Morgan Stanley

July 2011

PLAYBOOK

Diversified Natural Gas

Investing Playbook

We see a total return potential for the space of +13%, led by four key Overweights (EP, NFG, TRGP and WMB). This view is predicated on a dislocation of relative valuation of C-Corps versus MLPs, an attractive midstream (read: NGLs) economic backdrop and strategic focus on emerging shale plays (both from an E&P and midstream perspectives). We Reiterate our Attractive Industry View on Diversified Natural Gas Stocks.

Current Pricing, Target and Return Data

Ticker	Current Price	Price Target	Next 4 Qtrs Yield Forecast	Total Return Pot'l	Stock Rating
EP	20.08	$26	0.2%	29.7%	O
WMB	29.99	$38	2.7%	29.4%	O
NFG	70.38	$84	2.0%	21.4%	O
KMI	28.17	$33	4.2%	21.4%	E
SE	27.10	$30	3.8%	14.5%	E
MDU	21.81	$24	3.0%	13.0%	E
TRGP	34.10	$37	3.5%	12.0%	O
STR	17.95	$19	3.5%	9.3%	U
NI	20.22	$21	4.5%	8.4%	E
SUG	43.29	$44	1.4%	3.0%	E
OKE	73.74	$73	2.9%	1.9%	E
XTXI	12.94	$12	2.9%	-4.3%	E
Average			**2.9%**	**13.3%**	

O = Overweight U = Underweight E = Equal-weight

Source: WMB; EP; SE; FactSet; Company data; Morgan Stanley Research

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Prices and ratings herein are as of July 5, 2011

What Will Matter in 2H11 in the Diversified Natural Gas Space…

Relative Value

• Our attractive view of the Diversified Natural Gas space for 2H11 is based on strong midstream economics, infrastructure positioning, and MLP uplift potential through General Partner (GP) ownership. As a result we view relative value of the sector vs. the broader market as indicating a favorable risk/reward for diversified natural gas companies (C-Corp stocks).

Midstream Economics

• NGL prices continue to remain healthy YTD, and in particular, we see fractionation spreads (around $1.09/MMBtu from a 6-year average of $0.50/MMBtu) providing a strong pillar of support for favorable 2Q – 3Q results for NGL levered players (TRGP, WMB, OKE, SE, XTXI and SUG).

Strategic Focus on 'New' Plays

• Diversified names with E&P exposure are beneficiaries (EP, NFG, MDU, WMB), and we see the Niobrara, Bakken, Permian and Eagle Ford as plays with the greatest impetus as the industry heads towards higher liquids plays. For those names without E&P, the focus is on the growing midstream infrastructure needs in these areas (OKE, KMI, SE, NI, SUG, TRGP, XTXI), typically encompassing gathering and processing, as well as fractionation and long-haul pipeline needs.

M&A and 3rd Party Asset Purchases

• Recent M&A activity in the Diversified / MLP spaces (WMB and ETE bidding war for SUG) continues to drive both equity and asset values higher. While we are hesitant to say "who is next," we do believe that a strategic fit, financial consideration, ease of regulatory approvals, multiples paid and management execution abilities would be features that we would look for in a successful assets/MLP acquisition.

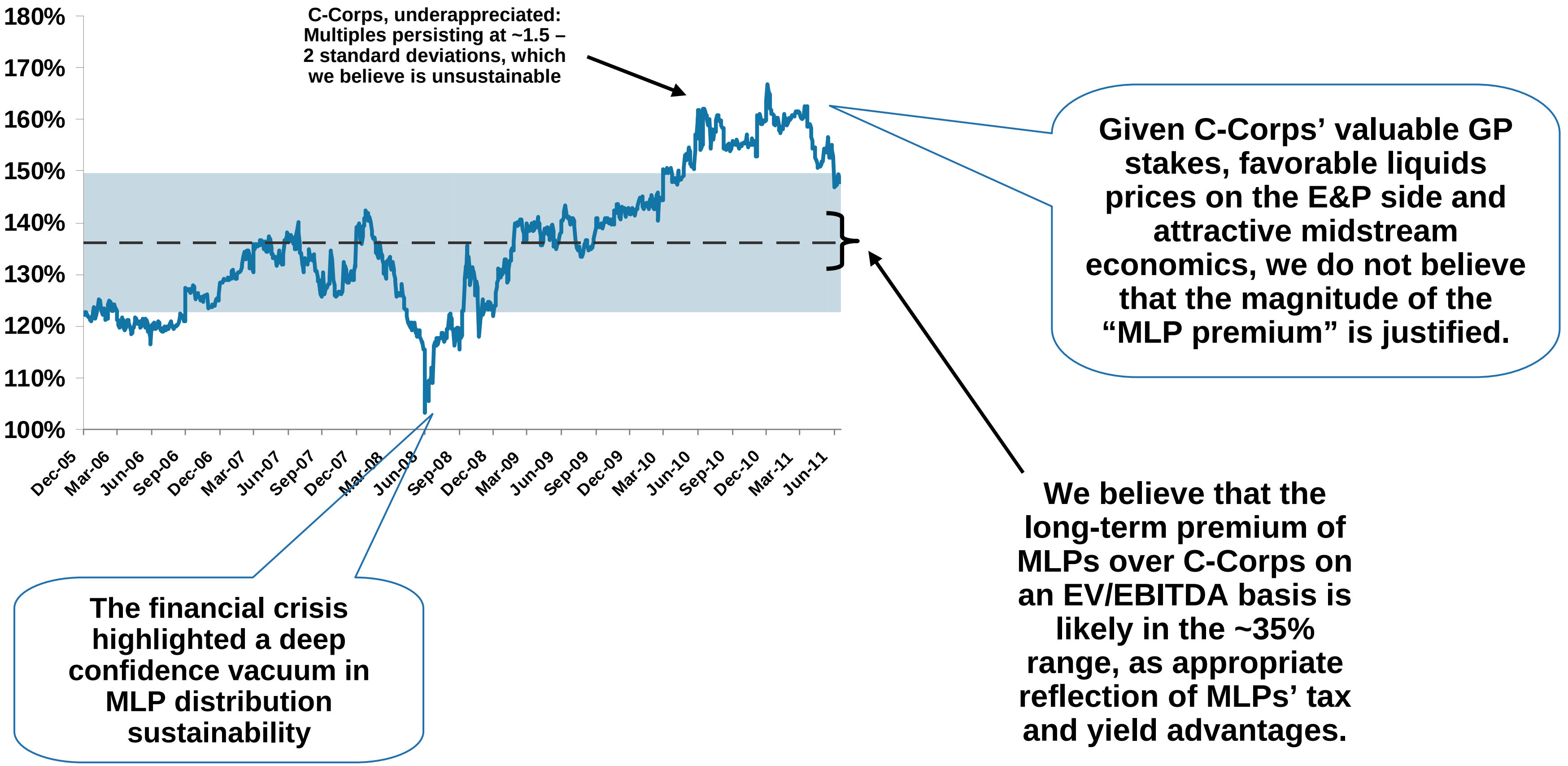
Our Key Themes for 2011 are Intact…

KEY THEME	HORIZON	KEY THEME	MORGAN STANLEY VIEW	WHO STANDS TO BENEFIT?	COMPANIES IMPACTED
Relative Value	Shorter-term	Relative valuation of C-Corps versus MLPs	The relative value of C-Corps versus MLPs indicate that a latent valuation arbitrage exists, favoring C-Corps	Broadly, all C-Corps, but more so those with related MLP ownership stakes, both GPs and LPs.	All, but specifically EP, KMI, NFG, OKE, SE, TRGP, WMB, XTXI
Midstream Economics		Midstream economics provide uplift and continue to be a positive for levered players	NGL margins and spreads will remain elevated above historical levels given strong petrochemical company demand for light feedstocks (e.g., ethane).	Companies with existing midstream footprints especially in emerging shale plays (oil and liquids rich are a plus).	EP, KMI, OKE, SUG, TRGP, WMB, XTXI
Strategic Focus on ‘New’ Plays		New shale play opportunities and shift towards richer basins provide increasing need for infrastructure project developments	Positive exploration results in emerging plays act as positive catalysts, generating opportunities for addressing infrastructure needs.	Companies with existing midstream footprints especially in emerging shale plays (oil and liquids rich are a plus).	EP, KMI, MDU, NI, OKE, SE, SUG, TRGP
Realizing GP Value		GP stakes indicate a favorable valuation skew for C-Corps with MLP ownership	GP stakes provide a stable and importantly high growth inflows of cash that the market underappreciates.	We expect the market to value these stakes more appropriately as it becomes a more significant funding mechanism.	EP, KMI, OKE, SE, TRGP, XTXI
Corporate Structure	Longer-term	Opportunities for corporate announcements (JV, restructurings) remain buoyant	Future announcements of restructurings (e.g., joint ventures, asset sales, break-ups), could serve as catalysts for stocks.	Companies who can unlock shareholder value through new JVs, asset sales, or spin-offs stand to benefit.	EP, MDU, NFG, NI, SUG

Not all companies listed

Relative Value

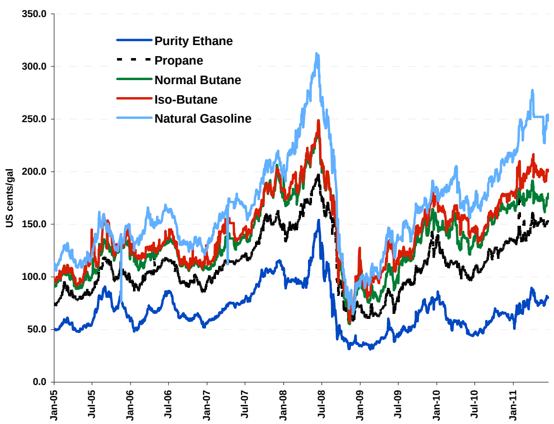
MLPs/C-Corps on an EV/EBITDA Multiple Basis



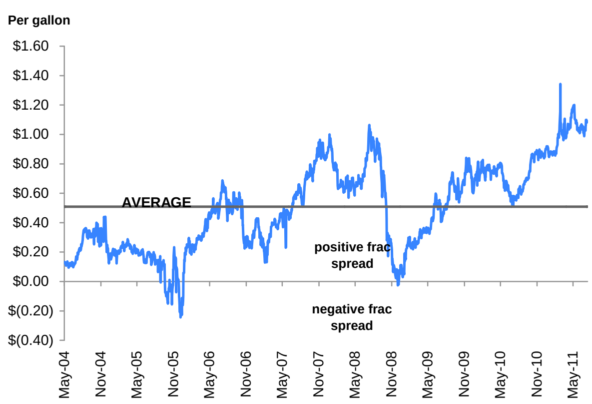
Source: FactSet; Morgan Stanley Research

Midstream Economics

NGL Component Pricing *($/gal)*



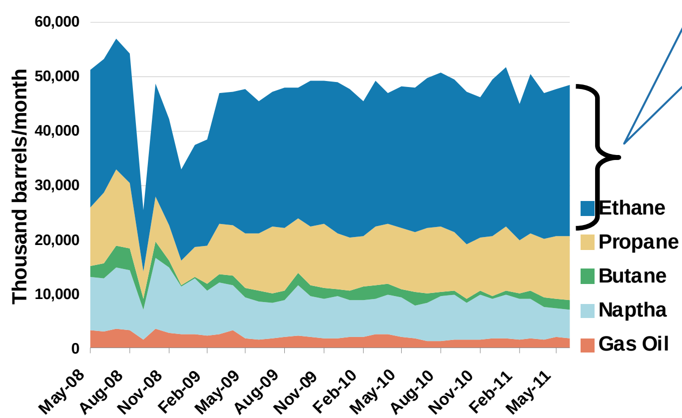
NGL Fractionation Spread *($/gal)*



Midstream economics continue on an upward trajectory and we see a variety of fundamental factors encouraging strong NGL prices.

- Cracker plant modifications to accept greater ethane feedstock quantities, global ethylene cash cost competitiveness and crude oil uplift.
- In our view, NGLs will continue to be the preferred feedstock for steam crackers given their low cost advantage versus heavier feedstocks derived from crude oil.
- The frac spread continues to remain well above historical averages as petchem demand continues to bolster the value of NGLs.

US Steam Cracker Feedstocks

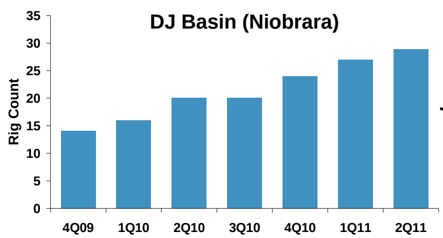


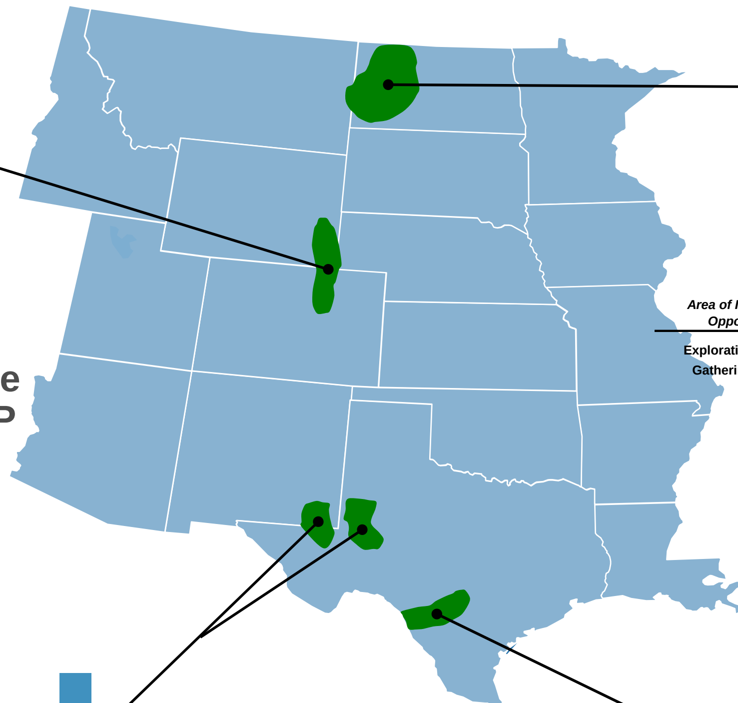
Volumes are also on the upswing as an apparent demand pull from the petchem industry is main driver, especially for ethane where there are cash cost advantages and a growing supply base.

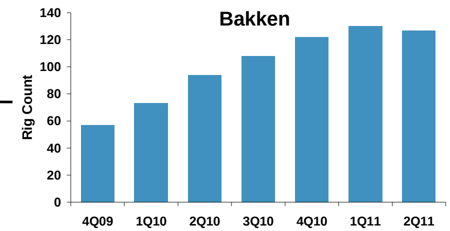
Source: Jacobs Consultancy Inc, Hodson Report, Bloomberg; FactSet; Morgan Stanley Research

Strategic Focus on ‘New’ Plays

Liquids-rich Plays Continue Garnering the Most Attention…

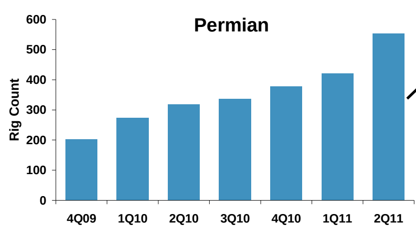


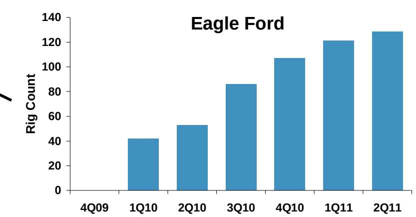




Area of Incremental Opportunity:	NFG	EP	WMB	TRGP	KMI	MDU	NI	OKE	SE	SUG	XTXI	STR
Exploration & Production	✓	✓			✓	✓						✓
Gathering & Processing			✓	✓	✓			✓	✓	✓	✓	
Fractionation			✓	✓				✓	✓		✓	
Storage	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓
Pipeline	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓

…and as Rig Count Climbs, we see ample opportunity for E&P and Midstream infrastructure players to benefit.





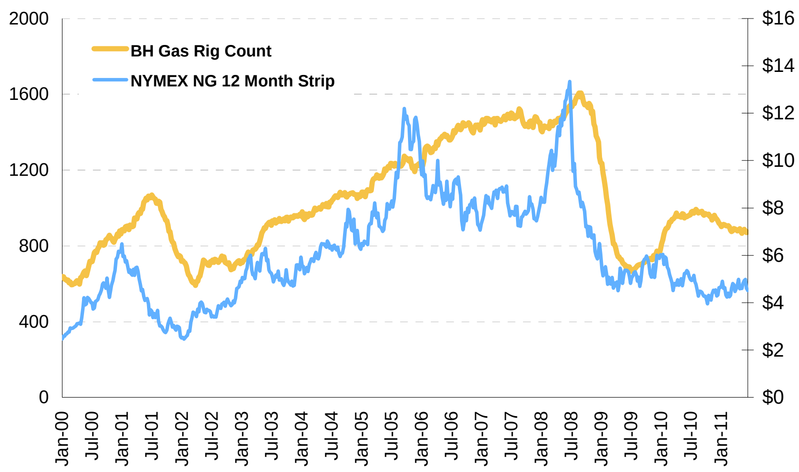
Source: The Land Rig Newsletter; Morgan Stanley Research

Industry Review and Outlook

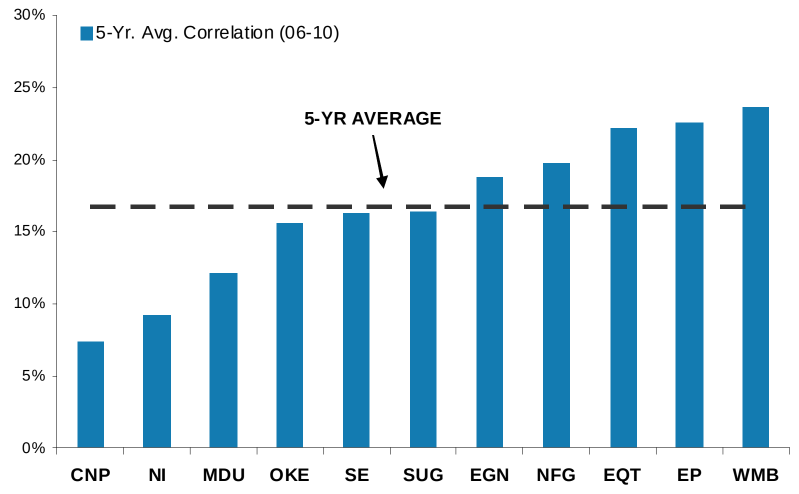
Number of Rigs Have Held Despite Downward Pressure on Nat Gas

- Increased drilling keeps the gas flowing through midstream assets, which bodes well for operators.
- Producers have been moving rigs from dry gas areas (e.g., Haynesville) to more liquids-rich and oily plays, again another positive for the midstream operators.
- For those with E&P exposure, hedging helps mitigate downside risk evidenced by lower correlations to gas.

Nat Gas Price vs. U.S. Nat Gas-Oriented Drilling Activity



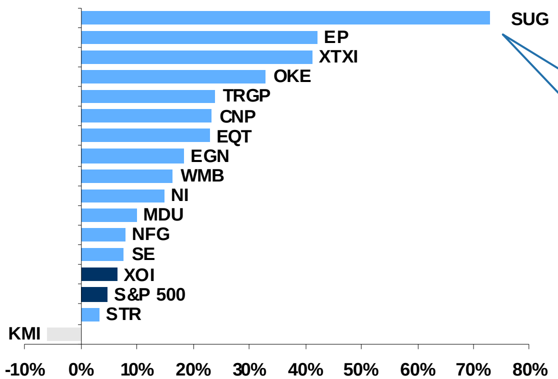
Overall Low Stock Correlation to Gas Prices



Note: Rig count lagged four months. Source: Baker Hughes, FactSet, Morgan Stanley Commodity Research

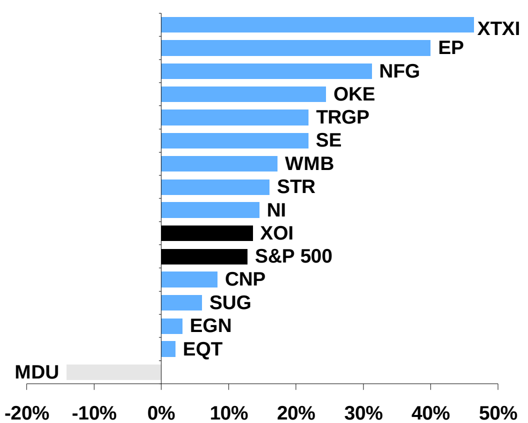
2011 Year-to-Date Review

YTD 2011 Performance



SUG and EP have been the top performers YTD, as a result of EP planned spinoff of its E&P business and the outstanding offers to acquire SUG

2010 Performance



Off to a Very Good Start…

- For stocks under Morgan Stanley coverage, the universe is up ~20% YTD versus S&P's 4.8%.
- M&A and restructuring has been a driver of recent stock performance.
- SUG has received acquisition offers from ETE and WMB
- EP has announced the spinoff of its E&P business
- OKE, XTXI are up on GP values
- KMI and STR have lagged YTD. STR is lacking growth prospects while KMI has a stock overhang

Source: FactSet; Morgan Stanley Research, NOTE: XOI is index of leading petroleum companies.

Earnings Calendar

			EPS Estimates		Earnings Release		Conference Call Details			
Ticker	Company	Actual	MS	Street	Date	Time (ET)	Date	Time (ET)	Number	Access #
KMI	**Kinder Morgan Inc.**		$0.29	$0.25	07/20/2011	Unspecified				
EGN	**Energen Corp.**		NA	$0.77	07/21/2011	Unspecified				
STR	**Questar Corp.**		$0.20	$0.20	07/27/2011	After Market	07/28/2011	9:30AM	(800) 309-9491	#32876701
EQT	**EQT Corp.**		NA	$0.42	07/28/2011	Before Market	07/28/2011	10:30AM	412-858-4600	447031
NI	**NiSource Inc.**		$0.03	$0.12	08/02/2011	Unspecified				
MDU	**MDU Resources Inc.**		$0.23	$0.24	08/02/2011	Unspecified	08/02/2011	11:00AM		
OKE	**Oneok Inc.**		$0.50	$0.54	08/02/2011	After Market	08/03/2011	11:00AM	866-206-6509	1541976
SE	**Spectra Energy Corp.**		$0.40	$0.40	08/03/2011	Before Market	08/03/2011	10:00AM	(888) 252-3715	77960896
WMB	**Williams Companies, Inc**		$0.42	$0.37	08/03/2011	After Market	08/09/2011	9:30AM	(888) 208-1812	
CNP	**Centerpoint Energy Inc.**		NA	$0.21	08/04/2011	Unspecified	08/04/2011	11:30AM		
EP	**El Paso Corp.**		$0.24	$0.25	08/04/2011	Unspecified	08/04/2011	10:00AM		
SUG	**Southern Union Company**		$0.45	$0.43	08/04/2011	Unspecified				
NFG	**National Fuel Gas Co.**		$1.02	$1.00	08/05/2011	Unspecified	08/05/2011	11:00AM	800-901-5259	63064116
TRGP	**Targa Resources Corp.**		$0.21	$0.18	08/08/2011	Before Market	08/08/2011	10:30AM	877-881-2598	83581564
XTXI	**Crosstex Energy Inc.**		$0.03	$0.01	08/08/2011	Before Market	08/05/2011	11:00AM	888-679-8033	88691992

Source: FactSet; Morgan Stanley Research

Source: Company data; FactSet; Morgan Stanley Research

Investment Theses & Risks

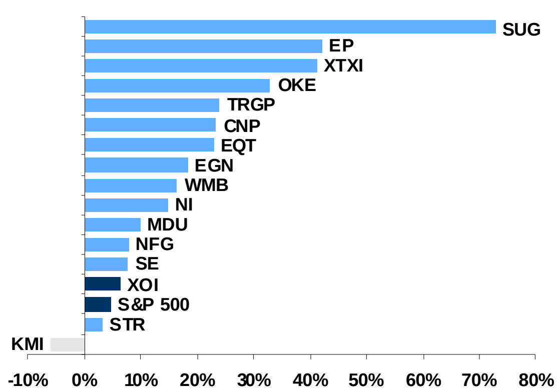
Ticker	Overweight	Equal-weight	Underweight	MS Estimate 2011e EPS	MS v. Consensus	% difference from current price (Bear / Base / Bull; -100% -50% 0% 50% 100%)	Investment Thesis
EP	O/w			$1.13	2%		•We believe shares currently trade at an unjustified discount to fair value despite steps taken to restructure the company, address its funding gap and refocus its E&P operations on lower-risk, lower-cost geographies.
NFG	O/w			$2.81	5%		•We believe NFG is the best levered play on the Marcellus shale through both E&P and midstream operations.
TRGP	O/w			$0.82	14%		•Top-tier dividend growth outlook / scarcity value with mergers and buyouts of several other publicly traded general partners essentially establishes a floor for valuation.
WMB	O/w			$1.59	4%		•We think WMB is an attractive play on a growing Marcellus presence with opportunities to expand operations in more "oily" plays (e.g. Eagle Ford, Bakken and Niobrara).
KMI		E/w		$1.13	NM		•GP stake deep in the high splits where ~45% of the cash flow generated at the LP level accrues to KMI / However, this dampens the growth multiplier effect and growth at the LP.
MDU		E/w		$1.28	-1%		•We believe MDU has a diverse mix of businesses that serves to mitigate volatility in earnings. Long-term growth will largely be a function and execution of its Bakken and Niobrara opportunities.
NI		E/w		$1.36	2%		•Besides some near-term headwinds associated with restoring earnings power at its regulated utilities segments, we believe the company is on the right track, and we expect an earnings uplift in 2012.
OKE		E/w		$3.15	-2%		•We believe upside potential to share price exists given its levered interest in OKS (OKE owns GP and incentive fees), underpinned by a renewed growth outlook at Bakken.
SE		E/w		$1.82	4%		•We see the shares trading in-line, primarily on weak (but stable) natural gas prices, better NGL fundamentals and currency exchange fluctuations.
SUG		E/w		$1.97	3%		•Price is set by acquisition offers. Growth from SUG's 50% interest in Florida Gas Transmission Phase VIII project offsets some of its midstream processing exposure given volume risk in low gas markets. However, possible contracting risk for the remainder of the FGT project is a slight headwind.
XTXI		E/w		$0.17	165%		•Levered interest in DCF growth at XTEX / smaller asset base with deleveraging and recapitalization efforts positioning XTEX to refocus on growth / GP scarcity value.
STR			U/w	$1.11	1%		•STR is a stable regulated Rockies-based integrated natural gas company. Lack of clear catalysts on the horizon keeps us on the sidelines for now.

Source: Company data; Morgan Stanley Research estimates; FactSet

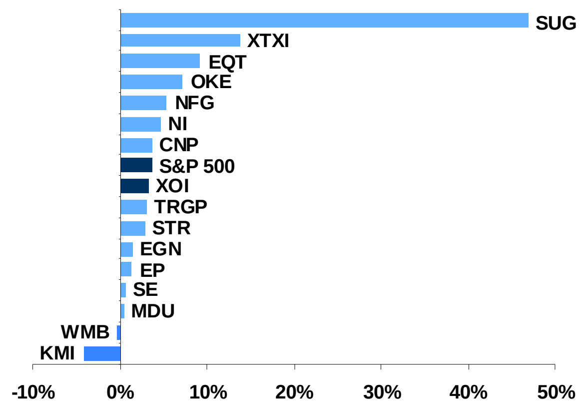
Price Performance

EP was one of the top performers in 2010, and continues to show outperformance in 2011; SUG also up on M&A activity.

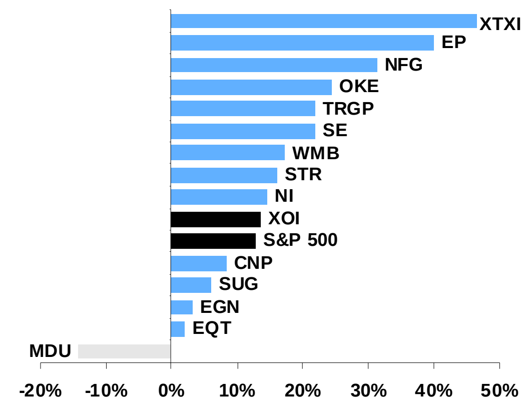
2011 Performance YTD



Last 30 Days Performance



2010 Performance



Company	Symbol	Price USD	52-wk High	52-wk Low	% Below 52W-HI	% Above 52W-LO	Last Week	Last 4-Wks	Last 3-Mos	2009	2010	2011 YTD
Centerpoint Energy Inc	CNP	19.40	19.95	13.82	-2.8%	40.4%	-1.5%	3.1%	13.5%	15.0%	8.3%	23.4%
Energen Corp	EGN	57.12	65.44	42.09	-12.7%	35.7%	-1.7%	-2.4%	-5.2%	59.6%	3.1%	18.4%
El Paso Corp	EP	19.57	21.54	10.97	-9.1%	78.4%	-5.0%	-1.6%	12.5%	25.5%	40.0%	42.2%
EQT Corp	EQT	55.09	54.94	32.23	New High	70.9%	1.0%	2.8%	15.7%	30.9%	2.1%	22.9%
MDU Resources Group Inc	MDU	22.26	24.05	18.10	-7.4%	23.0%	-3.1%	0.2%	-2.0%	9.4%	-14.1%	9.8%
National Fuel Gas Co	NFG	70.82	75.98	42.83	-6.8%	65.3%	-4.8%	6.2%	-0.2%	59.6%	31.2%	7.9%
NiSource Inc	NI	20.25	20.67	15.56	-2.0%	30.1%	-1.5%	4.2%	9.1%	40.2%	14.6%	14.9%
ONEOK Inc	OKE	73.78	76.11	42.53	-3.1%	73.5%	-1.8%	7.0%	15.5%	53.1%	24.5%	33.0%
Spectra Energy Corp	SE	26.92	29.24	20.19	-7.9%	33.3%	-2.8%	0.3%	1.1%	30.3%	21.8%	7.7%
Questar Corp	STR	17.99	18.33	15.91	-1.9%	13.1%	-1.4%	1.1%	6.3%	27.2%	16.1%	3.3%
Southern Union Co	SUG	41.60	42.53	22.02	-2.2%	88.9%	-0.7%	45.7%	52.2%	74.1%	6.0%	72.8%
Targa Resources Corp	TRGP	33.24	36.73	23.50	-9.5%	41.4%	0.9%	-0.3%	NM	NM	21.9%	24.0%
Williams Cos	WMB	28.79	33.47	17.72	-14.0%	62.5%	-7.4%	-3.2%	-5.8%	45.6%	17.3%	16.5%
Crosstex Energy Inc	XTXI	12.51	13.11	6.01	-4.6%	108.2%	3.2%	11.8%	29.6%	55.1%	46.4%	41.2%

Source: Company data; Morgan Stanley Research estimates; FactSet

Natural Gas Markets

Natural Gas Prices Remain Low

- But basis differentials are converging as more takeaway options become available (especially for Rockies gas).

Natural Gas Prices

(US$/mmbtu)	This Week 15-Jul-11	Last Week 8-Jul-11	Last Year 16-Jul-10
Futures			
NYMEX NG 12 Month Strip	$4.75	$4.52	$4.94
North Am Markets			
NY Transco 6	$4.82	$4.50	$5.14
New York City Gate	$4.73	$4.40	$5.10
North East Average	$4.70	$4.48	$5.10
Dominion/ Appalacian	$4.55	$4.28	$4.89
Chicago City Gate	$4.55	$4.24	$4.63
Henry Hub	$4.49	$4.19	$4.68
Dawn Ontario, Canada	$4.37	$4.16	$4.64
Midcon Average	$4.42	$4.22	$4.60
PGE Citygate	$4.62	$4.44	$4.38
Cal Border Average	$4.43	$4.28	$4.33
SOCAL Border	$4.33	$4.24	$4.35
Permian Basin	$4.24	$4.07	$4.32
AECO Canada	$3.81	$3.72	$3.46
Rocky Mtn Average	$4.05	$4.00	$3.93
San Juan Basin	$4.15	$3.98	$4.18
Rockies Opal	$4.13	$3.90	$3.90

Source: Natural Gas Week, Bloomberg, Morgan Stanley Research estimates
Note: The fractionation spread on the following page refers to the difference in value between natural gas liquids (ethane, propane, normal butane, isobutane and natural gasoline) recovered through processing and the energy equivalent value of unprocessed natural gas

Natural Gas Price Forecast

Natural Gas	Q1	Q2	Q3	Q4	Annual
2011E	$4.11	$4.12	$4.00	$4.00	$4.06
2012E	$5.00	$5.00	$5.00	$5.00	$5.00
Long-term	$5.50	$5.50	$5.50	$5.50	$5.50

Morgan Stanley Rig Count Forecast (Oil + Gas)

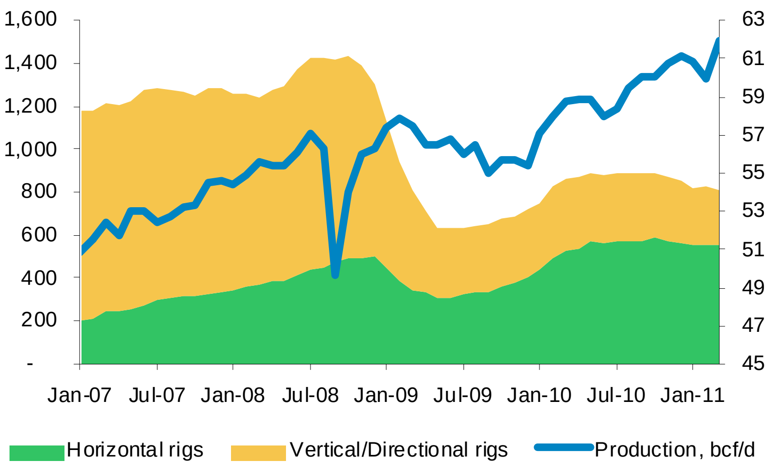
	2010				2011			
	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11E	3Q11E	4Q11E
United States	1,340	1,508	1,622	1,688	1,716	1,829	1,872	1,933
Canada	453	166	359	412	587	188	409	470
North America	1,793	1,674	1,981	2,100	2,303	2,017	2,281	2,403
Gulf of Mexico	44	40	18	22	26	31	32	33
Europe	48	51	46	51	50	46	55	57
Middle East	38	34	36	33	37	41	36	37
Africa	25	24	26	28	24	26	28	30
Latin America	74	76	77	75	79	82	73	77
Asia Pacific	110	121	127	122	115	104	130	137

Natural Gas Markets

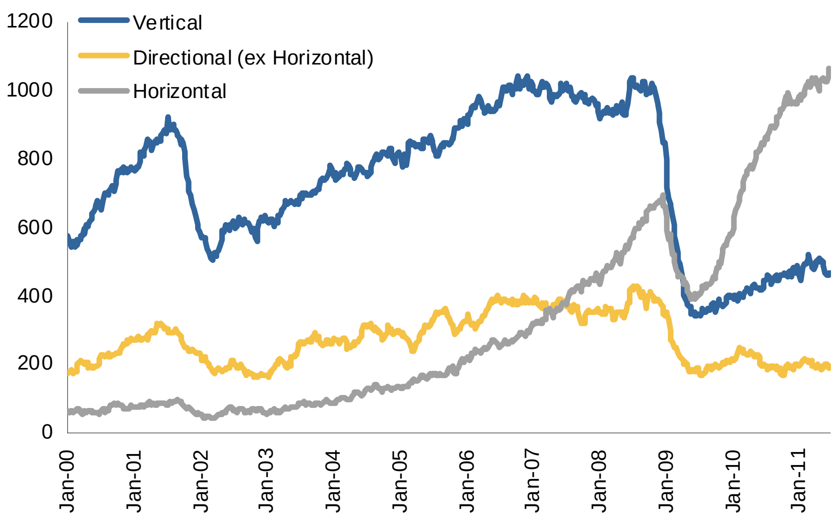
Rig Counts Continue to Increase Despite Low Gas Prices

- The horizontal rig count currently stands at all-time highs, with recent focus on developing liquids rich plays
- Gas prices remain under pressure, as dry gas production and associated gas from liquids wells affect supply

Nat Gas Production vs. Rig Activity



US Rig Count by Drilling Classification



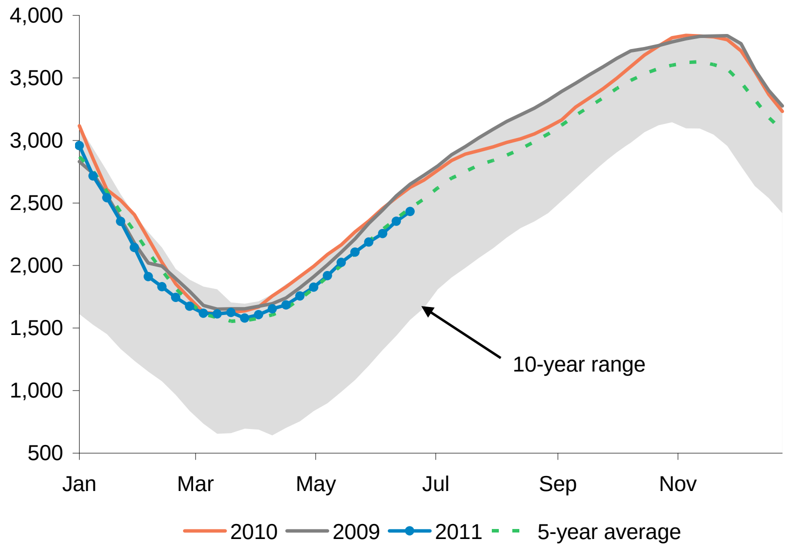
Source: Note: EIA; Smith International; Morgan Stanley Commodity Research; FactSet

Natural Gas Markets

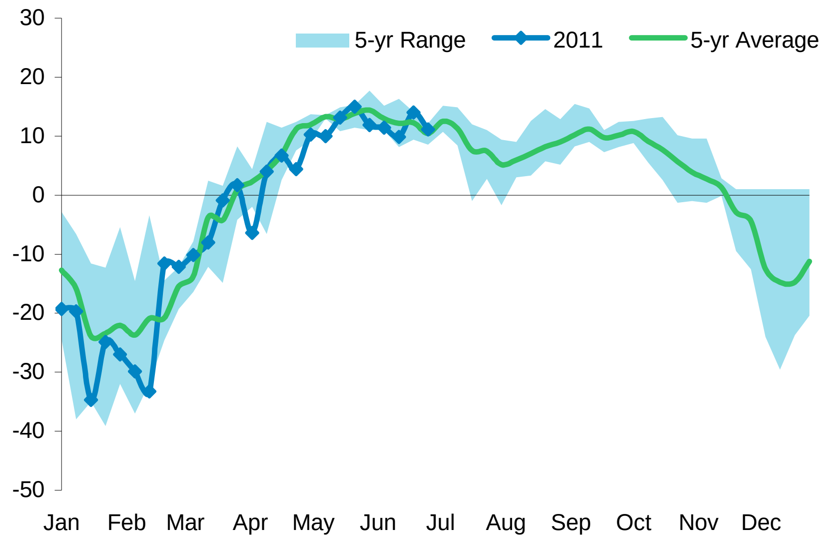
Normalized Storage Levels

• US natural gas storage was at elevated levels in 2010; current levels are in-line with the five-year average.

US Natural Gas Storage (Bcf)



US Natural Gas Pace of Injections (Bcf)



Source: DOE, Morgan Stanley Research

Crude Oil Markets

Morgan Stanley Commodities Team Remains Constructive on Crude Fundamentals

Petroleum Complex

(US$/bbl)	This Week 15-Jul-11	Last Week 8-Jul-11	Last Year 16-Jul-10
Global Benchmarks			
WTI Cushing	$97.12	$96.20	$76.01
Dated Brent	$117.34	$117.78	$74.54
Tapis	$123.95	$125.25	$81.29
Bonny Light	$117.48	$119.99	$76.88
Dubai Fateh	$109.79	$110.85	$73.59
Futures			
ICE Brent front month	$117.29	$118.33	$75.37
North Am Spot Crudes			
LLS St James	$116.37	$114.50	$78.91
Syncrude Sweet	$106.62	$104.85	$75.91
Alaska N Slope	$115.12	$111.80	$76.36
WTS Midland	$96.37	$95.20	$73.64
Mars Blend	$113.12	$110.20	$74.21
Venezuela	$105.75	$103.76	$67.76
Mx Maya	$102.88	$102.17	$66.94
Global Refining Margins			
USGC/ WTI Cush	$30.01	$30.02	$6.29
NWE/ Brent	$9.76	$7.91	$8.16
Singapore Tapis	$3.20	$5.37	$3.59
AG/ Dubai	$17.36	$19.77	$11.29
NYMEX Refining Margins			
NYMEX Front 321	$30.01	$30.02	$6.29
NYMEX 321 Strip	$27.90	$28.09	$8.33
NYMEX CL HO	$33.53	$33.85	$8.47
NYMEX HO CL 12 strip	$32.71	$32.95	$10.49
NYMEX CL XB	$34.35	$33.69	$10.02
NYMEX XB CL 12 strip	$25.49	$25.66	$7.23

Crude Oil Price Forecast

Brent Crude	Q1	Q2	Q3	Q4	Annual
2008	$96.48	$122.20	$115.91	$56.23	$97.71
2009	$45.04	$59.28	$68.25	$74.93	$61.88
2010	$76.78	$79.00	$76.41	$86.93	$79.78
2011E	$104.91	$116.70			$120.00*
2012E					$130.00*
Long-term					$90.00**

* Morgan Stanley Commodity Strategy forecast
** Morgan Stanley Integrated Oil forecast

Weekly US Oil Inventory Data (mbbls)

	07/08/11	Week	Change	Year	Avg.
API					
Crude Oil	**359.4**	357.1	2.3	353.5	337.3
Motor Gasoline	**208.4**	209.9	(1.6)	221.8	213.0
Middle Distillates	**189.8**	183.1	6.7	206.6	182.8
Distillates	*145.4*	*140.6*	*4.8*	*160.9*	*140.7*
Kerosene	*44.5*	*42.5*	*2.0*	*45.8*	*42.1*
Naphtha	-	-	-	-	-
Residual	**37.2**	37.9	(0.7)	42.1	39.2
Unfinished	**84.7**	86.5	(1.8)	77.4	86.4
Total Oil	**879.5**	**874.5**	**5.0**	**901.4**	**858.7**
DOE					
Crude Oil	**355.5**	358.6	(3.1)	353.1	335.6
Motor Gasoline	**211.7**	212.5	(0.8)	221.0	214.0
Distillates	**145.0**	142.1	3.0	162.6	142.1
Total Oil	**712.2**	**713.2**	**(1.0)**	**736.8**	**691.7**

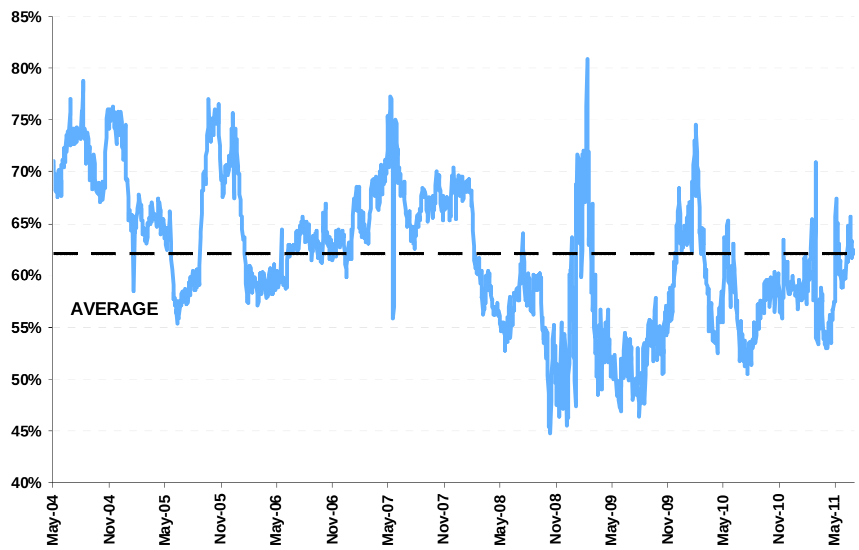
Source: Bloomberg, Morgan Stanley Research estimates

Midstream Fundamentals

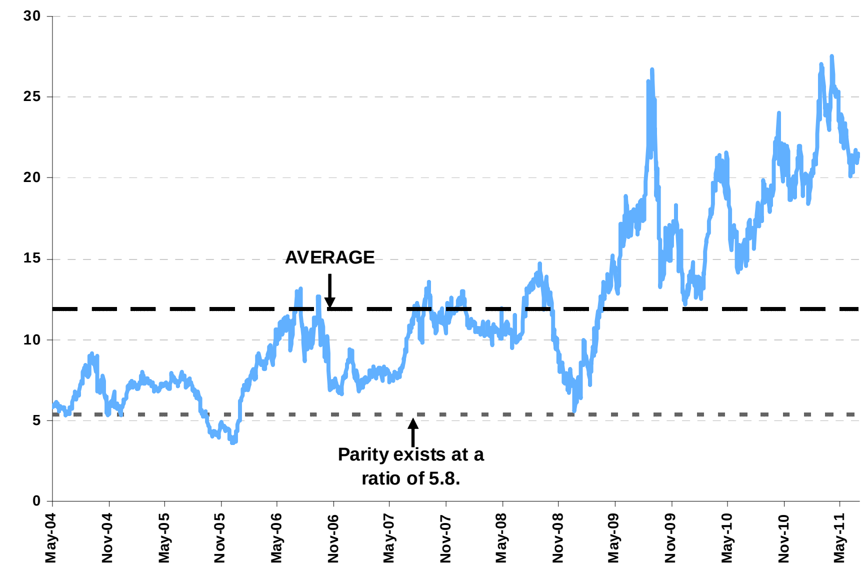
NGL/Crude Ratio is Holding Steady, whereas Crude/Nat Gas Ratio Declines from its Recent Peak

- The NGL/crude ratio is below its 5-year historical average of 62%, but strong crude prices and increased petchem cracker utilization rates are likely to keep a floor on this ratio near 50%, a positive for NGL prices.
- Natural gas prices continue to face secular headwinds given the lack of producer discipline amidst low expectations.

NGL/Crude Oil Ratio *($/bbl)*



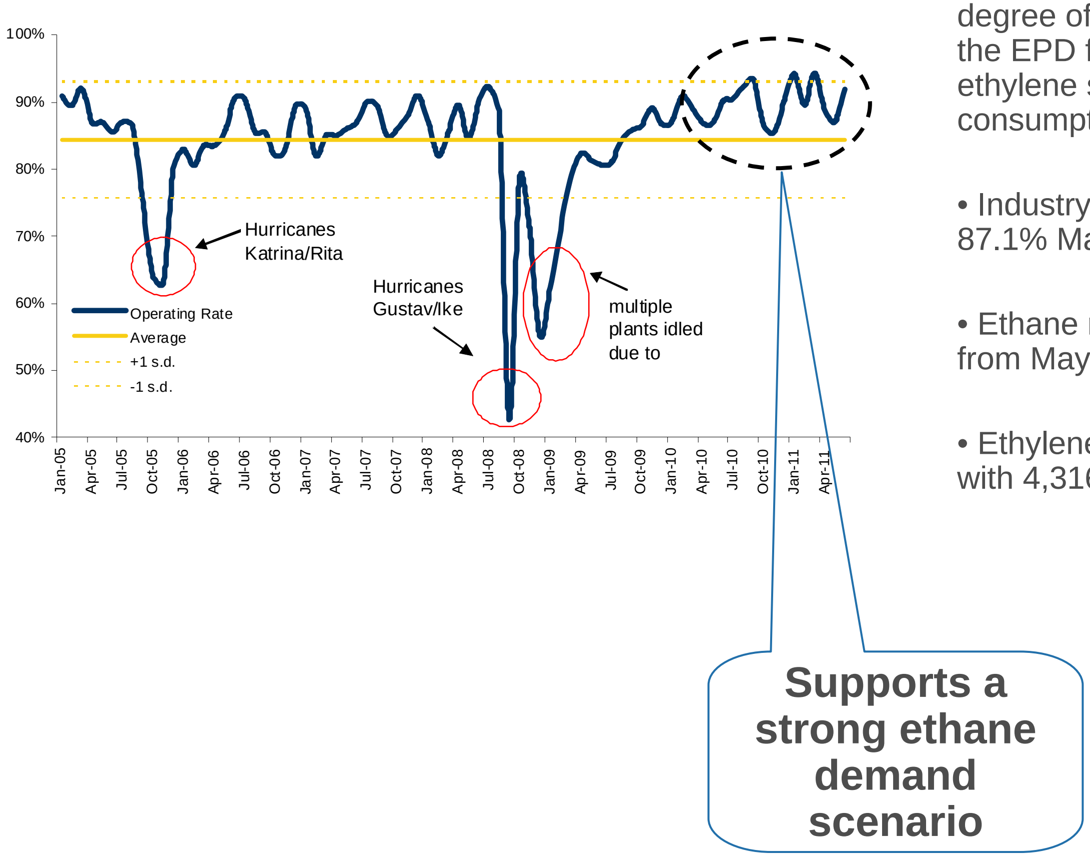
Crude Oil/Natural Gas Ratio *($/mmbtu)*



Source: Bloomberg, Morgan Stanley Research estimates

Midstream Fundamentals

US Steam Cracker Operating Rates



Steam Crackers Continue to Favor Light-end Feedstocks…

Following unplanned steam cracker outages and a certain degree of feedstock switching to heavier feeds following the EPD fire at its Mt. Belvieu NGL facility in February, ethylene steam cracker operating rates and ethane consumption recovered.

- Industry operating rate of 91.9%, increased slightly from 87.1% May level.
- Ethane represented 57% of the feedslate in June, flat from May level.
- Ethylene production increased 2% sequentially in June, with 4,316 MM lbs of production sourced.

Source: Jacobs Consultancy Inc, Hodson Report; Morgan Stanley Research

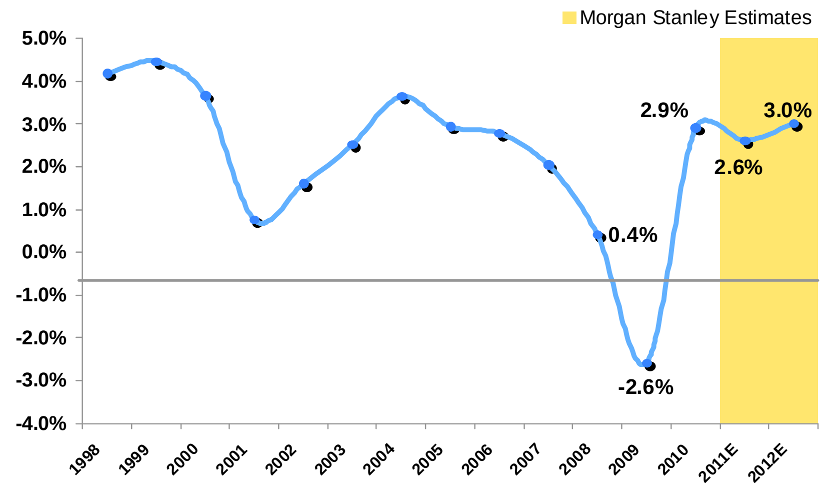
Economic Indicators & Forecasts

MS Economic Forecast: GDP Growth %

(last updated 7/10/2011)

Region	2009	2010	2011E	2012E
Global Economy	-0.8	5.1	4.2	4.5
US	-2.6	2.9	2.6	3.0
Europe	-4.1	1.7	1.0	1.2
Asia ex-Japan	6.4	9.4	7.8	7.9
China	9.2	10.3	9.0	7.7
India	7.2	9.0	7.7	8.5
Japan	-6.3	4.0	-1.2	2.9
Latin America	-1.8	6.3	4.6	4.6
Argentina	0.9	9.2	6.2	5.8
Brazil	-0.2	7.5	4.0	4.6
Mexico	-6.1	5.5	4.7	4.1
Venezuela	-3.3	-1.9	3.0	3.6

Annual US Real GDP Change and MS Forecast



US Forecast at a Glance

(Year-over-year percent change)

	2010	2011E	2012E
Real GDP	2.9%	2.6%	3.0%
Inflation (CPI)	1.6	3.2	2.3
Unit Labor Costs	-1.6	0.5	1.1
After-Tax "Economic" Profits	20.4	4.5	0.6
After-Tax "Book" Profits	30.4	7.2	2.5

Interest Rate Outlook

	Fed Funds		LIBOR	Treasury Yield Curve					
Date*	Target	Prime	3-Mo.	3-Mo.	6-Mo.	2-Yr.	5-Yr.	10-Yr.	30-Yr.
7/8/2011	0.13	3.25	0.25	0.03	1.00	0.43	1.62	3.03	4.28
11Q2	0.13	3.25	0.25	0.03	0.10	0.43	1.62	3.03	4.28
11Q3	0.13	3.25	0.32	0.05	0.12	0.60	1.95	3.30	4.50
11Q4	0.13	3.25	0.40	0.10	0.20	0.80	2.38	3.75	5.00
12Q1	0.13	3.13	0.40	0.15	0.25	1.00	2.45	3.80	5.00
12Q2	0.13	3.13	0.50	0.25	0.40	1.20	2.53	3.85	4.85
12Q3	0.50	3.50	0.95	0.70	0.85	1.50	2.70	4.00	4.75
12Q4	1.00	4.00	1.45	1.20	1.35	1.75	2.90	4.25	5.00

**All forecast values are for the end of the designated period.*

Source: Bloomberg, Morgan Stanley Research estimates

Valuation: Market Multiples and Ratios; Reserves and Production

Company	Symbol	MS Rating	Recent Price	Target Price	Next 4 qtrs yield	Total Return Pot'l	Equity Mkt Cap ($m)	Total EV ($m)	52-W Avg. Daily Vol ($m)	52-W Avg. Daily Vol (000s)	EV / EBITDA 10	EV / EBITDA 11E	EV / EBITDA 12E	EV / EBITDA 13E	Price / Earnings 10	Price / Earnings 11E	Price / Earnings 12E	Price / Earnings 13E	Net Debt / Total Book Cap. 10	Net Debt / Total Book Cap. 11E	Net Debt / Total Book Cap. 12E	Net Debt / Total Book Cap. 13E
Diversified Gas																						
Centerpoint Energy Inc	CNP	NA	19.45	-	4.1%	-	$8,252	$17,168	$78	3,985	8.3x	8.1x	7.8x	7.4x	18.2x	17.7x	16.0x	14.8x	43%	63%	62%	61%
Crosstex Energy Inc	XTXI	E/w	12.36	$12	3.1%	0.2%	$582	$582	$5	375	NM	31.4x	24.5x	18.9x	NM	NM	NM	30.3x	0%	0%	0%	0%
Energen Corp	EGN	NA	57.02	-	0.9%	-	$4,110	$4,802	$22	387	6.4x	6.6x	6.0x	5.0x	13.0x	15.0x	13.8x	11.4x	14%	7%	22%	20%
El Paso Corp	EP	O/w	19.46	$26	0.2%	33.8%	$14,945	$28,269	$168	8,644	9.7x	8.4x	7.4x	6.8x	20.2x	17.3x	15.1x	13.4x	73%	66%	62%	55%
EQT Corp	EQT	NA	54.00	-	1.6%	-	$8,232	$10,235	$67	1,233	13.7x	10.5x	8.3x	6.9x	34.4x	25.9x	19.2x	17.6x	49%	40%	37%	36%
Kinder Morgan Inc	KMI	E/w	28.17	$33	4.2%	21.4%	$19,916	$22,834	$63	2,220	NM	24.3x	24.0x	22.4x	NM	24.9x	19.8x	18.5x	9%	9%	9%	8%
MDU Resources Group Inc	MDU	E/w	22.23	$24	2.9%	10.9%	$4,197	$5,401	$16	730	7.2x	7.1x	6.2x	5.8x	17.3x	17.3x	15.3x	13.9x	28%	28%	28%	29%
National Fuel Gas Co	NFG	O/w	70.98	$84	2.0%	20.4%	$5,921	$6,741	$35	499	10.6x	10.1x	7.9x	6.6x	26.7x	25.4x	23.0x	20.3x	56%	55%	60%	61%
NiSource Inc	NI	E/w	20.21	$21	4.6%	8.5%	$5,760	$11,294	$54	2,669	7.5x	7.4x	7.0x	6.9x	16.8x	14.9x	14.0x	13.4x	62%	60%	57%	56%
ONEOK Inc	OKE	E/w	73.89	$73	2.9%	1.7%	$8,067	$14,050	$51	689	10.5x	9.7x	8.9x	8.0x	24.3x	23.4x	20.6x	16.8x	55%	51%	49%	46%
Spectra Energy Corp	SE	E/w	26.99	$30	3.9%	15.0%	$17,570	$28,032	$84	3,102	10.6x	9.0x	8.4x	8.0x	17.2x	14.8x	14.4x	14.1x	58%	58%	57%	56%
Questar Corp	STR	U/w	17.79	$19	3.5%	10.3%	$3,176	$4,074	$33	1,830	8.1x	8.0x	7.7x	7.3x	15.9x	16.0x	15.2x	14.7x	56%	52%	52%	51%
Southern Union Co	SUG	E/w	41.79	$40	1.4%	2.8%	$5,247	$8,309	$51	1,209	10.8x	9.9x	9.2x	8.8x	23.7x	21.2x	19.1x	17.6x	58%	56%	54%	51%
Targa Resources Corp	TRGP	O/w	33.24	$37	3.5%	14.9%	$1,373	$1,462	$11	342	NM	25.5x	19.8x	16.0x	NM	40.3x	32.5x	23.0x	60%	52%	57%	62%
Williams Cos	WMB	O/w	28.40	$38	2.8%	36.6%	$16,943	$24,910	$200	7,039	6.8x	6.4x	5.6x	5.1x	21.5x	17.9x	15.1x	13.4x	49%	50%	51%	50%
Total:							**$124,291**	**$188,162**	**$936**	**34,952**												
Average:					**2.8%**	**14.2%**	**$8,286**	**$12,544**	**$62**	**2,330**	**9.2x**	**12.2x**	**10.6x**	**9.3x**	**20.8x**	**20.9x**	**18.1x**	**16.9x**	**45%**	**43%**	**44%**	**43%**
Median:					**2.9%**	**12.9%**	**$5,921**	**$10,235**	**$51**	**1,233**	**9.0x**	**9.0x**	**7.9x**	**7.3x**	**19.2x**	**17.8x**	**15.7x**	**14.8x**	**55%**	**52%**	**52%**	**51%**

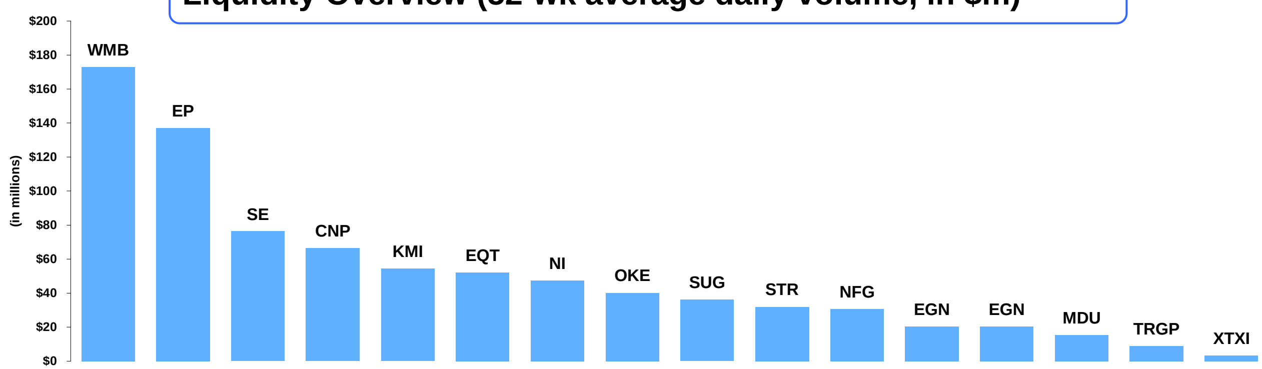
Company	Symbol	2011E Production Mmcfe	2011E Production Liquids	2011E Production Nat Gas	Production Growth y-o-y (%) 10	Production Growth y-o-y (%) 11E	Production Growth y-o-y (%) 12E	Production Growth y-o-y (%) 13E	2010 Proved reserves Mmcfe	2010 Proved reserves Liquids	2010 Proved reserves Nat Gas	2010 Proved reserves PUDs	Reserve Life 08	Reserve Life 09	Reserve Life 10	Implied EV/mmcfe Reserves
Diversified Gas																
Energen Corp	EGN	--	--	--	--	--	--	--	1,818,000	*47%*	*53%*	--	15.5	13.9	16.1	--
EQT Corp	EQT	--	--	--	--	--	--	--	5,219,534	*0%*	*100%*	*51%*	34.3	38.8	38.8	--
El Paso Corp	EP	306,287	*15%*	*85%*	*2%*	*8%*	*5%*	*3%*	3,362,000	*22%*	*78%*	*39%*	7.8	9.9	11.8	$1.05
MDU Resources Group Inc	MDU	70,449	*31%*	*69%*	*-7%*	*1%*	*4%*	*4%*	645,596	*31%*	*69%*	*23%*	9.8	8.7	9.2	$2.31
National Fuel Gas Co	NFG	66,325	*28%*	*72%*	*17%*	*43%*	*37%*	*20%*	699,847	*39%*	*61%*	*25%*	12.3	12.4	14.1	$5.44
Average:		**222,884**	***20%***	***80%***	***4%***	***17%***	***15%***	***9%***	**2,666,663**	***23%***	***69%***	***37%***	**16.0**	**16.7**	**18.0**	**$2.04**
Median:		**188,368**	***22%***	***78%***	***2%***	***8%***	***5%***	***4%***	**2,590,000**	***26%***	***65%***	***39%***	**12.3**	**12.4**	**14.1**	**$1.68**

Source: Company data; Morgan Stanley Research; FactSet; Morgan Stanley Research estimates except for non-covered companies (NA), which are FactSet estimates. O/w = Overweight, E/w = Equal-weight, U/w = Underweight

Valuation: Capital and Returns; Trading Volume

Company	Symbol	Beta v. S&P500 60mo	Beta v. NYSE 52wk	Moody's LT Rating	ROIC 10	ROIC 11E	ROIC 12E	ROIC 13E	Capex ($m) 10	Capex ($m) 11E	Capex ($m) 12E	Capex ($m) 13E
Diversified Gas:												
Centerpoint Energy Inc	CNP	0.71	0.47	Baa3	6.8%	7.1%	7.5%	7.8%	$1,462	NM	NM	NM
Crosstex Energy Inc	XTXI	2.00	1.65	-	--	--	--	--	$0	$0	$0	$0
Energen Corp	EGN	1.07	0.97	Baa3	13.8%	13.0%	13.5%	16.4%	$718	NM	NM	NM
El Paso Corp	EP	1.15	1.07	Ba3	8.1%	7.9%	8.5%	8.9%	$4,073	$3,605	$2,204	$1,685
EQT Corp	EQT	0.83	1.16	Baa1	7.6%	10.1%	12.9%	NA	NA	$913	$887	NM
Kinder Morgan Inc	KMI	NM	0.59	-	3.7%	9.9%	11.2%	11.6%	$1,003	$1,845	$1,498	$1,152
MDU Resources Group Inc	MDU	1.14	0.78	Baa1	6.2%	7.0%	7.5%	7.7%	$449	$520	$560	$650
National Fuel Gas	NFG	0.85	1.05	Baa1	9.4%	9.5%	9.4%	10.1%	$456	$756	$1,001	$857
NiSource Inc	NI	0.88	0.55	WR	5.0%	5.2%	5.4%	5.3%	$804	$1,000	$900	$891
ONEOK Inc	OKE	1.07	0.77	Baa2	10.9%	8.5%	8.9%	9.6%	$583	$1,334	$1,322	$1,324
Spectra Energy Corp	SE	0.92	0.79	-	7.9%	8.7%	8.6%	8.4%	$1,346	$2,032	$1,953	$1,851
Questar Corp	STR	0.44	0.66	A3	11.6%	11.0%	10.9%	10.9%	$320	$333	$325	$309
Southern Union Co	SUG	0.92	0.62	Baa3	6.3%	7.4%	8.0%	8.2%	$293	$235	$300	$300
Targa Resources Corp	TRGP	-	0.66	-	--	--	--	--	$0	$0	$0	$0
Williams Cos	WMB	1.23	1.35	Baa3	9.3%	9.2%	11.2%	12.9%	$2,788	$3,893	$3,420	$2,991
Total:									**$14,294**	**$16,465**	**$14,369**	**$12,009**
Average:		**1.02**	**0.87**		**8.2%**	**8.8%**	**9.5%**	**9.8%**	**$1,069**	**$1,372**	**$1,197**	**$1,092**
Median:		**0.92**	**0.78**		**7.9%**	**8.7%**	**8.9%**	**9.2%**	**$650**	**$957**	**$950**	**$891**

Liquidity Overview (52-wk average daily volume, in $m)



Source: Company data; Morgan Stanley Research; FactSet; Morgan Stanley Research estimates except for CNP, EGN, and EQT, which are FactSet estimates

Valuation: EPS Estimates

Ticker Symbol	1Q11	2Q11E	3Q11E	4Q11E	2010	2011E	2012E	2013E	11 vs 10	12 vs 11	13 vs 12
	Earnings Per Share ($)								Growth Rate (%)		
CNP	-	-	-	-	-	-	-	-	-	-	-
Consensus	0.34	0.21	0.28	0.27	1.07	1.10	1.21	1.31	3%	10%	8%
EGN	-	-	-	-	-	-	-	-	-	-	-
Consensus	1.30	0.77	0.71	1.02	4.38	3.80	4.15	5.04	-13%	9%	21%
EP	0.30	0.24	0.28	0.30	0.96	1.13	1.29	1.45	17%	15%	12%
Consensus	0.30	0.25	0.24	0.30	0.98	1.10	1.35	1.38	12%	23%	2%
EQT	-	-	-	-	-	-	-	-	-	-	-
Consensus	0.67	0.42	0.41	0.61	1.57	2.10	2.81	3.19	34%	34%	14%
KMI	0.12	0.29	0.31	0.34	ND	1.13	1.42	1.52	NM	26%	7%
Consensus	0.12	0.25	0.26	0.30	ND	1.03	1.23	1.39	NM	19%	13%
MDU	0.22	0.23	0.47	0.36	1.29	1.28	1.45	1.59	0%	13%	10%
Consensus	0.22	0.24	0.46	0.37	1.29	1.29	1.49	1.58	0%	15%	6%
NFG	0.70	1.02	0.59	0.50	2.66	2.81	3.10	3.50	6%	10%	13%
Consensus	0.70	1.00	0.52	0.47	2.65	2.69	3.10	3.74	2%	15%	21%
NI	0.72	0.12	0.04	0.52	1.20	1.36	1.48	1.53	13%	9%	4%
Consensus	0.72	0.12	0.09	0.42	1.22	1.34	1.45	1.50	9%	8%	4%
OKE	1.19	0.50	0.55	0.91	3.04	3.15	3.59	4.41	4%	14%	23%
Consensus	1.19	0.54	0.55	0.89	3.10	3.22	3.52	3.90	4%	9%	11%
SE	0.54	0.40	0.42	0.47	1.57	1.82	1.88	1.91	16%	3%	2%
Consensus	0.54	0.40	0.40	0.46	1.57	1.76	1.86	1.83	12%	6%	-1%
STR	0.39	0.20	0.19	0.33	1.12	1.11	1.17	1.21	-1%	5%	4%
Consensus	0.39	0.20	0.17	0.34	1.13	1.10	1.19	1.27	-2%	8%	6%
SUG	0.51	0.40	0.45	0.61	1.76	1.97	2.19	2.38	12%	11%	9%
Consensus	0.51	0.39	0.43	0.56	1.79	1.91	2.09	2.17	6%	10%	4%
TRGP	0.16	0.21	0.21	0.24	(0.67)	0.82	1.02	1.44	NM	24%	41%
Consensus	0.16	0.18	0.18	0.21	(0.68)	0.72	0.80	1.06	NM	11%	33%
WMB	0.36	0.42	0.38	0.43	1.32	1.59	1.88	2.12	20%	18%	13%
Consensus	0.36	0.37	0.39	0.40	1.28	1.52	1.68	1.98	19%	10%	18%
XTXI	0.01	0.03	0.05	0.08	(0.10)	0.17	0.26	0.41	NM	50%	58%
Consensus	(0.03)	0.01	0.03	0.04	(1.12)	0.07	0.15	0.41	NM	131%	173%

Source: Company data; Morgan Stanley Research; FactSet; Morgan Stanley Research estimates except for CNP, EGN, and EQT, which are FactSet estimates

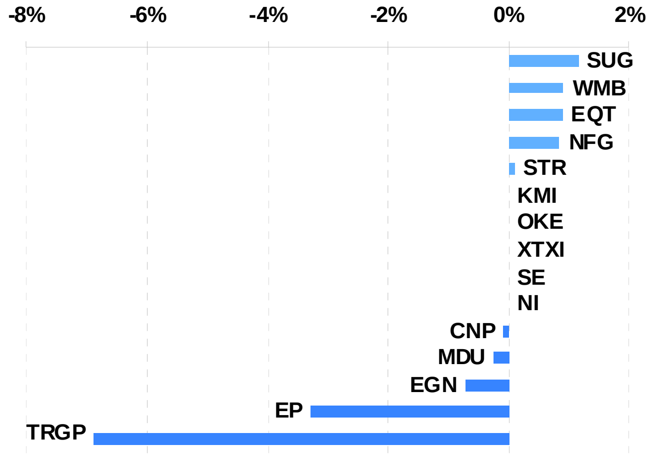
Valuation: EBITDA Estimates

Ticker	EBITDA ($ in 000s)								Growth Rate (%)		
Symbol	1Q11	2Q11E	3Q11E	4Q11E	2010	2011E	2012E	2013E	11 vs 10	12 vs 11	13 vs 12
CNP	-	-	-	-	-	-	-	-	-	-	-
Consensus	464	463	542	544	2,075	2,111	2,202	2,321	2%	4%	5%
EGN	-	-	-	-	-	-	-	-	-	-	-
Consensus	165	163	165	199	753	730	801	955	-3%	10%	19%
EP	779	796	875	906	2,913	3,357	3,832	4,142	15%	14%	8%
Consensus	779	824	883	965	3,043	3,276	3,601	3,435	8%	10%	-5%
EQT	-	-	-	-	-	-	-	-	-	-	-
Consensus	193	214	268	318	748	977	1,237	1,478	31%	27%	19%
MDU	128	175	244	213	749	759	870	937	1%	15%	8%
Consensus	179	177	231	222	760	667	745	941	-12%	12%	26%
NFG	214	151	145	222	634	681	845	1,002	7%	24%	19%
Consensus	214	153	151	227	595	684	789	960	15%	15%	22%
NI	538	283	243	472	1,514	1,537	1,617	1,657	2%	5%	2%
Consensus	538	296	281	413	1,516	1,525	1,622	1,692	1%	6%	4%
OKE	442	301	317	386	1,335	1,447	1,572	1,758	8%	9%	12%
Consensus	442	322	311	380	1,256	1,323	1,423	1,568	5%	8%	10%
SE	808	721	755	813	2,641	3,098	3,356	3,508	17%	8%	5%
Consensus	808	729	675	766	2,762	3,089	3,237	3,231	12%	5%	0%
STR	162	105	102	140	503	509	531	556	1%	4%	5%
Consensus	162	110	100	150	521	517	547	580	-1%	6%	6%
SUG	199	196	206	237	767	839	905	949	9%	8%	5%
Consensus	199	179	187	220	788	903	957	969	15%	6%	1%
WMB	861	995	967	1,045	3,670	3,868	4,473	4,874	5%	16%	9%
Consensus	861	893	940	985	3,038	3,513	4,055	4,390	16%	15%	8%

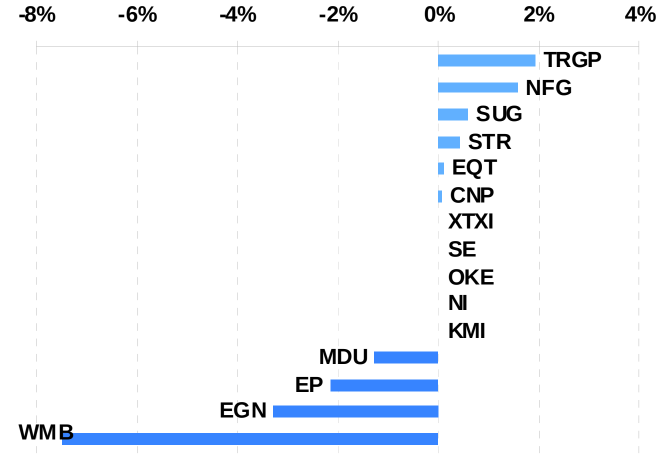
Source: Company data; Morgan Stanley Research; FactSet; Morgan Stanley Research estimates except for CNP, EGN, and EQT, which are FactSet estimates

Valuation: Consensus EPS/DPS Revisions; Short Interest Ratios

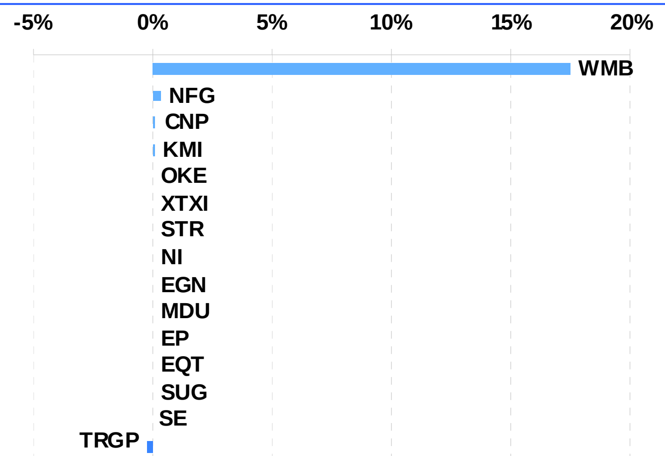
2011E Consensus EPS Revisions (Past 4-Wks)



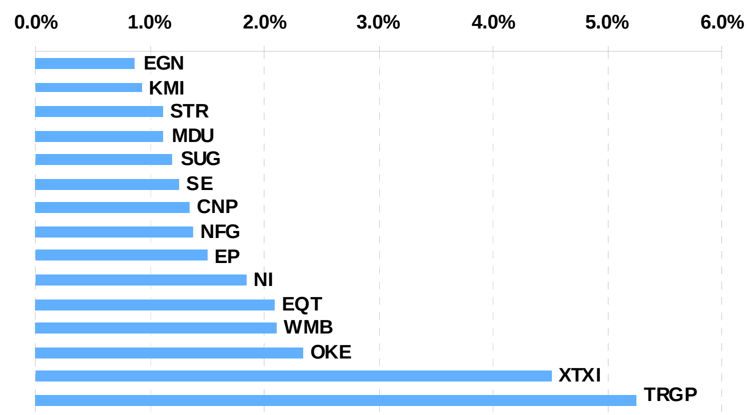
2012E Consensus EPS Revisions (Past 4-Wks)



2011E Consensus DPS Revisions (Past 4-Wks)



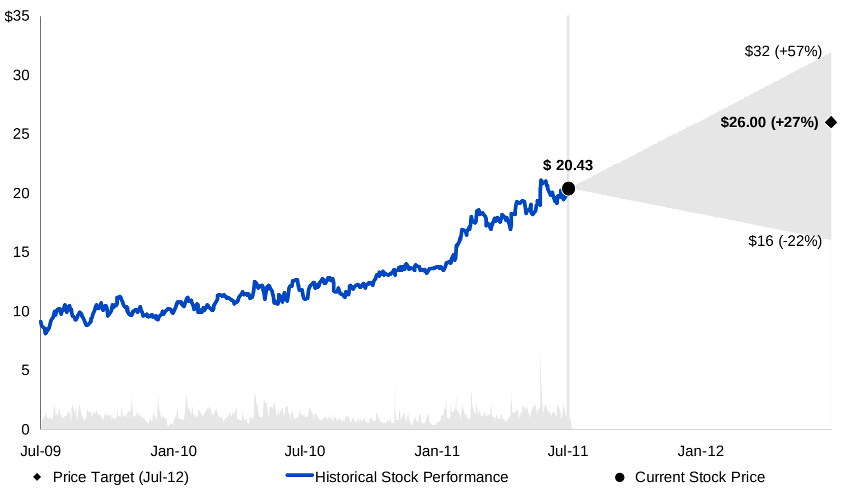
Short Interest Ratio



Source: FactSet; Morgan Stanley Research estimates

El Paso Corp. (EP, Overweight, PT)

Risk-Reward View: Expect Rerating for Stable Pipeline EBITDA



Price Target $26		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $32	10x pipeline EV/EBITDA, $6.00/MMcf long-term natural gas	**Significant drilling success in oil plays (Eagle Ford / Wolfcamp).** Success in Texas oil plays drives earnings acceleration in E&P segment. Alternatively, company closes the gap to an investment-grade rating, driven by new pipeline additions and debt repayments.
Base Case $26	9x pipeline EV/EBITDA, $5.50/MMcf long-term natural gas	**Pipeline projects completed / debt repayment begins.** Asset sales to EPB closes remaining funding gap. Investors gain confidence in stability of earnings close lingering discount to underlying net asset value.
Bear Case $16	7x pipeline EV/EBITDA, $4.50/MMcf long-term natural gas	**Liquidity becomes a concern.** Capital markets seize up once again, prompting EP to postpone dropdowns to EPB. Pipeline project execution issues and/or drilling setbacks further exacerbate investor concerns.

Source: Company data; Morgan Stanley Research; FactSet

Why Overweight?

- Premier US natural gas pipeline network. Significant backlog of pipeline projects ($3+b, multiple projects with 90% of capacity subscribed at 10- to 30-year terms).
- Growing E&P presence with 3.36 Tcfe of proved reserves (75% of total US onshore production). Focus on low- to medium-risk repeatable plays in growing unconventional shales.
- Liquidity and E&P has improved.
- Execution on E&P segment and pipeline construction schedule should serve as catalysts.

Key Value Drivers

- Pipeline growth capex budget “de-risked” and lowered (Ruby JV, EPB dropdowns), fixed/ incentive-based construction costs, improved construction environment.
- Steady pursuit of dropdowns to EPB to raise/redeploy capital while growing levered general partner interest
- Significant price protection with natural gas hedges matched (~75% of 2011e domestic production has price floors around $6 gas) with focus on lower-risk drilling.

Potential Catalysts

- Announcements of drilling success in unconventional shales, particularly in Eagle Ford and west Texas.
- Further asset sales into EPB.

Where We Could Be Wrong

- Prolonged challenging natural gas conditions that weigh on production.
- Capital markets seize and financing becomes a major issue again.

Company Snapshot: EP

Assets Valuation

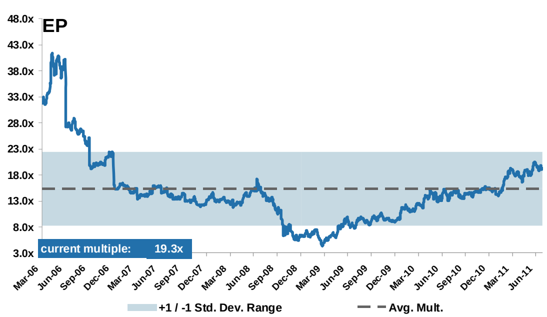
Sum-of-the-Parts

EL Paso Corp.	Value ($m)	Risked Poten. (Bcfe)	Implied $/Mcfe	$/Share
Proved Reserves (PV10)				
Consolidated	$5,717	3,170	$1.80	**$7**
Four Star (Unconsolidated)	$345	192	$1.80	**$0**
Resource Potential				
Haynesville	$89	760	$0.12	**$0**
Eagle Ford	$1,535	2,800	$0.55	**$2**
Altamont	$640	1,106	$0.58	**$1**
Wolfcamp	$707	897	$0.79	**$1**
Risked unproved inventory	$17	341	$0.05	**$0**
Hedge Book	$351			**$0**
E&P	**$9,401**			**$12**
Pipelines	$13,129			**$17**
EPB	$8,749			**$11**
Net Debt	(11,076)			**($14)**
Net Equity Value	**$20,203**			**$26**
Shares Outstanding (including dilution)				768

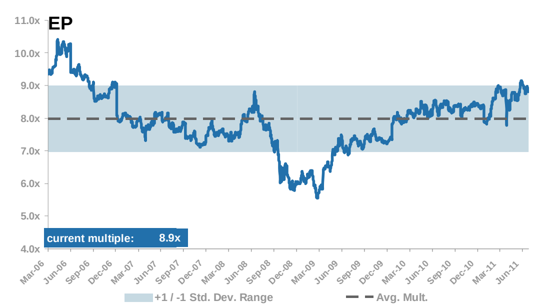
Pipelines	(in $m)
Forward EBITDA (2012E)	$1,459
Forward multiple	9.0x
Enterprise value	$13,129
Enterprise value / share	$17
EPB	
LP interest value	$1,990
Common units owned	61
Discounted EPB unit price	$33
Subordinated Unit Interest value	$909
Subordinated units owned	28
Discount to common	0%
General Partner Interest value	$5,849
Discount rate	8%
Terminal growth rate	2%
Implied GP multiple on 2012e cash flow	47.4x
Enterprise value / share	**$11**

Market Valuation

Price / EPS



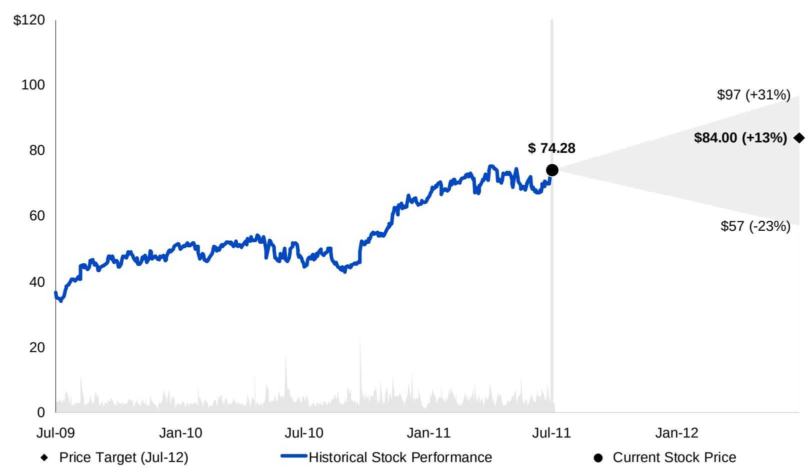
EV / EBITDA



Source: Company data; Morgan Stanley Research; FactSet. SOTP is one part of our price target methodology.

National Fuel Gas Co. (NFG, Overweight)

Risk-Reward View: Marcellus E&P and Midstream Heavyweight



Price Target $84		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $97	Same pipe/utility, Marcellus $7+k/acre	**Gas prices rebound; better-than-expected well economics.** Drilling efficiencies lower well costs and EURs come in higher than expected driving better than expected project returns. Gas prices recover modestly, which also benefit unhedged production
Base Case $84	9x '11e pipes EBITDA, 8x utility, Marcellus $5-6k/acre	**Marcellus provides growth.** NFG executes on its Marcellus production plans (30 – 40+%) and wells come online at expected rates. Californian production remains stable and midstream projects come online on time and on / below budget.
Bear Case $57	1 multiple down on pipes/utility, Marcellus $3k/acre	**Weak gas markets weigh on E&P.** Low natural gas prices weigh on production economics. Regional differentials narrow further, exacerbating midstream opportunities. Offset slightly by stable regulated utility business.

Source: Company data; Morgan Stanley Research; FactSet

Why Overweight?

- Expansive Marcellus footprint in the heart of the fairway with best-in-class production economics.
- Abundant midstream opportunities to serve the ramp-up in Marcellus production over the long term.
- Utility segment balances the business and provides stable and predictable earnings to pay the dividend.

Key Value Drivers

- Capital spend is allocated toward E&P and midstream infrastructure in the Marcellus region.
- Rate base growth and implementing diverse rate mechanisms (e.g., revenue decoupling) allow improved return on equity for utility.
- Maintaining consistent Californian production provides oil exposure to offset natural gas exposure.

Potential Catalysts

- Better-than-expected well results across its Marcellus acreage (e.g., improvements in EOG JV wells with longer laterals).
- Announcement of sale of Marcellus acreage in a new JV (allows acceleration of midstream opportunities); possibly 3Q11.
- Utility rate increases to allow higher return on equity.

Where We Could Be Wrong

- Marcellus acreage proves to be less prolific than initial expectations.
- Midstream opportunities fail to materialize given less Marcellus production.
- Natural gas prices remain muted/decline further depressing Marcellus economics.

Company Snapshot: NFG

Assets Valuation

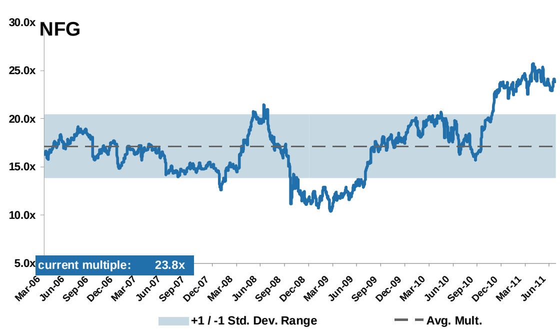
Sum-of-the-Parts

National Fuel Gas Co.	Value ($m)	Risked Pot'l (Bcfe)	Implied $/Mcfe	$/Share
Proved Reserves (PV10)	$1,669	700	$2.38	**$20**
Resource Potential				
Onshore US				
Marcellus	$3,591	9,967	$0.36	**$43**
Risked unproved inventory	$448	995	$0.45	**$5**
E&P Hedge Book	$41			**$0**
Midstream + Utilities + Other				
Pipeline & Storage	$1,162			**$14**
Utility	$1,566			**$19**
Energy Marketing	$44			**$1**
Other	$13			**$0**
Net Debt	(1,006)			**($12)**
Net Equity Value	**$7,529**			**$90**
Shares Outstanding (in m)				83

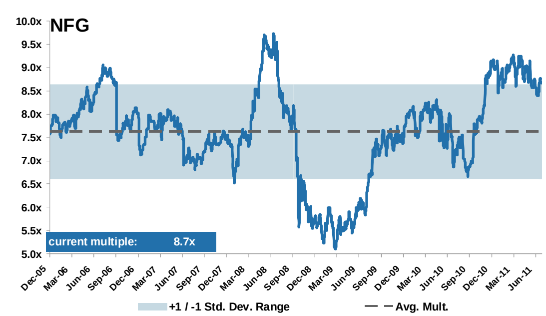
PIPELINE AND STORAGE	($m)
Forward EBITDA (2012E)	$145
Forward multiple	8.0x
Enterprise value	**$1,162**
UTILITY	
Forward EBITDA (2012E)	$224
Forward multiple	7.0x
Enterprise value	**$1,566**
ENERGY MARKETING	
Forward EBITDA (2012E)	$9
Forward multiple	5.0x
Enterprise value	**$44**
OTHER	
Forward EBITDA (2012E)	$3
Forward multiple	5.0x
Enterprise value	**$13**

Market Valuation

Price / EPS



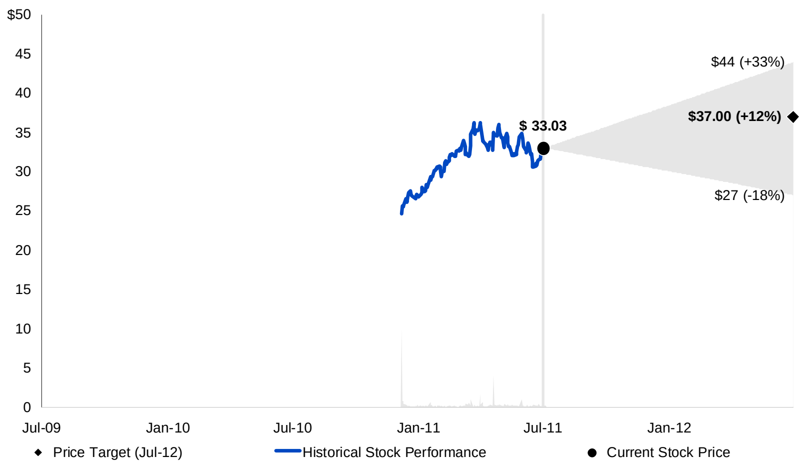
EV / EBITDA



Source: Company data; Morgan Stanley Research; FactSet

Targa Resources Corp. (TRGP, Overweight)

Risk-Reward View: Strong Levered Growth Drives Outperformance



Price Target $37		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $44	3.25% yield / 24% div growth	**General partner restructuring trend continues.** Unitholders receive attractive premium in an LP-GP merger as consideration for forgoing strong expected growth from incentive distribution rights. Recent precedent transactions help establish as valuation floor even if a restructuring is not pursued.
Base Case $37	3.5% yield / 18% div growth	**Organic growth projects drive modest growth at NGLS and top-tier growth at TRGP.** With TRGP still low within high 50/50 split, modest distributed cash flow contributions at NGLS have magnified impact on TRGP growth.
Bear Case $27	5% yield / 10% div growth	**Weakness in NGL prices inhibits LP distribution growth.** Lack of growth multiplier at TRGP makes it difficult for investors to justify premium valuation. Repriced cost of capital at NGLS slow capital investment, further diminishing growth profile.

Source: Company data; Morgan Stanley Research; FactSet

Why Overweight?

- Top-tier dividend growth outlook given GP interest in NGLS. Growth acceleration at this stage of cash split structure with TRGP still low in the 50/50 high split.
- Scarcity value with mergers/buyouts of several other publicly traded GPs that also helps establish a valuation floor.
- Organic growth through fractionation capacity expansions and new Permian Basin gathering/processing infrastructure provide high IRR projects with low execution risk. Third-party acquisitions should supplement this growth.

Key Value Drivers

- Owns 2% GP interest, IDRs and 15% LP interest in NGLS.
- Levered interest in cash distribution growth at NGLS provides strong growth multiplier potential.
- Recent GP buyouts establish precedent valuation levels for TRGP; even absent similar strategic action, GP scarcity value now exists.

Potential Catalysts

- GP restructuring or consolidation that provides immediate value for TRGP unitholders.
- Acquisition activity that supports distribution increases at NGLS.
- MLP consolidation.

Where We Could Be Wrong

- Commodity exposure at NGLS and lack of business diversification reduces cash flow to TRGP.
- Strong dividend growth fails to materialize, causing shares to re-rate.
- Overhang from majority holder's stake materializes and weighs on shares.

Company Snapshot: TRGP

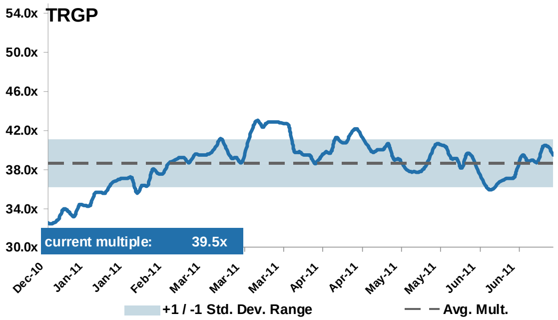
Assets Valuation

Sum-of-the-Parts

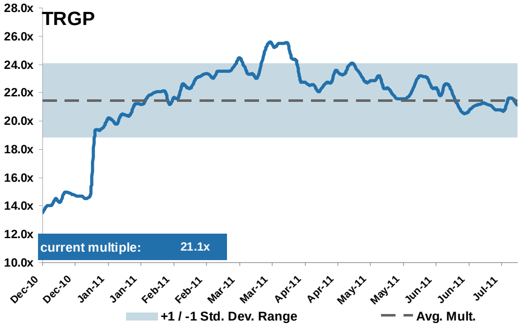
Targa Resources Corp.	Value ($m)	Units (m)	LP Price	GP cash flow (2012e)	GP multiple	$/Share
LP Interest Value	**$363**	12	$31			**$9**
GP Interest Value	**$1,528**			$51	30x	**$37**
Net Debt	(89)					**($2)**
Net Equity Value	**$1,802**					**$44**
Shares Outstanding (including dilution)						41

Market Valuation

Price / EPS



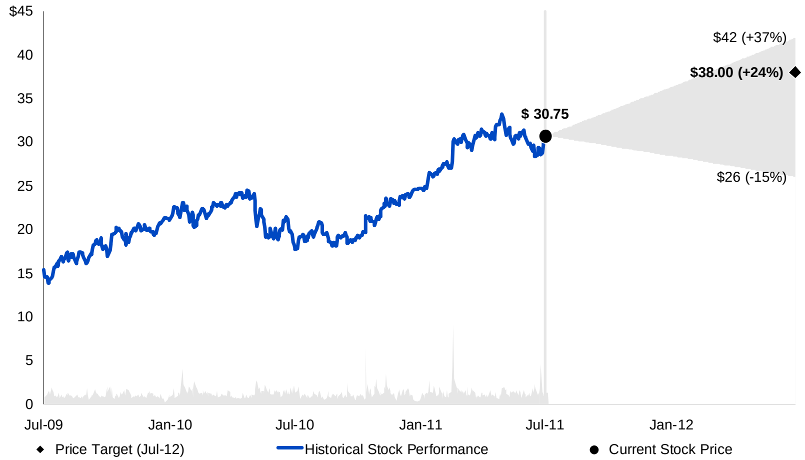
P / DCF



Source: Company data; Morgan Stanley Research; FactSet

The Williams Companies (WMB, Overweight)

Risk-Reward View: Not Getting Full Credit for Asset Values



Price Target $38		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $42	25x GP cash flow / $60 WPZ stock	**Firing on all cylinders.** Industrial demand pushes natural gas higher and WMB is able to harness the strength of its reserves portfolio. Midstream benefits from increased throughput in gathering and processing and a still strong NGL price environment.
Base Case $38	22x GP cash flow / $45 WPZ stock	**Getting credit for WPZ stake.** WPZ executes on its growth projects (Marcellus); WMB's drilling economics recover moderately and production begins to grow at 2-4% rate over the next 12-18 months. WMB shares erase sum of the parts discount as WPZ stock trends higher.
Bear Case $26	16x GP cash flow / $40 WPZ stock	**Bad gas market weighs heavy.** Economic recovery drives only a lukewarm response from the industrial demand side, curtailing the attractiveness of natural gas production economics, despite low-cost lifting expenses. WPZ interest helps sustain WMB through this period, but share price weakens.

Source: Company data; Morgan Stanley Research; FactSet

Why Overweight?

- WMB is a principal beneficiary of long-term demand in natural gas infrastructure and gas processing.
- "Conglomerate discount" is unwarranted. WMB has top-tier midstream assets tied to growing shales.

Key Value Drivers

- Focused deployment of ~$2 billion growth capex.
- WPZ provides cash flow growth, monetization of assets, and levered play on distributions.

Potential Catalysts

- Industrial activity rises significantly, pushing NGL demand higher.
- Further expansion into Marcellus region, and/or positive well economics and production data.

Where We Could Be Wrong

- Industrial demand deteriorates as economic recovery stalls.
- Value extraction from MLP proves harder than anticipated.
- Reserve replacement ratio deteriorates.

Company Snapshot: WMB

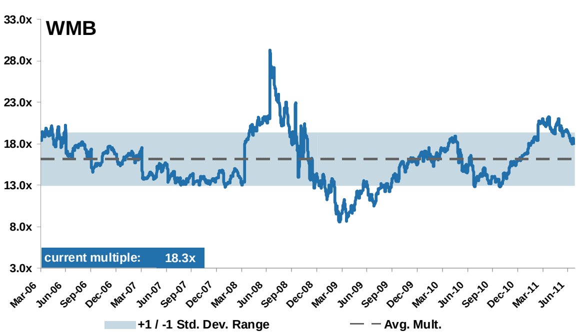
Assets Valuation

Sum-of-the-Parts

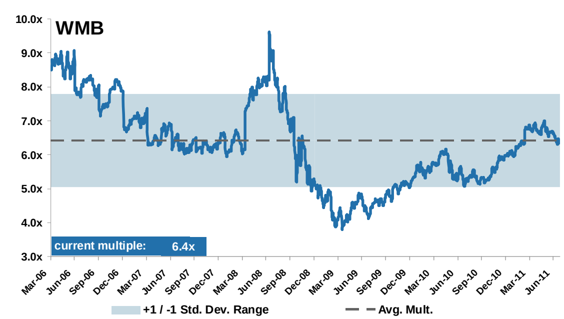
Resource Potential	Value ($m)	Shares (m)	2012e GP c/f ($ m)	GP Multiple	WPZ Price	$/Share
Midstream						
WPZ (LP)	$9,744	210			$46	**$16**
WPZ (GP)	8,163		$371	22x		**$14**
Midstream Canada & Olefins/Other	8,266					**$14**
Midstream Value	**$26,173**					**$44**
Net Debt	($1,500)					($3)
Net Equity Value	$24,673					**$42**
Shares Outstanding (in m)						594

Market Valuation

Price / EPS



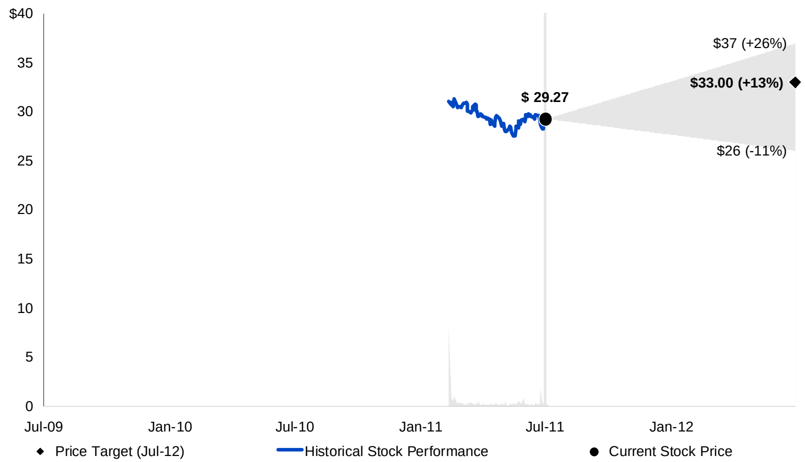
EV / EBITDA



Source: Company data; Morgan Stanley Research; FactSet

Kinder Morgan Inc. (KMI, Equal-weight)

Risk-Reward View: A GP Levered to a Diverse Asset Base at KMP



Price Target $33		Derived from our base case *(yield + growth, DDM, and multiple analysis methodologies)*
Bull Case $37	3.5% yield / 12% long-term distr growth	**Better than expected growth at KMP comes to fruition.** A stabilized US economy creates increased demand for products and services resulting in distribution and coverage growth that flows through to KMI.
Base Case $33	3.75% yield / 8% long-term distr growth	**Steady results, but lukewarm operating environment at KMP, produces in-line cash flow generation at KMI.** Constrained demand for refined products weighs on KMP's product pipelines segment.
Bear Case $26	4.5% yield / 4% long-term distr growth	**Sourcing growth projects becomes increasingly difficult.** Distribution growth proves to be a significant challenge given lower than expected natural gas pipeline project accretion. High splits limit multiplier effect of levered interest.

Source: Company data; Morgan Stanley Research; FactSet

Why Equal-weight?

- GP stake provides a levered interest in underlying LP distribution. However, KMI is already deep in the high splits and receives ~45% of KMP cash flows, which limits the growth multiplier impact.
- Scarcity value with mergers/buyouts of several partners also helps establish a valuation floor.

Key Value Drivers

- Owns 2% general partner interest, incentive distribution rights, ~11% of KMP/KMR units outstanding, and a 20% stake in Natural Gas Pipeline Company of America (NGPL).
- Levered interest in cash distribution growth at KMP provides growth multiplier.
- Recent general partner buyouts establish precedent valuation levels for KMI, even absent similar strategic action, general partner scarcity value now exists.
- C-Corp designation broadens investor base and increases liquidity.

Potential Catalysts

- General partner restructuring or consolidation that provides immediate value for KMI unitholders.
- Acquisitions and project expansions that support distribution growth at KMP will positively affect KMI.

Where We Could Be Wrong

- Projects returns at the underlying LP disappoint and causes distribution growth to slow.
- Crude prices retreat causing coverage to shrink at KMP, potentially limiting distribution increases to maintain 1x coverage.

Company Snapshot: KMI

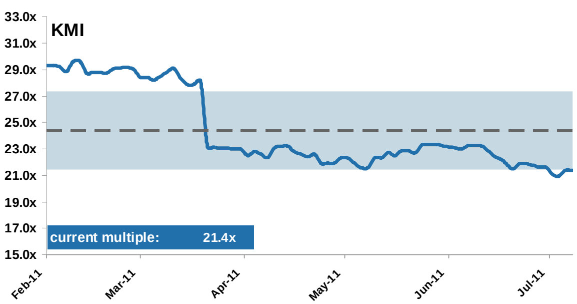
Assets Valuation

Sum-of-the-Parts

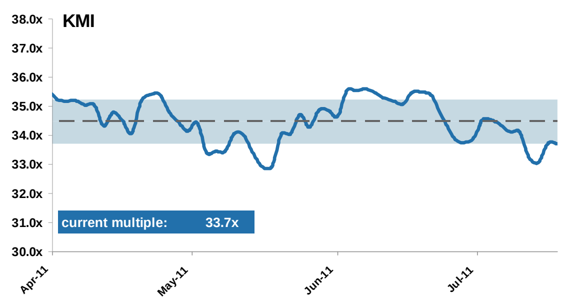
Kinder Morgan Inc.	Value ($m)	KMP Units owned	KMP Price	KMR Shares owned	KMR Price	Cash flow (2012e)	Multiple	$/Share
Limited Partner Interest Value	$2,063	22	$62	13	$55			$3
General Partner Interest Value	$22,543					$1,409	16.0x	$32
NGPL	$164					$16	10.0x	$0
Net Debt	(2,016)							(3)
Equity per share value	$22,754							$32
Shares Outstanding (including dilution)								707

Market Valuation

Price / EPS



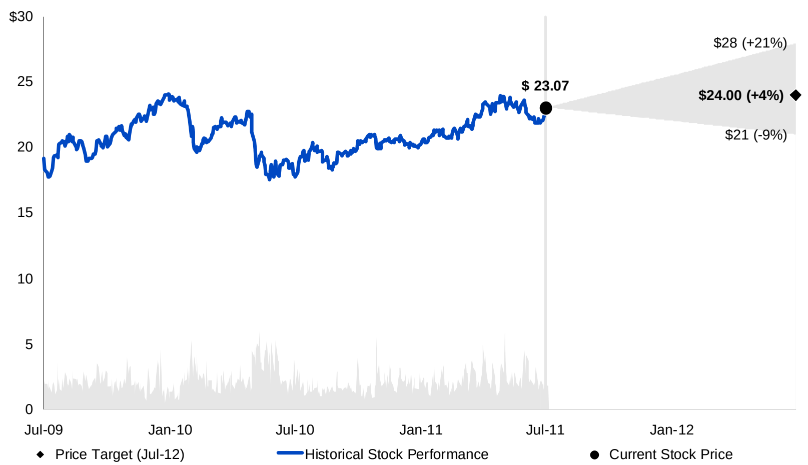
Price / DCF



Source: Company data; Morgan Stanley Research; FactSet

MDU Resources Group (MDU, Equal-weight)

Risk-Reward View: Bakken and Niobrara are Essential to LT Growth



Price Target $24		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $28	9.0x utility EV/ ‘11e EBITDA, $2.50 EV / reserves	**Economy begins to recover.** Demand for commodities (natural gas and oil), construction materials, and construction services pick up fostering better than expected growth in the E&P and construction businesses. Additionally, initial results from Niobrara acreage prove fruitful.
Base Case $24	8.0x utility EV / ‘11e EBITDA, $2.00 EV / reserves	**Getting more ‘oily.’** MDU focuses more drilling in oil-rich shale (i.e., Bakken and Niobrara), with well results in-line with expectations. Construction businesses continue to face headwinds amidst a weak economy and regulated utilities perform continue to provide steady results.
Bear Case $21	6.5x utility EV / ‘11e EBITDA, $1.25 EV / reserves	**Commodity markets and economy falter.** Lackluster economic recovery weighs on commodity markets, curtailing attractiveness of low-cost shale reserves. Cyclical businesses are a drag on earnings, and rate increases at its regulated utilities prove harder to achieve.

Source: Company data; Morgan Stanley Research; FactSet

Why Equal-weight?

- Substantial portion of E&P revenues derived from natural gas prices, offset slightly by growing oil exposure.
- Construction Materials & Contracting and Construction Services segments are largely levered to the broader economy.
- Regulated electric and gas utilities and pipeline businesses offer stable returns.

Key Value Drivers

- Diversifying E&P portfolio to provide a more balanced oil and gas mix (e.g., increased oil production from Bakken and Niobrara).
- Selection for public and private construction projects increases demand for construction materials which supports growth.
- Providing reliable and cost-efficient power allows regulated businesses to earn allowable rate of return.

Potential Catalysts

- Better-than-expected E&P well results (e.g., announcements in Heart River formation in the Bakken and initial results from Niobrara acreage).
- A pick-up in the US economy drives demand for construction businesses and project announcements.
- Utility rate case increase (currently two outstanding electric rate cases).

Where We Could Be Wrong

- Natural gas prices remain muted for an extended period.
- US economy fails to rebound proving to be a drag on the construction businesses.
- E&P acreage proves to be less than optimal.

Company Snapshot: MDU

Assets Valuation

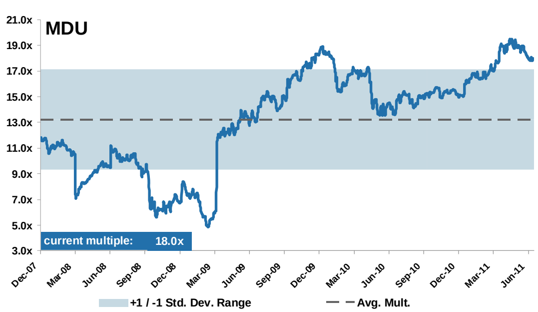
Sum-of-the-Parts

MDU Resources Group Inc.	Value ($m)	Risked Pot'l (Bcfe)	Implied $/mcfe	$/Share
Proved Reserves (PV10)	$1,378	654	$2.11	**$7**
Resource Potential				
Bakken - Heart River (Stark County)	143	135	$1.06	**$1**
Bakken - East Nesson (Mountrail County)	37	37	$1.01	**$0**
Risked unproved inventory	417	392	$1.06	**$2**
E&P Hedge Book	24			**$0**
Midstream + Utilities + Other				
Pipeline & Energy Services	868			**$5**
Electric Utility	708			**$4**
Gas Utility	1,041			**$6**
Construction Materials & Contracting	1,091			**$6**
Construction Services	276			**$1**
Other	16			**$0**
Value per share	**$6,000**			**$32**
Net Debt	**(1,208)**			**(6)**
Net Equity Value	**$4,792**			**$25**
Shares Outstanding (in m)				189

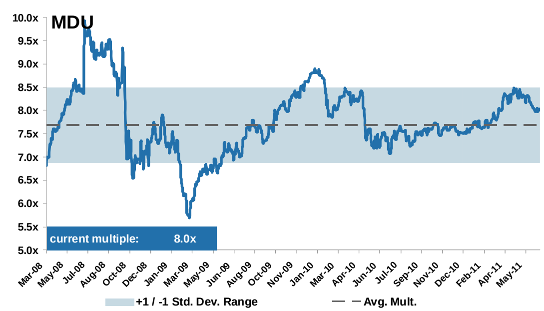
PIPELINE AND ENERGY SERVICES	
Forward EBITDA (2012E)	$96
Forward multiple	9.0x
Enterprise value	**$868**
ELECTRIC UTILITY	
Forward EBITDA (2012E)	$89
Forward multiple	8.0x
Enterprise value	**$708**
GAS UTILITY	
Forward EBITDA (2012E)	$122
Forward multiple	8.5x
Enterprise value	**$1,041**
CONSTRUCTION MATERIALS	
Forward EBITDA (2012E)	$156
Forward multiple	7.0x
Enterprise value	**$1,091**
CONSTRUCTION SERVICES	
Forward EBITDA (2012E)	$39
Forward multiple	7.0x
Enterprise value	**$276**
OTHER	
Forward EBITDA (2012E)	$3
Forward multiple	5.0x
Enterprise value	**$16**

Market Valuation

Price / EPS



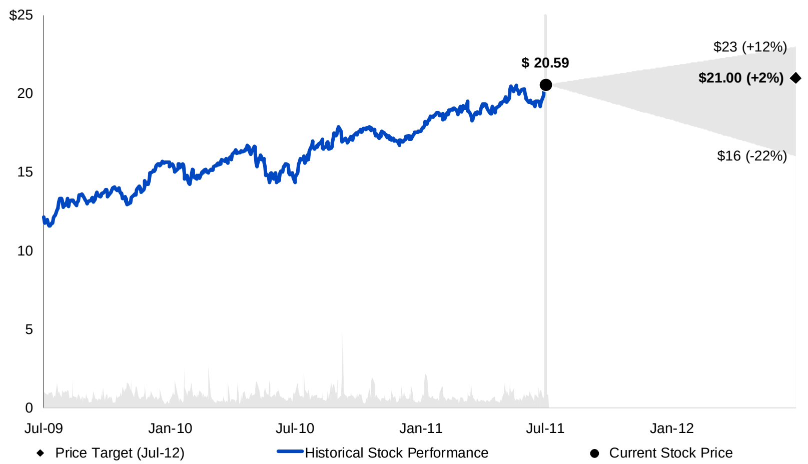
EV / EBITDA



Source: Company data; Morgan Stanley Research; FactSet

NiSource Inc. (NI, Equal-weight)

Risk-Reward View: Marcellus Midstream and Regulated Utilities



Price Target $21		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $23	9.5x GT&S '11e EBITDA, 8.5x Electric EBITDA	**Increasing Marcellus market share, and utilities outperform.** NI gains larger market share than its anticipated 25% from new production, fostering additional capital spend in the GT&S segment. Regulated utilities restore earnings power sooner than expected and earn ROEs at allowable rates.
Base Case $21	9x GT&S '11e EBITDA, 7.5x Electric EBITDA	**Executing on Marcellus opportunities with a modest recovery in utility segments.** NI places Marcellus growth projects on budget and on-time. Industrial electric generation deliveries continue to stabilize/slightly recover, coupled with fair rate case outcomes.
Bear Case $16	7.0x GT&S '11e EBITDA, 6.0x Electric EBITDA	**Marcellus opportunities fail to materialize.** Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions. Utility rate case outcomes prove unfavorable.

Source: Company data; Morgan Stanley Research; FactSet

Why Equal-weight?

- Near-term headwinds associated with restoring earnings power at regulated utilities segments (e.g., successful rate case outcomes and earning ROEs that are closer to the allowable rate).
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus provide exceptional long-term value.
- Expect earnings uplift from recovery in business units to pick up in 2012.

Key Value Drivers

- Executing Marcellus midstream projects on time and below budget (targeting $200m of projects per year over the next 3-4 years).
- Execution on it regulatory agenda (e.g., filing rate cases, operational improvement, implementing trackers / cost recovery mechanisms).
- Stable and predictable dividend.

Potential Catalysts

- Updates related to rate cases (e.g., NI filed second rate case at the end of November).
- Announcement of additional Marcellus project or acquisition beyond those include in guidance (e.g. Renovo to corning expansion).

Where We Could Be Wrong

- Regulatory risks associated with Marcellus drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

Company Snapshot: NI

Assets Valuation

Sum-of-the-Parts

NiSource Inc.	Value ($m)	$/Share
Gas Distribution	$4,810	**$17**
Gas Transmission & Storage	5505	**$20**
Electric Utility	3699	**$13**
Value	**$14,014**	**$50**
Net Debt	**(7,374)**	**(26)**
Net Equity Value	**$6,639**	**$24**
Shares Outstanding (in m)		280

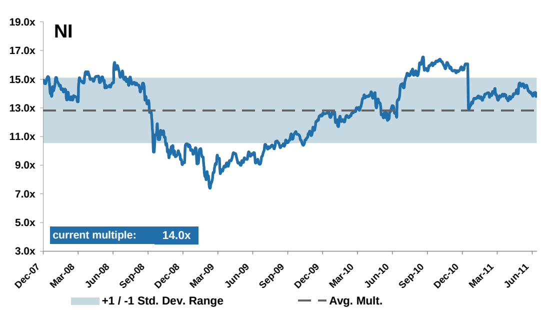
GAS DISTRIBUTION	
Forward EBITDA (2012E)	$601
Forward multiple	8.0x
Enterprise value	**$4,810**

GAS TRANSMISSION & STORAGE	
Forward EBITDA (2012E)	$612
Forward multiple	9.0x
Enterprise value	**$5,505**

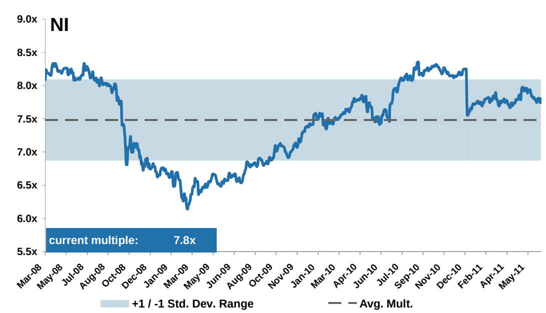
ELECTRIC UTILITY	
Forward EBITDA (2012E)	$493
Forward multiple	7.5x
Enterprise value	**$3,699**

Market Valuation

Price / EPS



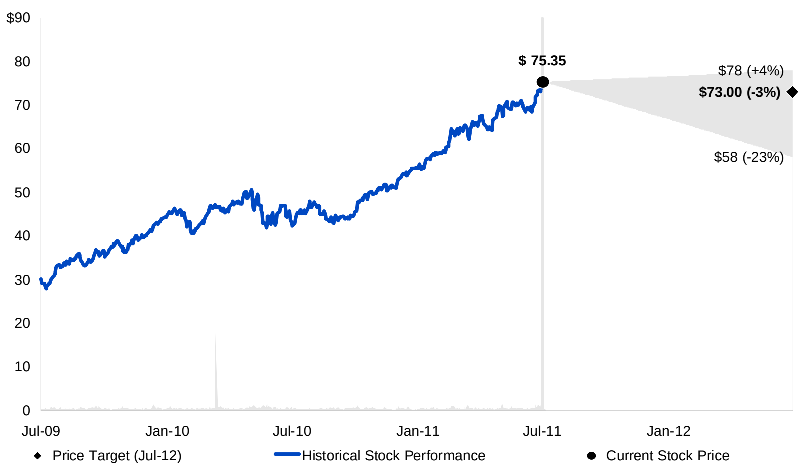
EV / EBITDA



Source: Company data; Morgan Stanley Research; FactSet

ONEOK Inc. (OKE, Equal-weight)

Risk-Reward View: Stable Business Mix, Bakken Growth Pot'l



Price Target $73		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $78	9% OKS distribution growth ('11), 25x GP Cash Flow mult.	**OKS grows above expectations.** Given significant expected free cash flow generation, identification of high return ways to deploy this cash will be critical (growth projects, dividends, equity repurchases all being considered). Improvement in gathering/processing environment enhances value of OKS stake.
Base Case $73	6% OKS distribution growth ('11), 22x GP Cash Flow mult.	**Continued operating execution drives steady results.** Contributions from new growth projects increase cash flow at OKS and OKE, Distribution business at OKE earns allowed ROEs, and de-risked Energy Services all help provide stable, long-lived earnings and cash flow streams.
Bear Case $58	2% OKS distribution growth ('11), 12x GP Cash Flow mult.	**Bakken goes bust.** Should natural gas fundamentals turn further down or capital market access become more expensive, execution of OKS's Bakken position could prove difficult. Concerns over ratability of Energy Services revenues could also weigh on shares.

Source: Company data; Morgan Stanley Research; FactSet

Why Equal-weight?

- Free cash flow positive story that is getting better with new projects at OKS.
- OKE's interest in ONEOK Partners (OKS) is its primary growth engine (OKE owns ~40% of outstanding OKS stock plus the general partner). The GP interest provides strong growth.
- Gas distribution business provides low-risk, stable and sustainable cash flows. Focus on filing smaller and more frequent rate cases, structuring innovative rates.

Key Value Drivers

- OKS assets connected to prolific supply basins and key markets. Diverse supply sources and largely fee-based contracts (~70% of margin) help reduce volatility somewhat. Focus of future organic growth spending is on NGL business.
- Bakken growth spending of $1.5 – 2.0b at OKS.
- New rate mechanisms have led to an improved return on equity for the Distribution segment.
- Majority of Energy Services margin (75% of which is storage and transportation) is locked in for 2011, with reductions in leased storage capacity further diminishing volatility.

Potential Catalysts

- Acquisition or identification of other strategic uses of liquidity.
- Dividend increase, stock buybacks

Where We Could Be Wrong

- Bakken does not develop at OKS due to outside pressures/competition, thus hurting OKE's growth profile.

Company Snapshot: OKE

Assets Valuation

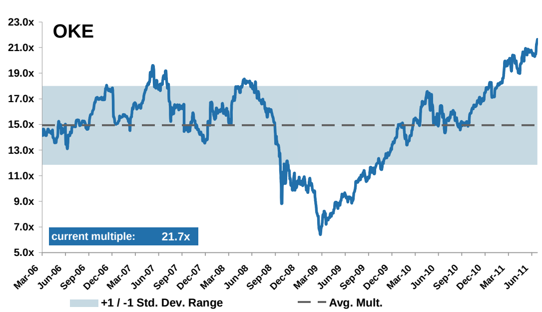
Sum-of-the-Parts

ONEOK Inc. (OKE)	Value ($m)	$/Share
ONEOK Partners	$6,708	$63
Distribution	2,494	23
Energy Services	461	4
Value per Share	**$9,664**	**$91**
Net OKE Debt	**(1,432)**	**(13)**
Net Equity Value	**$8,231**	**$77**
Shares Outstanding (in mm)		106

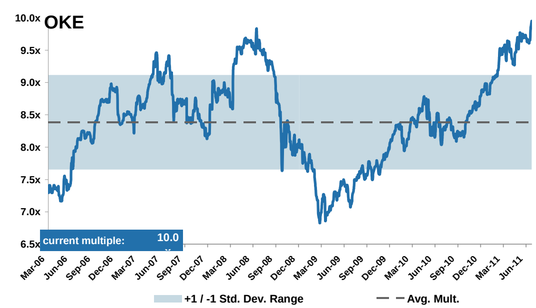
ONEOK Partners	in m
Limited Partner (LP) Interest	$2,977
Common units owned	41
Discounted OKS price	$72.00
General Partner (GP) Interest	$3,731
Discount rate	10%
Terminal growth rate	1%
Implied multiple on 2012e GP cash flow	19.5x
Total GP + LP value / share	$63.04
Distribution	
Forward EBITDA (2012E)	$356
Forward multiple	7.0x
Enterprise value	$2,494
Enterprise value / share	$23.44
Energy Services	
Forward EBITDA (2012E)	$92
Forward multiple	5.0x
Enterprise value	$461
Enterprise value / share	$4.34

Market Valuation

Price / EPS



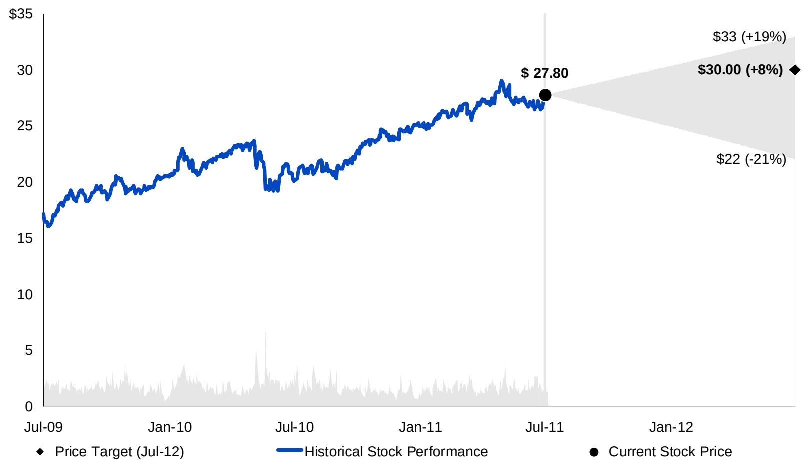
EV / EBITDA



Source: Company data; Morgan Stanley Research; FactSet

Spectra Energy Corp. (SE, Equal-weight)

Risk-Reward View: Balanced R/R from an Infrastructure Heavyweight



Price Target $30		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $33	10.5x Trans. EV/EBITDA, 8x W. Can. EV/EBITDA	**Natural gas, NGL prices ascend.** SE executes seamlessly its pipeline of growth projects, solidifying its footing in the natural gas storage segment. +12% ROIC is the norm, given shale play positioning and a demand-led recovery in the US.
Base Case $30	9x Trans. EV/EBITDA, 7x W. Can. EV/EBITDA	**Executing as planned; supportive natural gas fundamentals.** Economic improvement (demand) supports natgas fundamentals, pushing natural gas prices into the $4-5 range for the medium-term.
Bear Case $22	7.5x Trans. EV/EBITDA, 6x W. Can. EV/EBITDA	**Economy derails; industrial demand falters.** Deterioration in economic activity takes its toll on underlying demand fundamentals in natural gas. Anticipated returns are no longer viable and the company suspends indefinitely its growth projects.

Source: Company data; Morgan Stanley Research; FactSet

Why Equal-weight?

- We see SE shares earning moderate risk-adjusted returns.
- SE's strategically positioned assets, track record of industry-leading ROIC and prudent financial management make the company a leading player in natural gas infrastructure.

Key Value Drivers

- Natural gas storage assets in the current environment.
- Ownership stakes in MLPs – SEP and DPM – drive cash flow growth.
- Active counterparty risk management approach assures stability in earnings.
- Focus on key shale plays: Haynesville, Horn River, and Marcellus.

Potential Catalysts

- Achieving ROIC beyond the 12-14% SE targets.
- Third party acquisitions of new announced growth projects with firm commitments
- Debt offering or 'drop down' asset sale into SEP to raise capital for growth spending.

Where We Could Be Wrong

- Deterioration in economic activity takes hold as varied methods for jumpstarting the economy fail.
- Cost overruns, execution issues and political/environment concerns make SE's growth projects less attractive.

Company Snapshot: SE

Assets Valuation

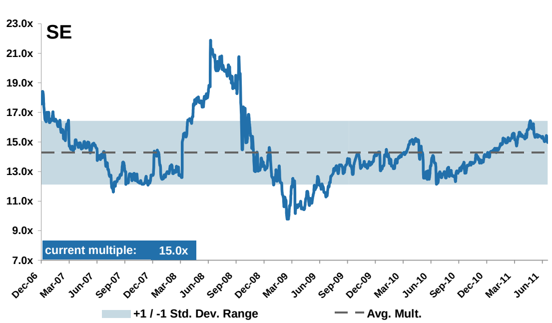
Sum-of-the-Parts

Spectra Energy Corp.	Value ($m)	LP Units	GP take ($m)	Mult	Discounted Price	$/Sh
US Transmission						
Core business	$13,676					$21
SEP (LP)	1,075	37			$29	$2
SEP (GP)	400		$20	20x		$1
Distribution	5,856					$9
Western Canada Trans. and Proc.	6,603					$10
Field Services	4,688					$7
Value	$32,298					$50
Net Debt	(9,369)					(14)
Net Equity Value	$22,929					$35
Shares Outstanding (m)						650

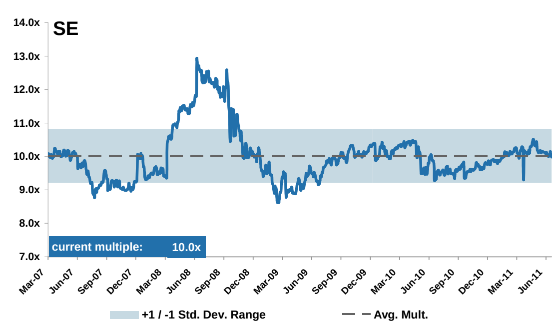
US TRANSMISSION	
US Transmission 2012e EBITDA	$1,653
SEP portion of EBITDA	*8%*
US Transmission EBITDA (ex SEP)	$1,520
Forward multiple	9.0x
Enterprise value	$13,676
DISTRIBUTION	
Distribution 2012e EBITDA	$837
Forward multiple	7.0x
Enterprise value	$5,856
WESTERN CANADA TRANS & PROC.	
Western Canada 2012e EBITDA	$825
Forward multiple	8.0x
Enterprise value	$6,603
FIELD SERVICES	
Field Services 2012e EBITDA	$1,340
Forward multiple	7.0x
Enterprise value at 100% of EBITDA	$9,377
SE's stake in DCP Midstream LLC	*50%*

Market Valuation

Price / EPS



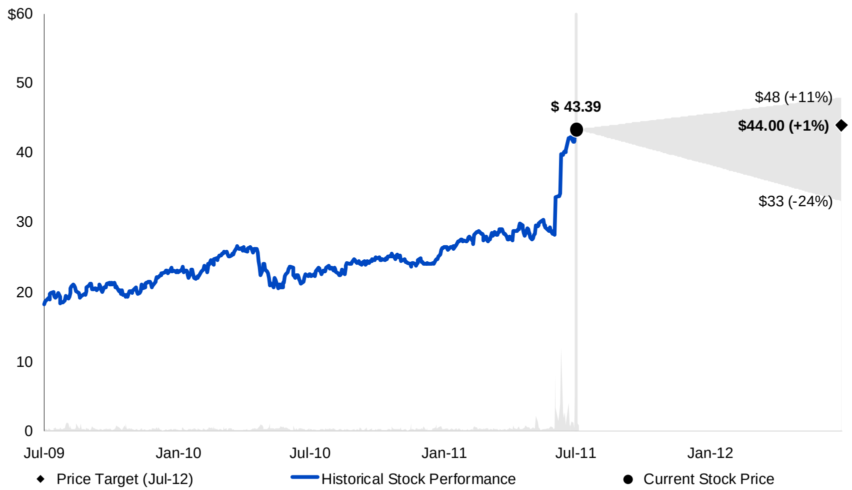
EV / EBITDA



Source: Company data; Morgan Stanley Research; FactSet

Southern Union Co. (SUG, Equal-weight)

Risk-Reward View: Limited Near-term Catalysts



Price Target $39		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $41	11x Trans. EV/EBITDA 9x G&P EV/EBITDA	**Growth investment accelerates.** Beyond large announced projects (Trunkline South Texas, FGT Phase VIII), capital spending acceleration in the Permian Basin could surprise currently muted growth expectations, while improvement in gathering/processing conditions could create material margin expansion.
Base Case $39	10x Trans. EV/EBITDA, 9x G&P EV/EBITDA	**Limited downside / project execution as planned.** Fairly limited major catalysts absent anticipation of uptick in natural gas production or a large acquisition, although broader restructuring theme could attract investor interest in MLP potential at SUG.
Bear Case $24	8x Trans. EV/EBITDA, 7x G&P EV/EBITDA	**Sustained pressure on gathering/processing volumes weighs on credit metrics/FGT Phase VIII does not get new commitments.** A credit downgrade could constrain growth by making capital prohibitively expensive relative to project returns. Earnings volatility in gathering/processing makes it difficult for investors to ascribe full valuation to attractive pipeline assets.

Source: Company data; Morgan Stanley Research; FactSet

Why Equal-weight?

- Valuation set by offer acquisition offers
- Potential Transaction aside, strong pipeline growth from capital spending, but may take time to get executed and recognized given un-contracted capacity on FGT.
- Vast interstate natural gas pipeline (7.8 Bcf/d capacity) and storage (100 Bcf capacity) network, including newly in-service LNG import terminal.
- Solid midstream footprint in oil basins in Texas, but needs to prove it can execute in its G&P segment and develop new projects

Key Value Drivers

- Access to diverse supply sources and growing markets in its transportation and storage network creates longer-term opportunities for growth projects. Major projects such as FGT Phase VIII Expansion and Trunkline LNG provide new growth.
- Leverage to natural gas prices and processing spreads through processing business.
- Distribution growth tied to customer growth and rate increase approvals.

Potential Catalysts

- Recovery in natural gas prices drives gathering/processing volumes.
- Announcement of Permian Basin projects.
- More details on a potential large LNG export project.

Where We Could Be Wrong

- Deterioration in natural gas production fundamentals and continued recovery in processing spreads.
- Acquisition offers fall through

Company Snapshot: SUG

Assets Valuation

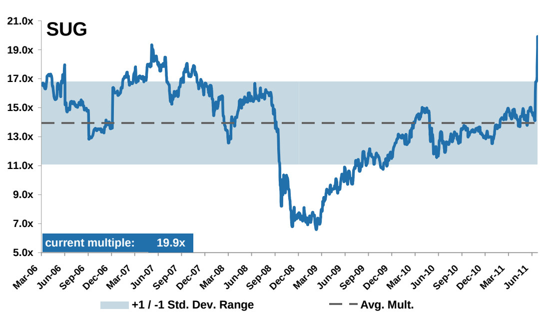
Sum-of-the-Parts

Southern Union Company	Value ($ m)	$/Share
Transportation and Storage	$8,646	$69
Gathering and Processing	958	8
Distribution	886	7
Value per Share	**$10,490**	**$84**
Net Debt	(5,020)	(40)
Net Equity Value	**$5,470**	**$44**
Shares Outstanding (in mm)		126

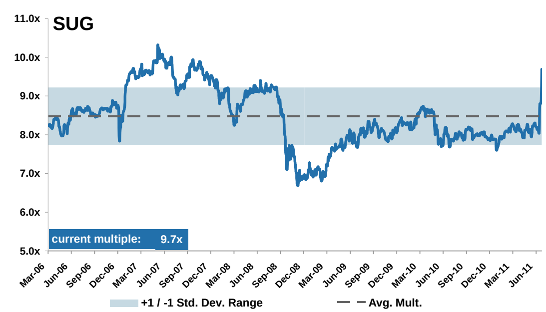
Transportation and Storage	in m
Forward EBITDA (2012E)	$816
Forward multiple	10.6x
Enterprise value	$8,646
Enterprise value / share	$68.87
Gathering and Processing	
Forward EBITDA (2012E)	$101
Forward multiple	9.5x
Enterprise value	$958
Enterprise value / share	$7.63
Distribution	
Forward EBITDA (2012E)	$118
Forward multiple	7.5x
Enterprise value	$886
Enterprise value / share	$7.05

Market Valuation

Price / EPS



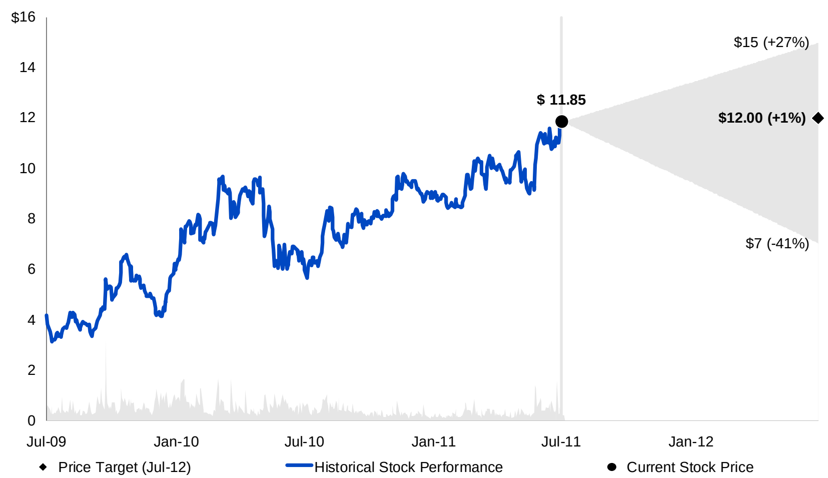
EV / EBITDA



Source: Company data; Morgan Stanley Research; FactSet

Crosstex Energy Inc. (XTXI, Equal-weight)

Risk-Reward View: Ongoing Stabilization Helps Position for Long-Term



Price Target $12		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $15	3.5% yield / 35% div growth	**Taking more aggressive strategic action.** Completion of a large acquisition or partnering with a larger MLP helps unlock value while placing assets within a larger, more diversified base. General partner restructuring could provide immediate value to XTXI.
Base Case $12	4% yield / 25% div growth	**Driving volume growth.** Leveraging of LIG footprint allows XTEX to sell new bundled service to producers while excess fractionation capacity becomes increasingly sought after, supporting modest growth and gradual further improvement in credit metrics.
Bear Case $7	5.5% yield / 10% div growth	**Drilling activity around service areas slows further.** Cash flow falls on unhedged volumes and producer interest in capacity expansions wanes until sustained natural gas demand improvement takes hold. Investors become increasingly skeptical of growth at XTEX and see little reason to pay a premium for GP.

Source: Company data; Morgan Stanley Research; FactSet

Why Equal-weight?

- Levered interest in distributed cash flow growth at XTEX. Smaller asset base with deleveraging and recapitalization efforts positioning XTEX to refocus on growth.
- Scarcity value with mergers/buyouts of several other publicly traded GPs that also helps establish a valuation floor with reinstatement of dividend.
- Commodity price sensitivity, limited asset diversity and limited growth beyond small organic projects will likely limit further upside until greater balance sheet flexibility exists.

Key Value Drivers

- Owns 2% GP interest, IDRs and 25% LP interest in XTEX.
- Levered interest in cash distribution growth at XTEX provides strong growth multiplier potential.
- Recent GP buyouts establish precedent valuation levels for XTXI; even absent similar strategic action, GP scarcity value now exists.

Potential Catalysts

- GP restructuring or consolidation that provides immediate value for XTXI unitholders.
- Acquisition activity that supports distribution increases at XTEX.
- MLP consolidation.

Where We Could Be Wrong

- Large acquisition or strategic action with XTEX (e.g., IDR restructuring) could serve as a catalyst for units.
- Growth around LIG system helps further stabilize cash flows while improving growth outlook.
- System volumes decline in weak demand environment, pressuring cash flows.

Company Snapshot: XTXI

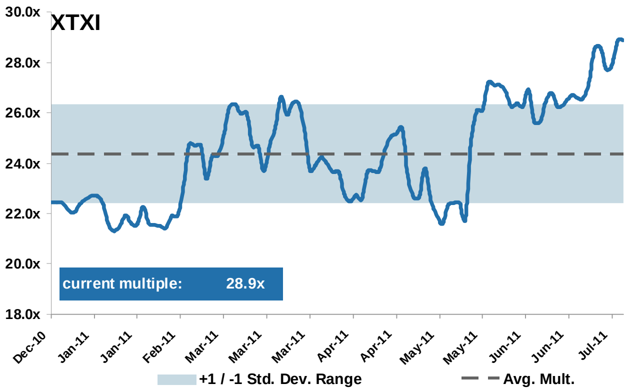
Assets Valuation

Sum-of-the-Parts

Crosstex Energy Inc.	Value ($m)	Units owned	XTEX Price	GP Cash flow (2012e)	GP mult.	$/Share
Limited Partner Interest Value	**$263**	16	$16			**$6**
General Partner Interest Value	**$316**			**$7**	45.0x	**$7**
Net Debt	0					**$0**
Net Equity Value	**$579**					**$12**
Shares Outstanding (including dilution)						47

Market Valuation

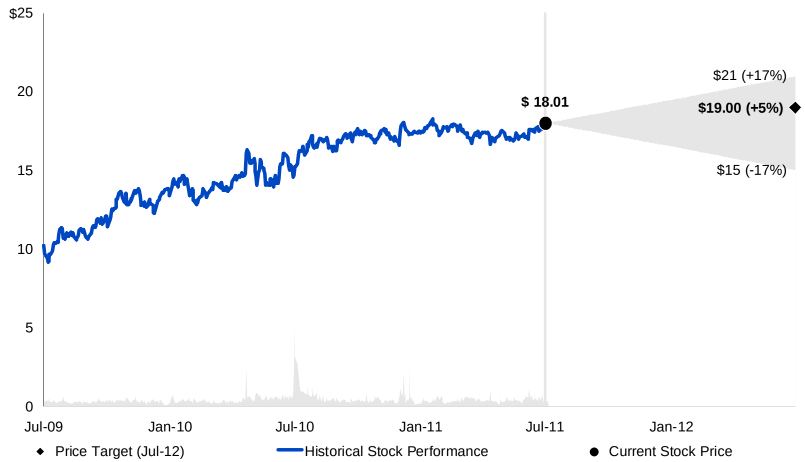
P / DCF



Source: Company data; Morgan Stanley Research; FactSet

Questar Corp. (STR, Underweight)

Risk-Reward View: One of a Kind Return on Capital Agreements at Wexpro



Price Target $19		Our 12-month price targets are derived from a blended average of P/E, DCF, Sum-of-the-Parts and EV/EBITDA methodologies
Bull Case $21	8% invest. base growth; 10x EV / EBITDA for Pipe / Gas	**Riskier alternatives shunned.** Signs of economic growth remain muted for the longer-term, pushing investors to higher quality and lower risk stocks, like STR. Fee-based cash flows untouched at absolute levels.
Base Case $19	6% invest. base growth; ~9x EV / EBITDA for Pipe / Gas	**Humming along.** Growth in investment base continues in the 6-8% range, providing a stable return level. Sum of the parts valuation gap narrows, as investors begin to give STR credit for its operational simplicity post spin-off.
Bear Case $15	4% invest. base growth; ~7x EV / EBITDA for Pipe / Gas	**Anchor segment Wexpro sees reduction in successful wells; expected dividend growth dissipates.** Concerns intensify as investment base does not grow as anticipated, further impacted by debt maturities at its Gas and Pipeline segments.

Source: Company data; Morgan Stanley Research; FactSet

Why Underweight?

- Outperformance since the spin-off of QEP closed on June 30, 2010, has substantially closed the NAV/price discount at which STR was trading. The focus now is on growth in STR's remaining segments, but the market appears to have mostly priced that in .
- Despite attractive assets, clear growth initiatives and a strong management team, we believe STR's valuation falls in line relative to our coverage universe.
- Medium term we look to execution of the capex program to support better cash flow generation.
- Solid balance sheet and free cash flow metrics are priced into stock already; not a high growth company.

Key Value Drivers

- Regulated businesses provide $1/annum dividend support.
- Wexpro generates 19–20% return on capital employed given a 1981 agreement.
- Reduced commodity exposure, long-term contracts focus and dedicated growth outlook are strong pillars for the stock.

Potential Catalysts

- More drilling announcements in Wexpro.

Where We Could Be Wrong

- Increased drilling at Wexpro beyond our expectations.
- New pipeline expansion announcements add materially to growth profile.

Company Snapshot: STR

Sum-of-the-Parts

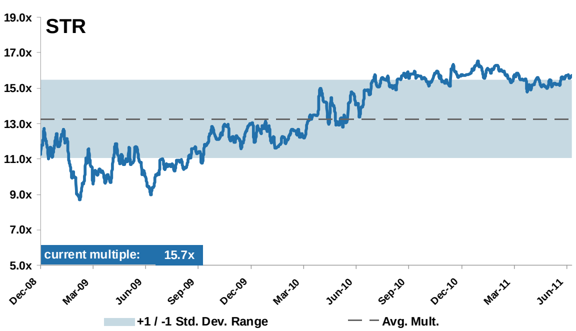
Assets Valuation

Questar Corporation	2012e EBITDA	Multiple	Value ($m)	$/Share
Wexpro E&P	$204	9.0x	$1,833	**$10**
Questar Pipeline	181	9.0x	1,628	**9**
Questar Gas	157	7.0x	1,101	**6**
Value			**$4,742**	**$27**
Net Debt			(1,232)	**(7)**
Net Equity Value			**$3,510**	**$20**
Shares Outstanding (in mm)				178

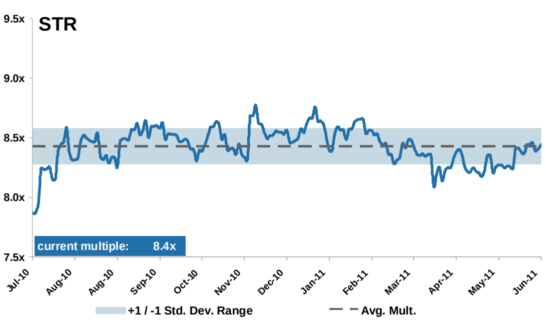
Questar Pipeline	
Pipeline Forward EBITDA (2012E)	$181
Forward multiple	9.0x
Enterprise value	$1,628
Enterprise value / share	$9.13
Questar Gas	
Gas Forward EBITDA (2012E)	$157
Forward multiple	7.0x
Enterprise value	$1,101
Enterprise value / share	$6.18
Wexpro	
Wexpro Forward EBITDA (2012E)	$204
Forward multiple	9.0x
Enterprise value	$1,833
Enterprise value / share	$10.29

Market Valuation

Price / EPS



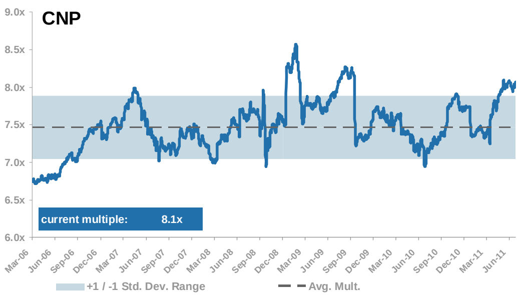
EV / EBITDA

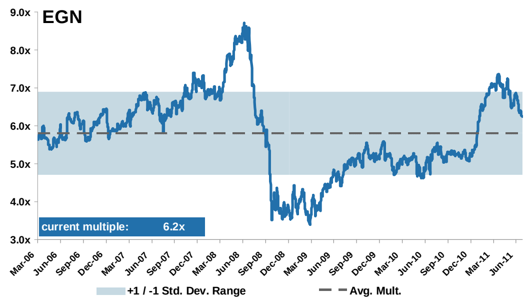


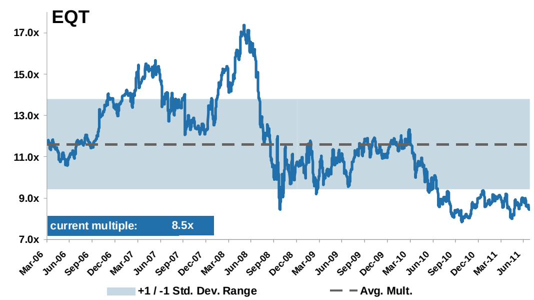
Source: Company data; Morgan Stanley Research; FactSet

Multiples for Non-Covered Companies

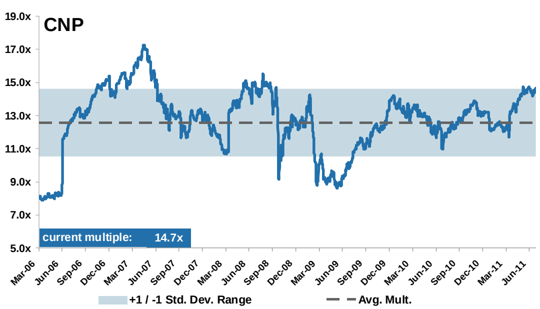
EV / EBITDA

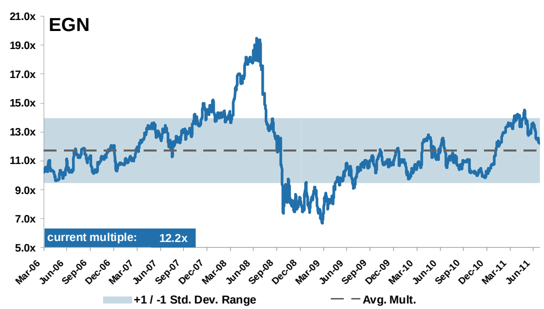


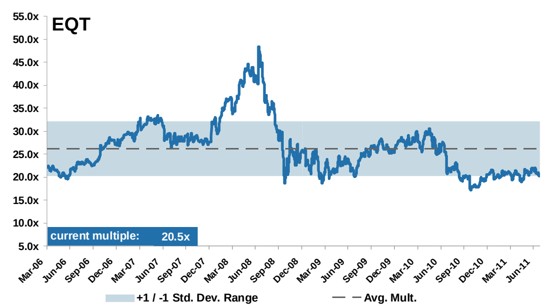




P / E







Source: Company data; Morgan Stanley Research; FactSet

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(as of June 30, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1138**	**41%**	**470**	**49%**	**41%**
Equal-weight/Hold	**1143**	**41%**	**365**	**38%**	**32%**
Not-Rated/Hold	**117**	**4%**	**19**	**2%**	**16%**
Underweight/Sell	**389**	**14%**	**96**	**10%**	**25%**
Total	**2,787**		**950**		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Industry Coverage:Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (07/18/2011)
Stephen J. Maresca, CFA		
El Paso Corp. (EP.N)	O (05/10/2010)	$20.12
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	$21.79
National Fuel Gas Co (NFG.N)	O (01/06/2011)	$70.49
NiSource, Inc. (NI.N)	E (01/06/2011)	$20.26
Oneok Inc. (OKE.N)	E (10/29/2010)	$73.94
Questar Corp. (STR.N)	U (10/29/2010)	$17.99
Southern Union Company (SUG.N)	E (11/10/2009)	$43.33
Spectra Energy Corp. (SE.N)	E (11/10/2009)	$27.13
Williams Companies, Inc (WMB.N)	O (11/10/2009)	$30.04

Industry Coverage:Midstream Energy MLPs

Crosstex Energy, Inc. (XTXI.O)	E (05/06/2011)	$12.87
Kinder Morgan Inc. (KMI.N)	E (05/06/2011)	$28.19
Targa Resources Corp. (TRGP.N)	O (01/31/2011)	$34.03

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