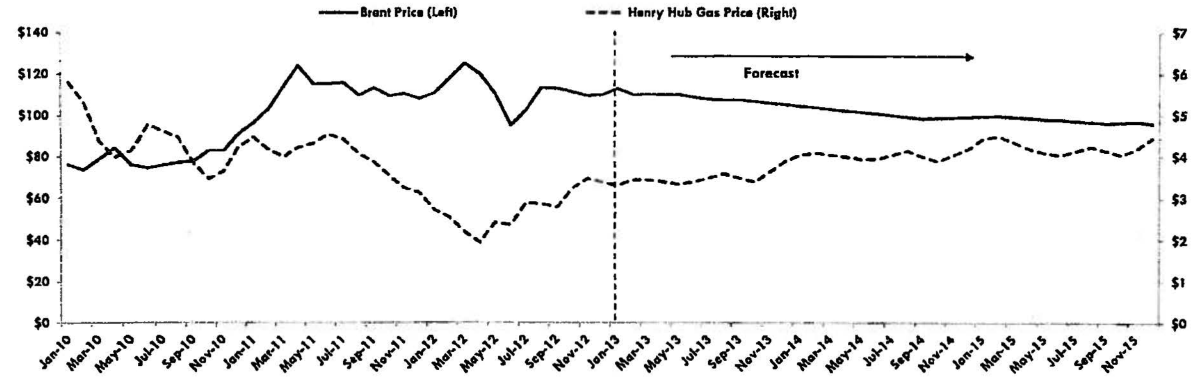
KEY COMMODITY PRICE OUTLOOK (CURRENT PRICES)



Source: OPIS, EVA

COMMODITY PRICE BREAKDOWN

	4Q '11	4Q '12	Δ QoQ	2011	2012	2013	2014	2015	'12-'15
Crude Prices ($ / Barrel)									
Brent	$ 109.36	$ 110.27	0.8%	$ 111.22	$ 111.57	$ 108.55	$ 100.88	$ 97.73	-12.1%
WTI	$ 93.82	$ 88.24	-6.0%	$ 94.98	$ 94.17	$ 94.75	$ 92.79	$ 89.81	-5.4%
Brent-WTI Differential	$ 15.54	$ 22.03	41.8%	$ 16.23	$ 17.41	$ 13.81	$ 8.08	$ 7.92	-51.2%
Gas Prices ($ MMBTU)									
Henry Hub	$ 3.32	$ 3.37	1.4%	$ 4.01	$ 2.74	$ 3.49	$ 4.04	$ 4.24	5.7%
Ratios									
Brent / Henry Hub	32.9	32.7	-0.5%	27.7	40.6	31.1	25.0	23.0	-16.9%

Oil prices forecasted to decline due to bearish fundamentals

Global oil prices remain at relatively high levels (i.e., Brent crude is at about $115 per barrel). This has occurred despite supply growth exceeding demand growth. A key factor behind this phenomenon is the aggressive pricing by Saudi Arabia, particularly in the Asian markets. In essence, Saudi Arabia has adopted a pricing policy that its barrel is the marginal barrel. This has resulted in buyers turning to less expensive competitive crude oil, such as the growing Iraqi production and the UAE, which has in turn resulted in Saudi Arabia reducing its production levels approximately 670 MBD, or seven percent, over the last two months. Going forward expect this policy to persist, as Saudi Arabia continues to balance the market. With respect to near-term oil prices there likely will be some downward pressure on global oil prices because of the bearish fundamentals and OPEC's usable spare capacity increasing, however WTI prices likely will be flat to increasing as the Brent/WTI basis differential continues to erode.

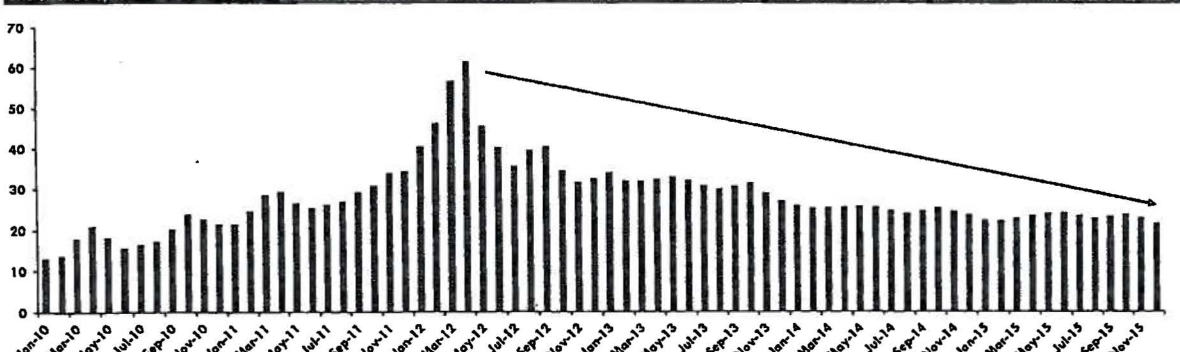
Gas prices expected to rebound - assuming a normal winter

The outlook of near-term gas prices is still dependent upon the weather for the remainder of the winter season and its impact on storage withdrawals, as near-term storage levels, fuel switching and gas prices are inextricably linked. Based upon the current most likely scenario the storage overhang at the beginning of the spring (April 1) will have been eroded significantly. This will be a significant factor in facilitating the recovery of natural gas prices, which in turn will reduce fuel switching. With respect to 2013, it is projected that average gas prices will increase to $3.49 per MMBTU, which is a 27 percent increase from $2.74 per MMBTU recorded in 2012. However, this projection does assume close to normal weather for the remainder of the winter. The basic trend of recovery in gas prices is expected to continue into 2014 with prices expected to average $4.04 per MMBTU, which is close to the level recorded in 2011. Again, this projection assumes close to normal weather.

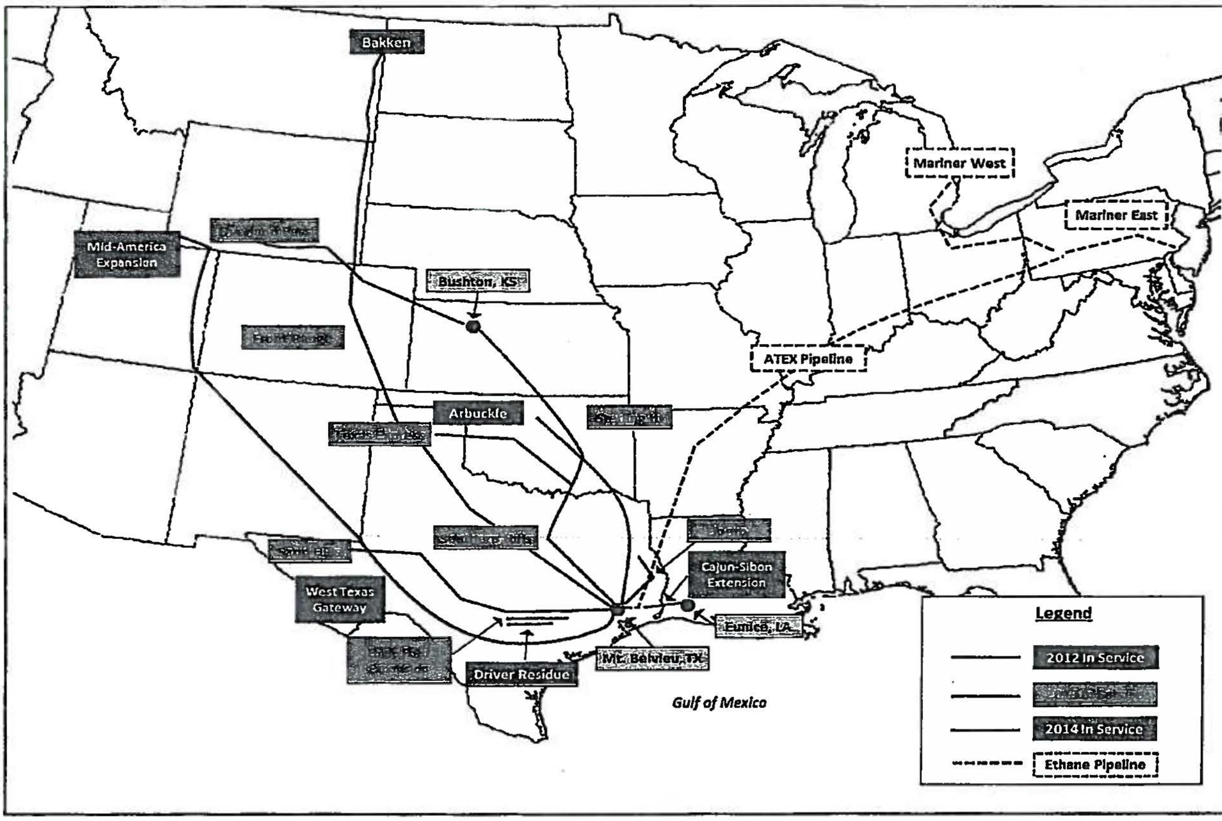
The Brent / Henry Hub ratio peaked in April 2012 and will decline

With Brent Crude at roughly $120 a barrel and Henry Hub gas prices below $2/MMBTU, April saw the oil/gas ratio skyrocket to record levels of more than 60-to-1. This differential already has begun to equilibrate, however EVA's forecast still calls for a strong ratio through 2015. This gradual decline will see ratios of 31.1, 25.0 and 23.0 respectively from 2013 through 2015.

BRENT CRUDE / HENRY HUB PRICE RATIO



Source: EVA



Roughly 7,250 miles of new pipe to be laid in rapid expansion of NGL infastructure

As the economics of NGLs has continued to push production higher and higher, the U.S. NGL infrastructure has been forced to adapt. West of the Mississippi, large scale pipeline projects are underway to deliver Y-grade NGL volumes from major shale plays such as the Bakken and Eagle Ford to demand centers in Mt. Belvieu, Texas. Unlike the Marcellus, many of these regions lack the fractionation capacity to handle such large volumes. Additionally, railways continue to be limited as large volumes of oil output flow from these regions to refineries nationwide. In addition to the placement of new pipe, existing lines such as Oneok's Arbuckle line as well as Energy Transfer's Liberty Line are both undergoing expansion to increase compression and overall flow rate.

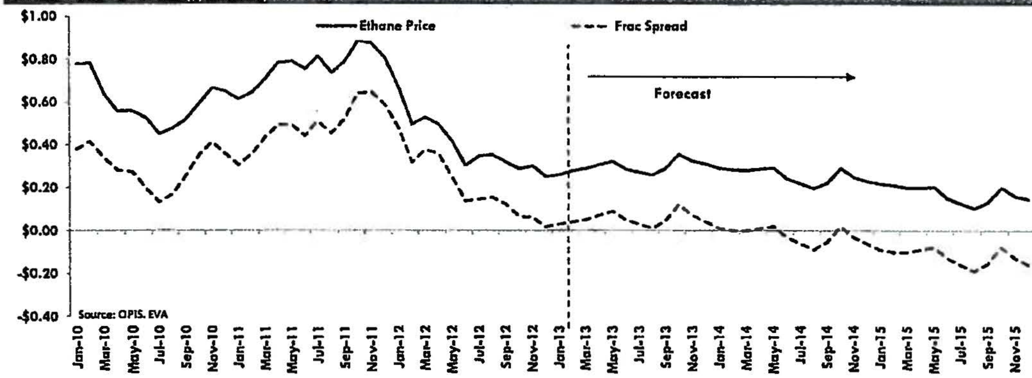
NGL PIPELINE INVESTMENTS

Project Name	Completion Date	Project Type	From	To	Capacity (MBD)
Bakken NGL	Feb-13	Expansion			60
Liberty	Mar-13	New	Colorado County, TX	Calhoun County, TX	75
Texas Express	Jun-13	New	Skellytown, TX	Mont Belvieu, TX	250
Southern Hills	Jun-13	Conversion	Kansas	Gulf Coast	150
Southern Hills - Ext 1	Jun-13	Expansion		Liberal, KS	150
Southern Hills - Ext2	Jun-13	Expansion		Mont Belvieu, TX	150
Overland Pass	Jun-13	Expansion	Opal, WY	Conway, KS	145
Eagle Ford	Jun-13	Expansion	Lavaca County, TX	Mont Belvieu, TX	140
Cajun-Sibon	Jun-13	Expansion	Eunice & Riverside, LA	Mont Belvieu, TX	70
Sand Hills	Sep-13	New		Mont Belvieu, TX	200
Sterling III	Dec-13	New	Medford, OK	Mont Belvieu, TX	193
Front Range	Dec-13	New	Weld County, CO	Skellytown, TX	150
Cajun-Sibon - Phase II	Jul-14	New	Eunice & Riverside, LA	Mont Belvieu, TX	50
Mid-Am. / Rocky Mt	Sep-14	Expansion			83
Bakken NGL	Sep-14	Expansion			75
Mid-American	Sep-14	Expansion			63
Driver Residue	Dec-14	New	Midland County, TX		150

ETHANE PIPELINE INVESTMENTS

Project Name	Completion Date	Project Type	From	To	Capacity (MBD)
Mariner West	Sep-13	New	Houston, PA	Sarnia, ON	50
Appalachian-to Texas (ATEX)	Mar-14	New	Washington County, PA	Mont Belvieu, TX	190
Mariner East Propane/Ethane	Dec-14	New	Houston, PA	Philadelphia, PA	65

ETHANE PRICE OUTLOOK ($/GALLON)



EVA C2 PRICE STRIP			
Monthly (cents / gal)			
Month		Price	Δ MoM
Dec-12	$	0.25	
Jan-13	$	0.26	3.3%
Feb-13	$	0.28	7.3%
Mar-13	$	0.29	3.6%
Apr-13	$	0.30	5.8%
May-13	$	0.32	5.4%
Jun-13	$	0.28	-11.4%
Jul-13	$	0.27	-4.6%
Aug-13	$	0.26	-4.8%
Sep-13	$	0.29	11.3%
Oct-13	$	0.35	23.4%
Nov-13	$	0.32	-9.3%
Quaterly (cents / gal)			
Quarter		Price	Δ QoQ
4Q '12	$	0.28	
1Q '13	$	0.27	-1.7%
2Q '13	$	0.30	10.3%
3Q '13	$	0.27	-10.2%
4Q '13	$	0.33	20.6%
1Q '14	$	0.28	-13.6%
2Q '14	$	0.27	-3.6%
3Q '14	$	0.21	-22.4%
4Q '14	$	0.26	20.5%
1Q '15	$	0.21	-18.4%
2Q '15	$	0.18	-12.1%
3Q '15	$	0.12	-34.6%
4Q '15	$	0.17	40.1%
Annual (cents / gal)			
Year		Price	Δ YoY
2010	$	0.60	
2011	$	0.77	28.0%
2012	$	0.40	-48.4%
2013	$	0.29	-25.[illegible]
2014	$	0.26	-13.0%
2015	$	0.17	-33.6%

Ethane prices plummet in late 2012, with rejection economics in full effect
Pipelines to have major impact on NGL pricing and ethane rejection

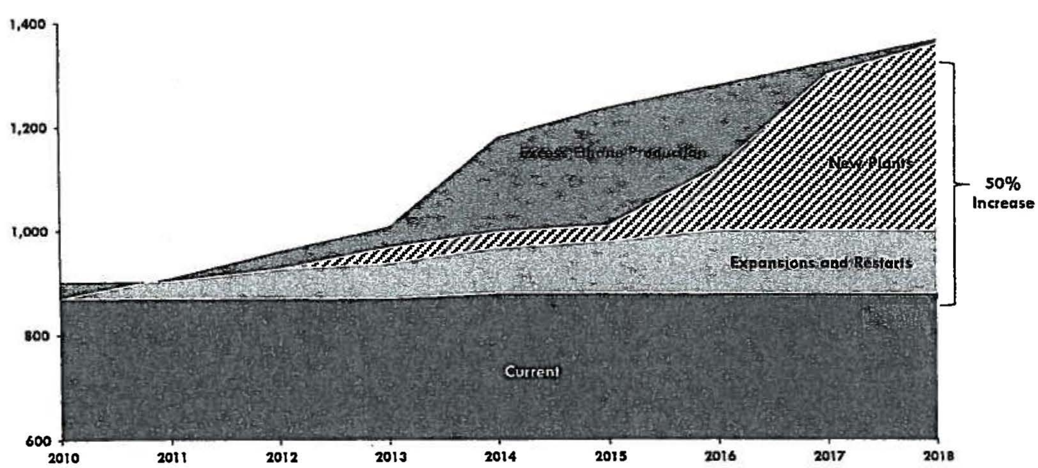
EVA's ethane forecast calls for a continued downward trend through 2015 – a forecast that is generally divided into two unique phases – pre and post ethane pipeline construction. Throughout 2013, EVA anticipates that the ethane price will remain at or slightly above the rejection price – the net value of the ethane BTUs if left in the gas stream. Within this forecast there will be some seasonality – specifically with lower gas prices during shoulder months driving frac spreads higher. Beyond 2013, however, the installation of new ethane pipeline capacity is expected to push ethane prices at Mt. Belvieu even lower.

By 2014, it is likely that there will be two constraints on ethane rejection in the Marcellus. The first will be the potential elimination of ethane rejection waivers from northeast pipeline owners – specifically Spectra – the owner of Texas Eastern (TETCO). Up until now, Spectra has been willing and able to absorb the increased BTU content provided by keeping the ethane in the natural gas stream. However, these waivers are expected to expire by 2014; primarily due to the fact that ethane pipelines are expected to come online. While it is possible that these waivers could be extended, EVA's base case assumes their elimination in 2014.

The second issue, which is part-and-parcel to the first, are the technical limitations on ethane rejection in the northeast. Assuming Spectra or other operators are willing to continue ethane rejection, the pipeline will hit a technical limit around 16% ethane. Thus, as drilling continues to increase in the liquids-rich portions of the Marcellus, processors and producers will have no choice but to extract the ethane as part of the y-grade NGL stream, fractionate it at Mobley or Houston, PA and send it through ATEX or one of the two Mariner pipelines. The result will be a large glut of ethane being sent to Mt. Belvieu, and a prolonged period of Mt. Belvieu ethane selling below the ethane rejection price as shown above.

One of the side-effects of these prolonged ethane prices in Mt. Belvieu will be the growing attractiveness of exports through MarkWest/Sunoco's Mariner East and Mariner West pipelines. Mariner East specifically is expected to prove economically attractive as European petrochemical producers are likely to look to switch their petrochemical facilities from high cost naphtha to low cost ethane. Range Resources currently holds a 10 MBD export contract with European petrochemical producer INEOS, sending ethane from Marcus Hook, PA to Europe. While shipping ethane in this fashion has historically been limited, access to low cost feedstock could create a new normal for U.S. ethane exports.

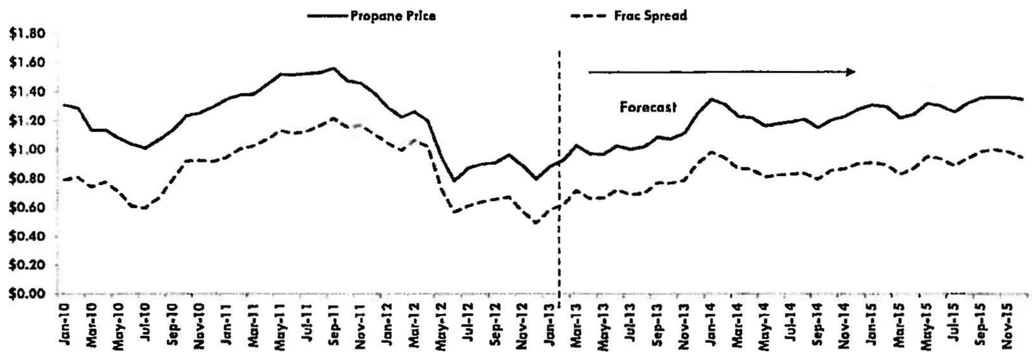
LONG TERM ETHANE DEMAND OUTLOOK (MBD)



Note: 2017 and 2018 demand and excess ethane production is based on trendline analysis.

Ethane will remain in a disequalibrium period as the result of excess production with limited new demand until after 2015 - the primary driver behind EVA's bearish price outlook. Beyond 2015, prices are likely to rebound as new domestic ethylene capacity comes online to absorb the excess.

PROPANE PRICE OUTLOOK ($/GALLON)



Source: OPIS EVA

EVA C3 PRICE STRIP

Monthly (cents / gal)

Month		Price	Δ MoM
Dec-12	$	0.80	
Jan-13	$	0.88	10.6%
Feb-13	$	0.93	5.3%
Mar-13	$	1.03	10.6%
Apr-13	$	0.97	-5.6%
May-13	$	0.96	-0.2%
Jun-13	$	1.02	6.1%
Jul-13	$	1.00	-2.2%
Aug-13	$	1.02	1.7%
Sep-13	$	1.08	6.3%
Oct-13	$	1.07	-1.1%
Nov-13	$	1.11	3.7%

Quaterly (cents / gal)

Quarter		Price	Δ QoQ
4Q '12	$	0.88	
1Q '13	$	0.94	7.0%
2Q '13	$	0.99	4.4%
3Q '13	$	1.03	5.0%
4Q '13	$	1.14	10.5%
1Q '14	$	1.29	13.1%
2Q '14	$	1.18	-8.4%
3Q '14	$	1.18	-0.2%
4Q '14	$	1.23	4.4%
1Q '15	$	1.27	3.0%
2Q '15	$	1.28	1.0%
3Q '15	$	1.31	2.1%
4Q '15	$	1.35	3.2%

Annual (cents / gal)

Year		Price	Δ YoY
2010	$	1.16	
2011	$	1.46	25.4%
2012	$	1.00	-31.3%
2013	$	1.03	2.[illegible]
2014	$	1.22	1[illegible]
2015	$	1.30	6.[illegible]

Propane markets forecasted to become substantially tighter

4Q '12 propane prices have followed anything but an intuitive trend. Despite expectations that colder months would bring higher prices, large market oversupply has driven prices lower, hitting $0.80 in December. Despite this recent development, EVA predicts this drop in propane prices will be short lived. As 2013 is slated to see both a curbing of production along with a rapid increase in propane export capacity, EVA anticipates this tightness to drive prices higher rapidly over the next 12-14 months.

The chart above indicates the potential impact of new, major propane export capacity coming online. Major projects from Enterprise, Vitol and Targa are forecasted to increase export capacity by more than 335 MBD. This capacity represents more than 1/3 of U.S. propane production in 2012, and will open new opportunities for exported propane to compete with those volumes consumed domestically.

While residential propane is expected to generally decline, many companies, including Enterprise, have announced propane dehydrogenation (PDH) units in the Gulf. Increased ethane feedstock in domestic petrochemicals is likely to not only reduce the cost of petrochemicals, but also reduce output of propylene – a critical base chemical for assorted polymers and plastics. This reduction in propylene can be counteracted by the propylene output from these PDH units.

ANNOUNCED PROPANE EXPORT TERMINALS

Company Name	Completion Date	Capacity (MBD)
Enterprise	Dec-12	116
Vitol	Mar-13	100
Targa	Oct-13	120

ANNOUNCED MAJOR PDH FACILITIES

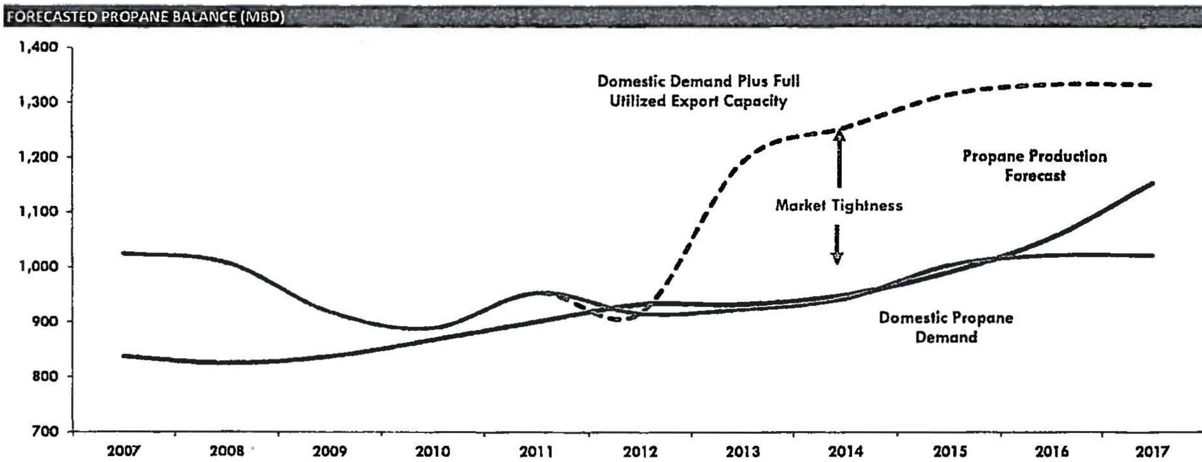
Company Name	Completion Date	Capacity (MBD)
Enterprise	2015	35
Enterprise II	2018	35
Dow Chemical	2015	35
Dow Chemical II	2018	35
Formosa	2016	28
Petrologistics	Multiple	

ARA / Mt. Belvieu propane pricing gap likely to shrink*

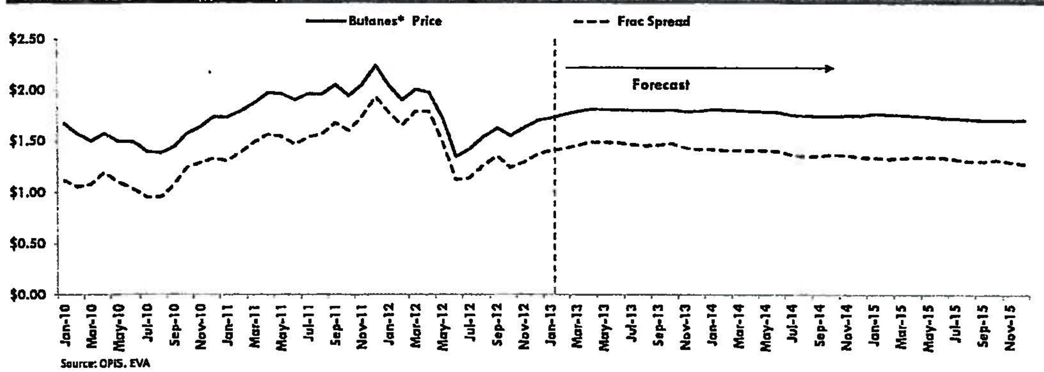
In December of 2012, the ARA LPG import price ranged anywhere from $900 - $1,000 per MT ($1.85 - $2.05 per gallon) - a stark contrast to average prices of $0.80 at Mt. Belvieu. The elimination of previously existing export constraints will likely come shrinking of the differental between these two pricing points. Shipping costs on propane remain around $0.10 per gallon, which will provide opportunity for numerous producers to close this arbitrage over time. Because the U.S. will be competing with other large global propane exporters such as the Middle East, EVA does not anticipate that complete parity will be reached between these two markets.

**ARA - Antwerp/Rotterdam/Amsterdam*

FORECASTED PROPANE BALANCE (MBD)

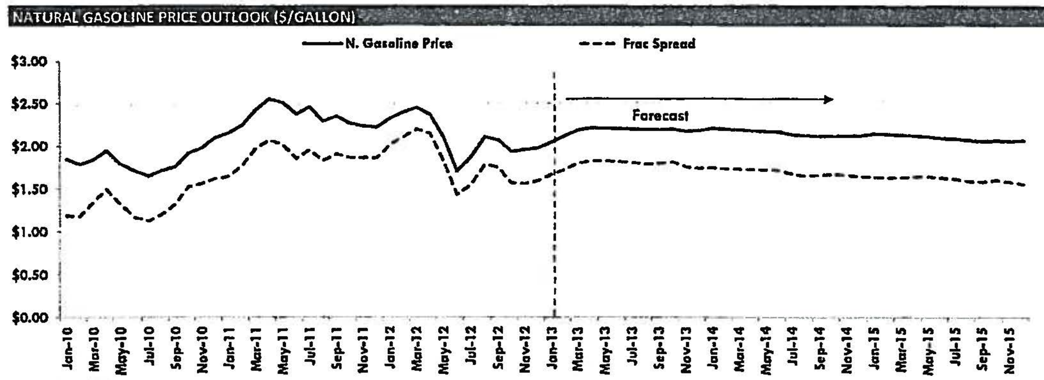


BUTANES PRICE OUTLOOK ($/GALLON)



Source: OPIS, EVA

NATURAL GASOLINE PRICE OUTLOOK ($/GALLON)



Source: OPIS, EVA

Butanes and natural gasoline likely to remain driven by U.S. gasoline markets

Despite the anticipation of some short-term rebounds in both butane and natural gasoline prices, EVA believes that the outlook for both products will remain bearish. This is driven by a number of factors – the largest two being structural shifts in the gasoline market and the falling price of crude oil. While the increase in NGL fractionation at Mt. Belvieu along with increases in Y-grade NGL infrastructure are both likely to result in larger local supply, volumes are still substantially smaller than its largest feeder market – gasoline – and as such is subject to its pricing trends. As blendstocks as well as inputs to gasoline producing refinery units, the 450-500 MBD butane/natural gasoline market is roughly 5% of the 9 MMBD U.S. gasoline market. This hypothesis has been proven by looking at the robust correlations between both butane and natural gasoline pricing and the spot price of NY Harbor gasoline. This analysis is covered in the previous issue of this report (4Q '12). Thus, EVA believes that the structural drivers of gasoline – a falling crude price and domestic demand, are both going to be the price drivers for what remains a very high value component of NGL output

Increased exports of butanes and natural gasoline likely to balance market

In order to balance what will likely be increased supply and falling domestic demand for butanes and natural gasoline, the market will respond by increasing exports. What form butanes and natural gasoline exports will take, however, is subject to a wide variety of market conditions. Butanes, for example could be exported in its purest form, blended with propane to make an LPG composite, or blended with gasoline. Natural gasoline could be blended as light ends to the gasoline stream, used as refinery feedstock or exported as free range naphtha – a petrochemical feedstock. Export form will be driven by a confluence of factors such as refinery margins/crack spreads, petrochemical production and global product demand. No matter its form, however, EVA believes that by 2017, anywhere from 40-50% of U.S. butanes and 10-15% of natural gasoline will be exported.

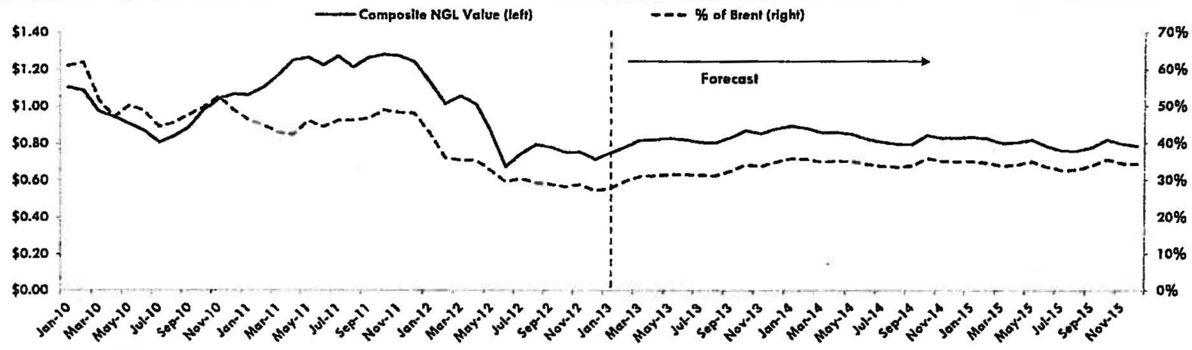
EVA C4 PRICE STRIP

Monthly (cents / gal)		
Month	Price	Δ MoM
Dec-12	$ 1.70	
Jan-13	$ 1.73	1.8%
Feb-13	$ 1.76	1.7%
Mar-13	$ 1.79	1.7%
Apr-13	$ 1.81	1.4%
May-13	$ 1.81	-0.2%
Jun-13	$ 1.81	-0.2%
Jul-13	$ 1.80	-0.2%
Aug-13	$ 1.80	-0.2%
Sep-13	$ 1.80	-0.2%
Oct-13	$ 1.80	0.3%
Nov-13	$ 1.78	-1.0%
Quaterly (cents / gal)		
Quarter	Price	Δ QoQ
4Q '12	$ 1.63	
1Q '13	$ 1.76	8.0%
2Q '13	$ 1.81	2.9%
3Q '13	$ 1.80	-0.5%
4Q '13	$ 1.79	-0.4%
1Q '14	$ 1.80	0.5%
2Q '14	$ 1.78	-1.0%
3Q '14	$ 1.75	-2.1%
4Q '14	$ 1.75	-0.1%
1Q '15	$ 1.76	0.8%
2Q '15	$ 1.74	-1.2%
3Q '15	$ 1.71	-1.5%
4Q '15	$ 1.71	-0.4%
Annual (cents / gal)		
Year	Price	Δ YoY
2010	$ 1.54	
2011	$ 1.95	26.7%
2012	$ 1.70	-12.7%
2013	$ 1.79	5.0%
2014	$ 1.77	-1.1
2015	$ 1.73	-2.3%

EVA C5+ PRICE STRIP

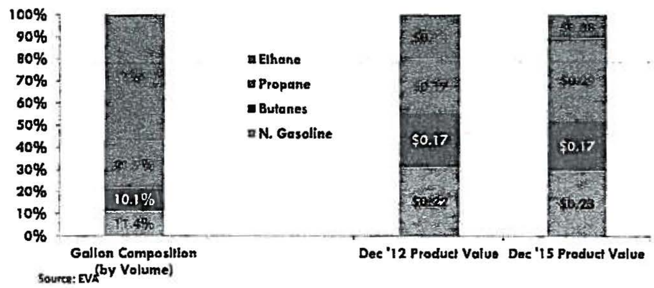
Monthly (cents / gal)		
Month	Price	Δ MoM
Dec-12	$ 1.98	
Jan-13	$ 2.05	3.5%
Feb-13	$ 2.12	3.4%
Mar-13	$ 2.19	3.3%
Apr-13	$ 2.21	1.2%
May-13	$ 2.21	-0.2%
Jun-13	$ 2.20	-0.2%
Jul-13	$ 2.20	-0.2%
Aug-13	$ 2.20	-0.2%
Sep-13	$ 2.19	-0.2%
Oct-13	$ 2.20	0.4%
Nov-13	$ 2.17	-1.2%
Quaterly (cents / gal)		
Quarter	Price	Δ QoQ
4Q '12	$ 1.96	
1Q '13	$ 2.12	8.2%
2Q '13	$ 2.21	4.3%
3Q '13	$ 2.20	-0.6%
4Q '13	$ 2.19	-0.4%
1Q '14	$ 2.20	0.6%
2Q '14	$ 2.17	-1.2%
3Q '14	$ 2.12	-2.4%
4Q '14	$ 2.12	-0.1%
1Q '15	$ 2.14	0.9%
2Q '15	$ 2.11	-1.3%
3Q '15	$ 2.07	-1.7%
4Q '15	$ 2.06	-0.5%
Annual (cents / gal)		
Year	Price	Δ YoY
2010	$ 1.84	
2011	$ 2.34	27.5%
2012	$ 2.10	-10.1
2013	$ 2.18	3.5
2014	$ 2.15	-1.0%
2015	$ 2.10	-2.7%

COMPOSITE NGL PRICE FORECAST ($/GALLON)



Source: OPIS, EVA

NGL COMPOSITION BREAKDOWN AND PRODUCT VALUE



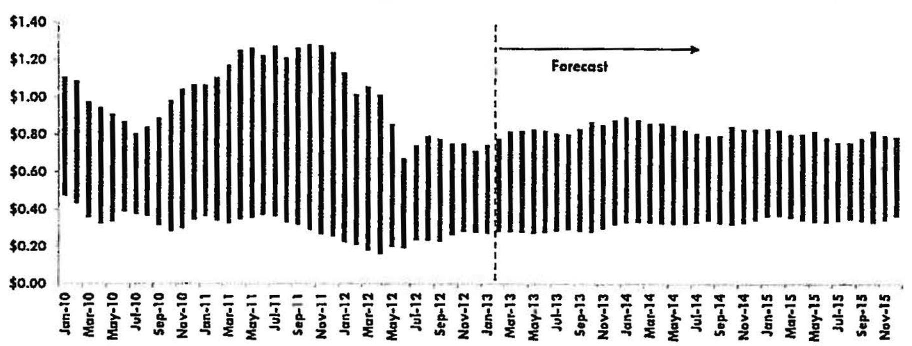
Source: EVA

The graph on the left shows the assumed NGL gallon breakdown for EVA's composite pricing. The percentages listed are based upon the reported content of NGLs from the Southwestern Marcellus Shale. While this breakdown is in no way comprehensive, EVA believes that it is indicative a) of typical Marcellus NGL production and b) of a large share of the incremental US NGL volume forecasted in the future. Also shown is the discrepancy between the physical NGL makeup and NGL value. Over time, propane will become to make up a substantially larger portion of the value, however generally the heavier ends will continue to prove the most lucrative. Ethane value will drop substantially, by 2015 comprising 56.6% of the NGL gallon volume but only 10% of the value (assuming no ethane rejection).

Composite NGL prices to increase on propane; will lag in the long run on ethane

Shown above is EVA's forecast of composite NGL prices through 2015. Using a Marcellus NGL breakdown due to its ubiquity in the marketplace, EVA believes that NGL prices are likely to see some rebound through the first part of 2013, but will struggle to see any real growth between now and 2015. Ethane as well as the heavier ends will remain flat or declining (with some seasonality) while propane will see a noticeable increase over the next 12-18 months.

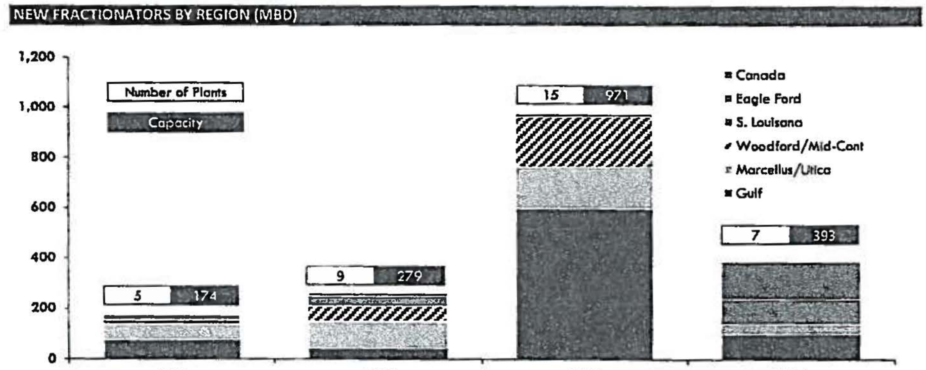
MT. BELVIEU FRAC SPREAD ($/GALLON)



Source: OPIS, EVA

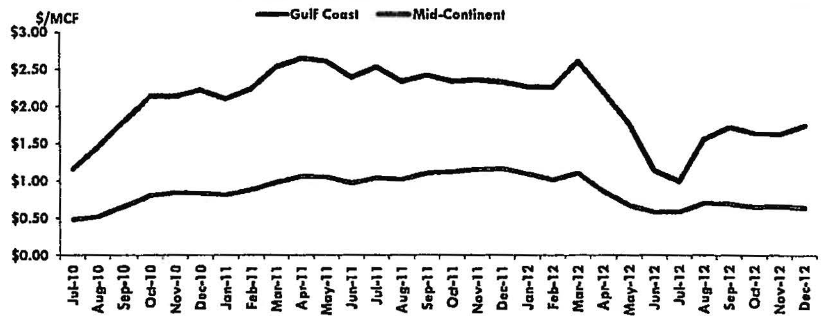
Frac spreads shrank to $0.44/gal in December 2012; primarily driven by the precipitous drop in ethane prices. While rising gas and falling ethane prices are likely to cause downward pressure on frac spreads, propane will provide some up side. Increased fractionation capacity along with pricing fundamentals are also expected to squeeze fractionation margins over time. EVA forecasts annual margins to shrink from $0.63 in 2012 to $0.45 in 2015.

NEW FRACTIONATORS BY REGION (MBD)



EVA forecasts that 2013 will see a boom in fractionation capacity - primarily in the Gulf. As NGL volumes continue to rise throughout the US, Mt. Belveiu will continue to serve as the largest fractionation hub; conveniently located within close proximity of increasing petrochemical capacity. Of the 1.8 million b/d of new fractionation capacity added and to be added between 2011 and 2014, 2/3 of the new fractionators and 3/4 of new capacity will be located in or around Mt. Belvieu.

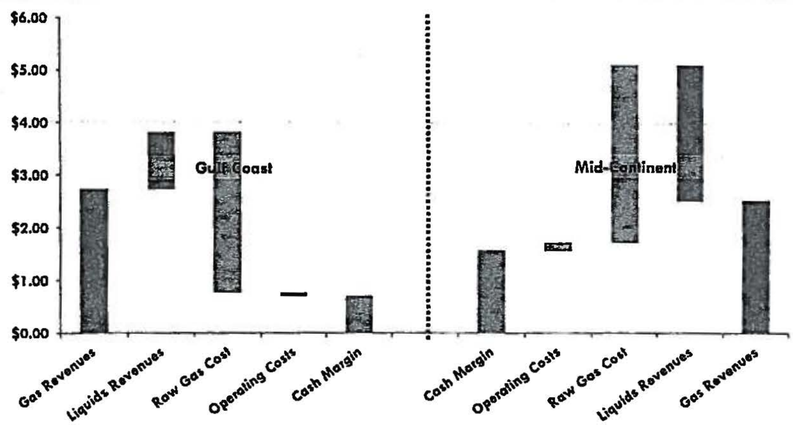
US NATURAL GAS PROCESSING MARGINS ($/MCF)



Source: Muse, Stancil & Co, OGJ

Since July 2012, gas processing margins - particularly in the mid-continent, have rebounded sharply. Despite this, December 2012 margins remain substantially lower than December 2011: $1.75 vs. $2.33.

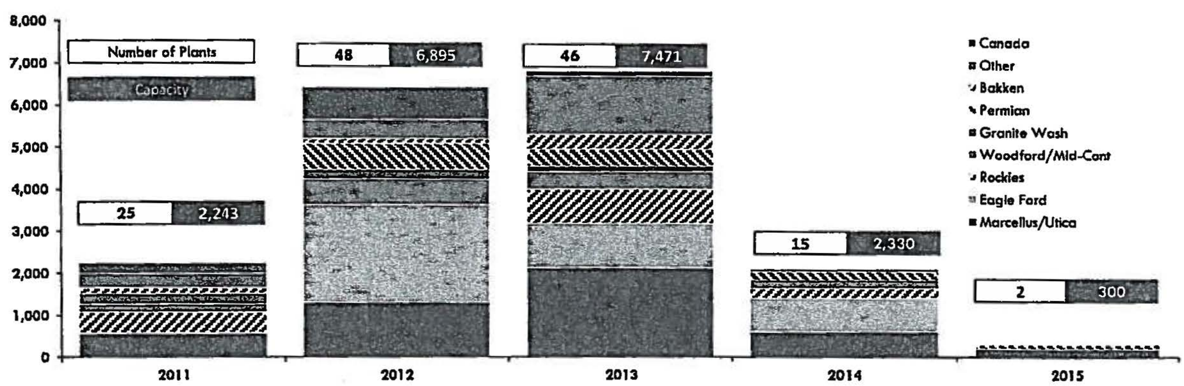
US NATURAL GAS PROCESSING MARGIN COMPARISON ($/MCF)



Source: Muse, Stancil & Co, OGJ

Shown in the floating bar chart to the left is a comparison of natural gas processing margins as provided by Muse, Stancil and Co. standing out most prominently is the disparity in liquids revenue between the Gulf and Mid-continent processors.

US NATURAL GAS PROCESSING INVESTMENTS (MMCFD)



Natural gas processing capacity installations are expected to continue at a breakneck pace as processors look to accomodate rapidly increasing production. Post - 2013, installations are likely to drop substantially as the market is slated to have ample capacity in the short to medium term.