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By the Numbers

$2.3 billion The cost to complete TransCanada Corp.'s Gulf Coast Project, otherwise known as the Southern leg of the Keystone XL pipeline

487 The total mileage of the pipeline, which began shipping oil from Oklahoma's Cushing terminal to the Texas Gulf Coast on Jan. 22

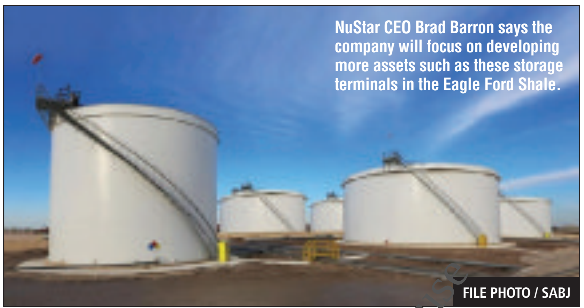
700,000 The initial capacity, in barrels-per-day, of the Gulf Coast Project

Source: TransCanada Corp.

Asphalt sale lets Nustar focus on more stable assets

Recent divestitures by NuStar Energy LP, including the sale of its remaining share of an asphalt-refining partnership, have left the company leaner and better equipped to expand.

San Antonio-based NuStar this week unloaded its remaining 50-percent interest in its asphalt joint venture to partner Lindsay Goldberg LLC. That allows the company to continue building its central business of selling access to its pipelines and petroleum storage facilities, officials say.



NuStar CEO Brad Barron says the company will focus on developing more assets such as these storage terminals in the Eagle Ford Shale.

FILE PHOTO / SABJ

"We've been moving away from the margin-based businesses like asphalt for quite a while," NuStar President and CEO Brad Barron says. "It takes the volatility out of our earnings and allows us to focus on stable, fee-based businesses like pipelines and storage."

Cash-flow stability is important for NuStar, which is organized as a master limited partnership and is therefore required to pay its investors through quarterly distributions.

NuStar diversified into asphalt in 2007 when it purchased CITGO Asphalt Refining Co. for $450 million, becoming the largest such refiner on the East Coast. The move made sense at the time, Barron adds, because storage and pipeline facilities were demanding sky-high prices.

But the economic downturn and building bust killed demand, and it still hasn't recovered to pre-recession levels. The asphalt operation — which includes a New Jersey plant and a Georgia terminal — became a drain on earnings.

NuStar brought in Lindsay Goldberg as joint-venture partner for the asphalt operations in 2012 and announced in November that it was in talks to dump its remaining stake. It also sold a small refinery in South San Antonio last year, jettisoning another margin-based facility.

The latest divestiture plus NuStar's recent termination of its crude-oil supply agreement with Petroleos de Venezuela SA substantially reduce the company's financial liabilities, Barron says.

What's more, the streamlining enables NuStar management to tell a more compelling story to potential investors, says Michael Peterson, head of energy research for New York-based MLV & Co.

"Big picture, this is exactly what they needed to do to reset the table, turn things around and focus on the partnership's core business," Peterson says.

While NuStar could jettison some small, underperforming assets, Barron says the company has no more significant operations outside of its core business.

Late last year, NuStar initiated a $135 million second phase of a pipeline to carry Eagle Ford Shale crude to the Port of Corpus Christi. And the company this week signed a long-term agreement allowing Occidental Petroleum to ship natural gas liquids on an idled pipeline between Mont Belvieu and Corpus Christi.

Rising production from shale plays is likely to prompt more big projects from the company this year, Barron adds.

Developers of pipelines and storage facilities will need to invest $200 billion in capital to meet shale-driven industry demand by 2035, according to a recent study by consultant Deloitte LLP.

"(The Eagle Ford) is right in our own back yard," Barron says. "There's room to grow there." ■

"We've been moving away from the margin-based businesses like asphalt for quite a while."

Brad Barron, President and CEO, NuStar Energy

Fifteen Minutes With: Richard Butler, shareholder, Langley & Banack

Richard Butler, head of Langley & Banack's Karnes City office in the Eagle Ford Shale, represents Texas ranchers and rural landowners in transactions affecting their properties, including pipeline easements; oil, gas and mineral leases; and hunting leases.

We asked Butler, who has represented both South Texas plaintiffs and defendants since 1978, to talk about how the legal landscape that has evolved in the thriving oil-and-gas play.

Q: What is the most common sort of oil-and-gas case for you to handle out of the Karnes City office?

A: Lawsuits seeking interpretation of grants and reservations of mineral or royalty interests. Many deeds contain language that makes it difficult to understand how mineral and royalty interests were to be apportioned between the grantors and grantees and whether mineral or royalty reservations were to be perpetual or for some lesser time period. We are also being called on to represent parties disputing the duties and obligations owed to mineral interest owners by the holders of executive rights to those minerals.

COURTESY OF LANGLEY & BANACK

Q: What are the biggest legal concerns of surface owners in the shale right now?

A: Surface owners are primarily concerned with the location of oil-and-gas drilling operations and production facilities on their land and the payment of appropriate damages for the use of that land. Where the minerals are not owned by the same folks that own the surface, there is the potential for completely different viewpoints on the use of the land's surface and what sort of limitations ought to be placed on the use of that surface by an oil and gas operator.

Q: What are the most common disputes you're seeing between companies operating in the Eagle Ford?

A: There is, of course, a lot of tension between companies when they are competing for leases. Our county (Karnes County) is, for the most part, "leased up" at this point, so we aren't seeing much of that now. We have seen some increase in disputes between companies concerning the formation of joint-operating agreements and in the trading of leases in order to put together units in the shape, size and orientation needed by operators in order to maximize the number and profit potential of horizontal wells they can drill. Many of these companies own leases in blocks that don't lay out very well for production and they are compelled to either buy or trade leases with other operators or jointly operate, resulting in a lot of "hard bargaining."

Overheard

"The accident at Tesoro could have been prevented had the company applied inherent safety principles and used HTHA (high-temperature hydrogen attack) resistant construction materials.... Companies must do a better job of preventing refinery accidents, which occur all too frequently."

Rafael Moure-Eraso, chairman of the U.S. Chemical Safety Board, on the board's initial report on the fatal 2010 fire at Tesoro Corp.'s Anacortes, Wash., refinery