

# Bidding war breaks out to control pipeline outfit

**Williams Companies and Energy Transfer Equity do battle over Southern Union**



Barry Parker — New York

A BIDDING war, reminiscent of header days on Wall Street, has broken out for control of the pipeline company Southern Union, illustrating the love affair with investors for all aspects of the gas business.

The target operates well-known pipelines that include Trunkline LNG, operated through its Panhandle Energy subsidiary and connected to an import terminal at Lake Charles, as well as the Florida Gas Transmission line.

The quarry is being pursued by two hunters: Williams Companies, which lobbed in an unsolicited bid of \$4.9bn, in cash, after a bid by Energy Transfer Equity, worth \$4.2bn in specially-issued partnership "units", had been accepted the previous week.

The acquirers would also need to assume existing debt of roughly \$3.7bn. Typically, a deal's actual closing follows an acceptance of terms by several months, as numerous details have to be worked out. In spite of the earlier deal announcement, Southern Union has now agreed to look at the bid from Williams.

Much of the excitement among investors who are closely following the competition is decidedly focused on pipeline access to shale gas plays.

In recent years, the exploration and production side of Williams Companies has aggressively acquired land holdings in



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both the Bakken Shale and Marcellus Shale regions.

One of its distribution holdings, the Transcontinental Pipeline, reaches from Texas, through the Henry Hub in Louisiana — the delivery point for natural gas transactions — up to the New York area. Its territory includes Marcellus Shale region, in the eastern US.

According to analysts, Southern Union's proximity to a number of important shale deposits in the southwestern US is an attraction to both Williams and Energy Transfer, which has infrastructure in place serving the Eagle Ford shale play in Texas, for example.

Southern Union, the target, and Williams, one of the two possible acquirers, both operate undersea pipelines with interconnects to numerous gas platforms in the Gulf of Mexico. Southern Union's portfolio includes the Sea Robin pipeline — operated through Panhandle Energy — and its Trunkline Terrebonne system. Williams' Transcontinental Line has numerous spurs that reach southward into the Gulf of Mexico.

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Ownership of these underwater pipelines could potentially be realigned, especially if Williams were to emerge victorious. In the late 1990s, competition considerations required that Sea Robin — then owned by Sonat Corporation — should be sold, when Sonat was acquired by El Paso Corporation.

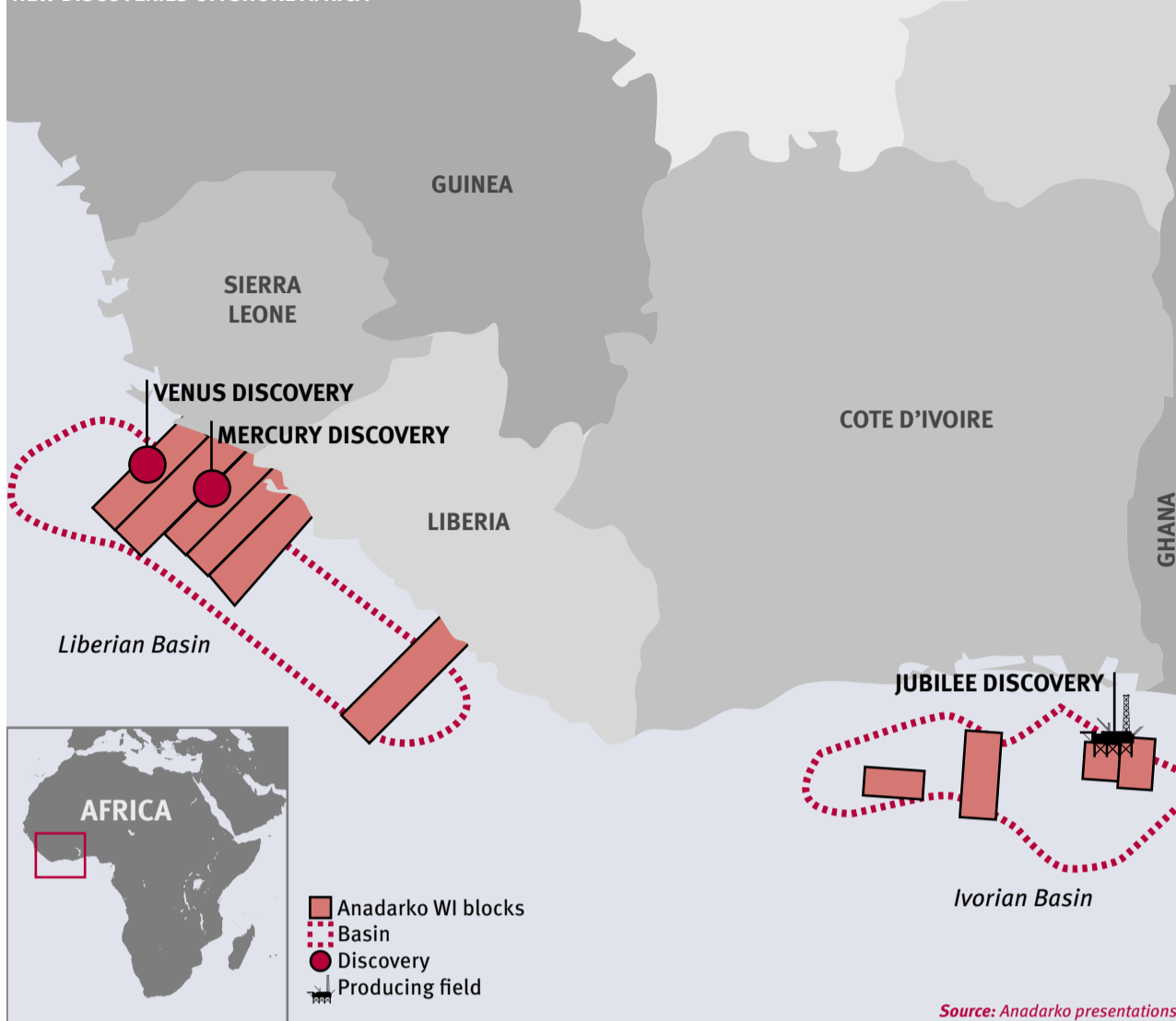
During the ongoing merger battle, at least one barb from Energy Transfer has hinted at unspecified anti-trust concerns regarding the Williams bid.

It is unknown what impact, if any, such an acquisition would have on the Southern Union's plans to export liquefied natural gas from its terminal at Lake Charles, in conjunction with BG group.

Two months ago, the two gas distributors had applied jointly to the US Department of Energy for an export permit. Nor is it clear what impact a deal between Southern Union and Williams, were it to win out, would have on Williams' previously stated plans to demerge its distribution business — which includes the pipelines — from its E&P business. ■

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## NEW DISCOVERIES OFFSHORE AFRICA



Source: Anadarko presentations

## More rigs move out of US Gulf

THE exodus of rigs out the US Gulf of Mexico continues, writes Barry Parker in New York.

Transocean reported that its drillship *Discoverer Spirit*, on charter to Anadarko at \$540,000 per day, will be moving out of the US Gulf to drill offshore Liberia and offshore Sierra Leone until November, when it enters into a five-month charter to Chevron off Liberia.

The rig's move coincides with Anadarko's pending remobilisation of the *Deepwater Millennium* down to Brazil, from Ghana, where it is on charter at \$576,000 per day. Last month, it was announced that another rig, *Diamond*

Offshore's *Ocean Monarch*, will be departing the US Gulf for a BP charter in Vietnam.

In the Liberian Basin, Anadarko is set to further explore a discovery at the Mercury field, operated by Anadarko and co-owned with Repsol and Tullow Oil.

Last year, the US independent announced that it had found a significant deposit of light crude oil at Mercury in a water depth of 5,200 ft near its Venus discovery, closer to Liberia, where oil was found in 2009.

Its rig will then be remobilised eastward, over to West Cape Three Points, offshore Ghana, for further appraisals, in

the Ivorian Basin, adjacent to the now producing Jubilee Field, at the eastern end of a basin extending over 1,000 km.

Transocean's *Deepwater Millennium*, on to Anadarko, is finishing work at the Enyenra and Twenebo fields in the Deepwater Tano block, where field operator Tullow had been conducting appraisals.

Anadarko had described this huge oil formation, extending from Venus, around the bend in the continent, to Jubilee, as "two of the most exciting and highly prospective basins in the world." ■

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## African gas fields see a busy time

TRANSOCEAN has reported its semi-submersible *Transocean Amirante* — chartered to ENI at \$364,000 per day, working the Apaloosa gas field in the Gulf of Mexico since 2009 — would be shifting over to Egypt to work for Burullus Gas at \$247,000 per day, writes Barry Parker.

One of the first rigs to exit the Gulf of Mexico, post embargo last year, *Diamond Offshore's Ocean Endeavor* is also working for Burullus, half owned by the Egyptian gas company, with BG Group and Petronas each having a 25% share.

After working in the Nile Delta since third quarter 2010 at a dayrate in the "mid \$220s", its charter has been extended for

another eight months, at a higher rate, in the "mid \$280s". As Burullus builds out its subsea infrastructure in the Nile Delta, Saipem's *Saipem FDS*, a dynamically-positioned pipelayer, will be busy installing flowlines and umbilicals, under a recently awarded contract.

Natural gas discoveries, some moving into the production phase, continue to put East Africa, notably Mozambique, into a sharper focus.

The UK-listed Cove Energy, an investor alongside Anadarko, had described an appraisal and exploration programme in the Windjammer, Lagosta and Barquentine fields, all in the Ruvumo-1

block, using Fred Olsen-owned drillship Belford Dolphin.

According to a late-June update from Cove Energy: "As sufficient volumes for a liquefied natural gas project were encountered in the Windjammer, Barquentine and Lagosta wells, the operator, Anadarko, has mobilised, in an extremely short time, a full team to pursue the LNG project, such that a final investment decision can be taken in 2013."

Another consortium, formed by ENI (70%) and minority investor Galp Energia, is set to begin exploratory drilling in the same basin, but further south, in deeper waters, in third quarter 2011. ■

## Traded gas to rise as oil market spare capacity set to dwindle

MORGAN Stanley energy services analyst Ole Slorer has provided the broader backdrop behind the increased economic value of the gas transportation chain, which is that "spare capacity" in the oil markets could be exhausted over the next few years., writes Barry Parker.

Such thinking explains oil companies' decisions to move floating equipment on charter at historically high rates to places such as offshore Africa.

If such dynamics do indeed play out, where readily-exploitable oil reserves continue to dwindle, then the value of internationally-traded gas, much of which is wholly or partly linked to oil prices, could rise.

The euphoria surrounding the liquefied natural gas markets was visible at Morgan Stanley's conference in New York last week. John Fredriksen confidante and one-time Golar LNG director Tor Olav Troim and Poten's LNG expert Lawrence Noto highlighted a

panel that also included Flex LNG's Philip Fjeld and Excelerate Energy's Rob Bryngelson.

Just across town, two days later, a Marine Money panel on gas transportation featured top executives Nicholas Saverys from Exmar, a partner with Excelerate, Graham Robjohns from Golar, David Butters of Navigator Gas and Hoegh LNG's Sveinung Støhle.

The message provided to investors was that gas transportation, which includes floating regasification at the receiving end now and might include floating liquefaction of hard-to-reach gas going forward, represents an exciting sector with upside right now.

Mr Troim's remarks at Morgan Stanley — and those of Mr Saverys at Marine Money — really got to the heart of the matter; the entire dynamic of the entire gas shipping business is in the process of changing.

Mr Troim talked about floating

regasification's role in breaking up gas supply cartels, saying: "They can't control it any more."

Mr Saverys talked about floating receiving facilities bringing a free market in natural gas to the world. He said: "It's the first time everybody will be able to buy just one cargo," in contrast to the inflexibility of existing contractual arrangements with fixed infrastructures.

For LNG trading, and for gas shipping, more spot market cargo is a logical outgrowth of such developments. Mr Saverys also pointed to the recent tragedy in Japan as another catalyst for additional spot gas cargo.

At the Morgan Stanley event, Poten's Mr Noto referred to shipping now being "the lynchpin of the LNG business". He also opined: "During the last 12 months, the psychology has shifted away from gas producers not wanting to take shipping risk."

Another question pondered at the



Troim: got to the heart of the matter.

conferences is whether gas transportation, now in short supply, will follow other shipping sectors down a road to overbuilding and the ensuing ruinous competition. Msrs Troim and

Saverys, speaking at Marine Money, seemed resigned to the fact that, at some point well in the future, vessel supply might get out in front of transport demand.

Their views were counter-balanced by those of Hoegh LNG's Mr Støhle, who offered: "There are so many projects, with room for more players," and Golar LNG's Graham Robjohns, who told his panel audience: "Don't underestimate the barriers to entry; the LNG business requires sophisticated technical solutions."

At the conclusion of the Marine Money event, where presenters had bemoaned the commoditised nature of the bulk and tanker sectors over a three-day span, Hoegh's Mr Støhle distinguished the LNG chain from other sectors, offering the view that customers care more about getting the right technical solution, rather than simply the lowest rock-bottom rate. ■

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