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EnergyPoint
RESEARCH

What's Wrong with the U.S. Natural Gas Midstream Sector?

Midstream Providers' EPR Customer Satisfaction Ratings Lag That of Other Oil & Gas Segments

One of the benefits of EnergyPoint's data is that our ratings span a number of segments within the oil and gas industry. For example, we currently collect and publish ratings in the areas of contract drilling, oilfield services, oilfield products, and natural gas midstream services. Furthermore, since our surveys are performed via a standardized process, our data lends itself to more fair **comparison across segments**.

Below are the industry segment surveys conducted by EnergyPoint since 2003, listed in descending order based on the average **Total Satisfaction ratings** of all vendors rated in each respective survey:

<u>Industry Segment</u>	<u>Date</u>	<u>Rating</u>
Contract Drilling	2004	7.72
Oilfield Services	2004	7.53
Oilfield Products	2005	7.45
Oilfield Services	2006	7.31
Contract Drilling	2006	7.10
Midstream Services	2006	6.46

Conspicuously at the bottom of this list is **U.S. gas midstream services**, which registered a survey-wide average rating of **6.46** in 2006. To put this into context, this rating is near those received by the much-maligned Internal Revenue Service in other independent surveys. Within the midstream, ratings for gas processing and treating, gas transportation and storage, gas purchasing, and NGL-related services were particularly low.

So, why such low ratings for the midstream? We have some opinions. Chief among these is that customers (namely producers) do not view midstream providers as adding much in the way of value. Since many producers perform some midstream functions themselves, we believe in many cases they see **less incremental value** offered by third-party providers of these same services. This also likely explains why customers are more sensitive to the prices they pay for midstream services than for certain other services.

We also suspect the significant amount of **M&A activity** in the sector – and the resulting lack of continuity in ownership of midstream assets – serves to frustrate the average customer. This transactional tendency is exacerbated by the fact that a number of the larger midstream providers are **master-limited partnerships** (MLPs), who at times find the best way to grow distributions is to acquire existing assets and / or competitors. Unfortunately, when the focus is on M&A activity and integration, customers tend to take a backseat.

While the effective “carving out” of the midstream function has freed-up capital for upstream opportunities, we suspect producers, on average, might claim little else in the way of value from the outsourcing of the function. Hence, the risk to midstreamers is that producers decide to **seek greater ownership / control of the function** than they have in the past. This risk is likely a low one due to a number of offsetting factors, but seemingly higher than if the segment's satisfaction ratings were more in line with other industry segments.

Finally, analysis suggests the average midstream provider needs to improve the **service** and **professionalism** it demonstrates with its customers. Those that are more flexible and responsive to customers' needs, while remaining accountable in resolving problems and disputes, clearly stand to gain in the eyes of customers. And if they can keep their costs – and thus prices – down at the same time, they stand to gain even more.

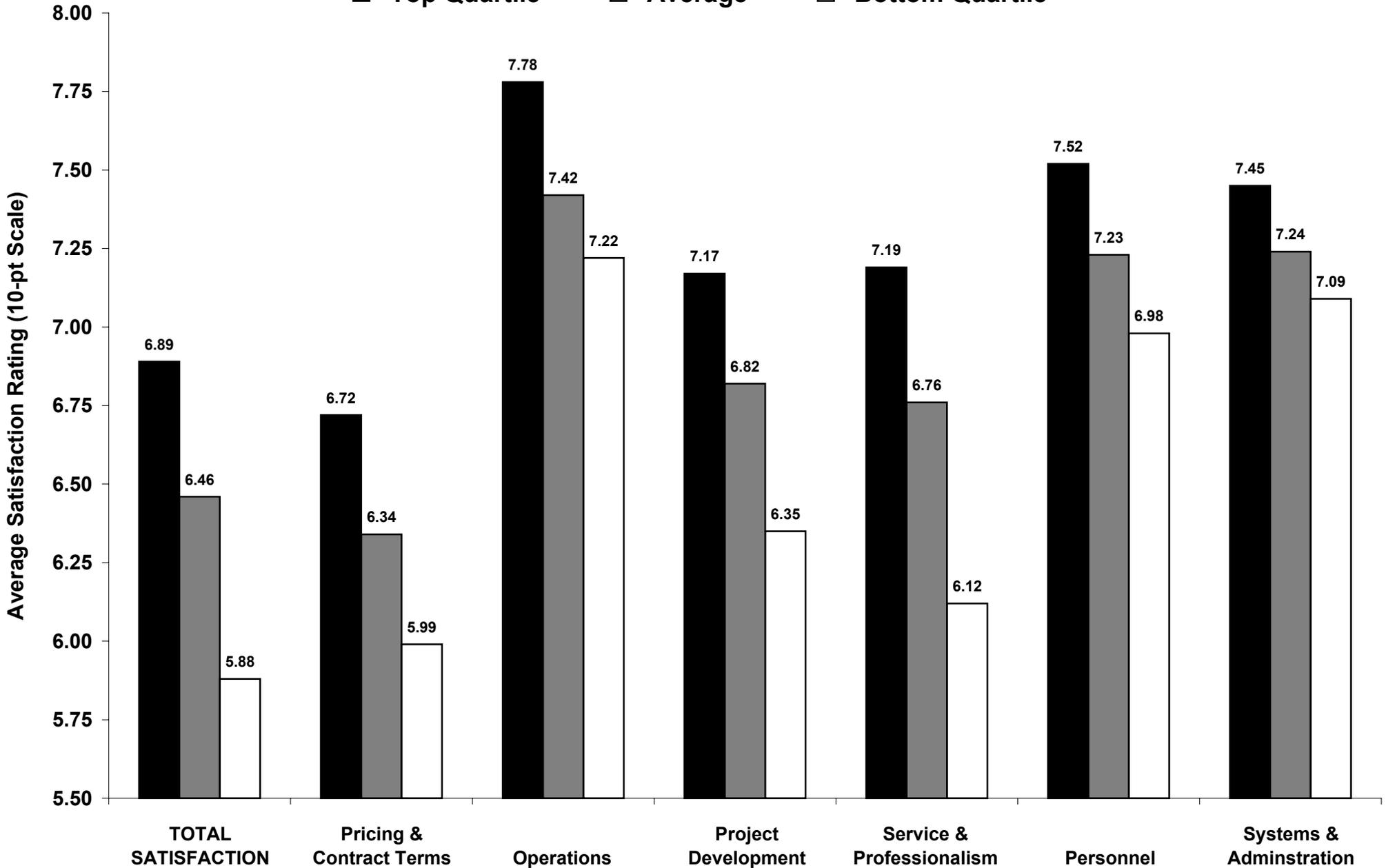
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Important disclosure information is contained on page 3 of this report. The recipient of this report is directed to read these disclosures.

Average Satisfaction Ratings by Attribute

For 19 Providers Covered in EPR's 2006 Midstream Services Survey

■ Top Quartile ■ Average □ Bottom Quartile



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