



Adam Bedard, CEO
ARB Midstream, LLC

Argus Condensate & Naphtha Markets

September 28-30, 2016

Hilton Post Oak | Houston, Texas

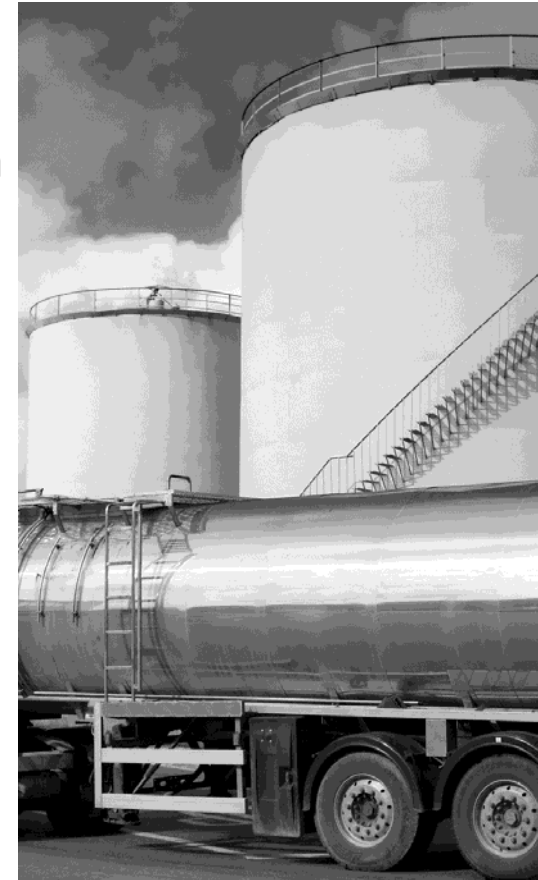


What is the impact of decreased North American lease condensate production?

September 29, 2016

Market Observations

- Signs point to an oversupplied global market through 2017
- Price forecasts for WTI on the edge of growth or declines
 - Consensus has crude prices (WTI) between \$45 and \$63/bbl in 2017, and \$48 and \$65/bbl in 2018.
- It will take five years to get back to crude production levels reached in early 2015
 - Lease condensate production, which makes up ~17% of total US crude oil production, peaked at 1.8 million b/d in April of 2015, is forecast to hit a low of 1.4 million b/d in November of 2016.
- Eagle Ford is the key driver
 - Once producing over 800,000 b/d lease condensate, now down to 600,000 b/d, which is 42% of the total
- Reduced CapEx and strong asset base have pulled investment away from the Eagle Ford by some of the top producers



ARB Midstream Operations



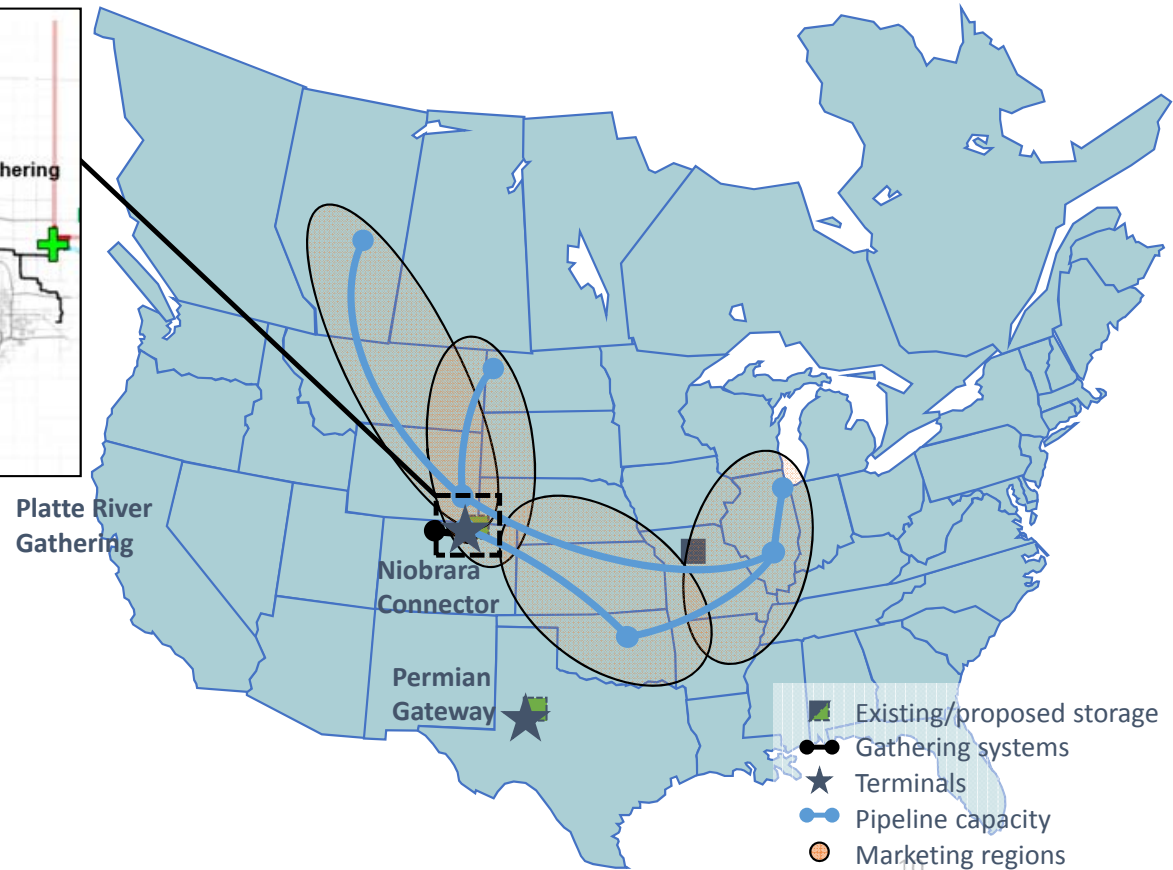
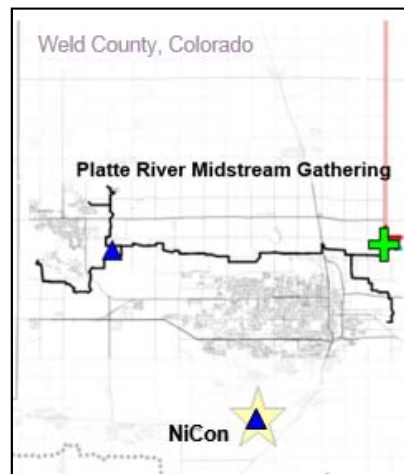
ARB's Operational Footprint Focuses on the North American Inland Corridor



Gathering & Transportation

Marketing & Logistics

Storage & Terminating



ARB Operates in Three Segments

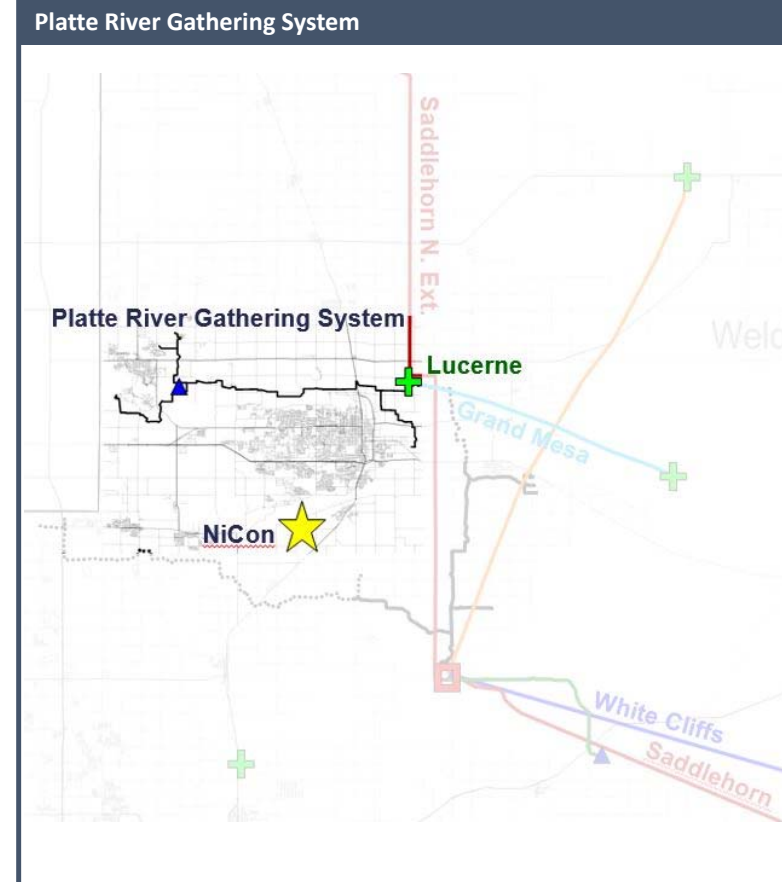


	Description	ARB Assets/Capabilities
Gathering & Transportation	<ul style="list-style-type: none"> Crude oil, condensate, LPGs and refined product pipelines, and crude oil gathering systems 	<ul style="list-style-type: none"> 157,000 bbl/d crude gathering system in the Niobrara and Wattenberg plays in Weld County, Colorado Evaluating several other development opportunities
Marketing & Logistics	<ul style="list-style-type: none"> Marketing and logistics for crude oil, condensate, LPGs and refined products 	<ul style="list-style-type: none"> 5,000+ bbl/d of truck unload capacity at Lucerne Hub ~5,000 crude barrels per day of lease purchasing and bulk marketing volumes in the Rockies and the Midcontinent Crude capacity on multiple pipelines and ~120,000 barrels of storage
Storage & Terminaling	<ul style="list-style-type: none"> Energy logistics terminals and storage facilities for crude oil, condensate, LPGs, and oilfield commodities 	<ul style="list-style-type: none"> 6,500 bbl/d of truck and rail transload crude terminal capacity in the Niobrara Incremental 145,000 bbl/d crude terminal capacity planned Up to 850,000 bbl of crude storage planned, incl. 600,000 bbl at Lucerne Hub Evaluating several other development opportunities

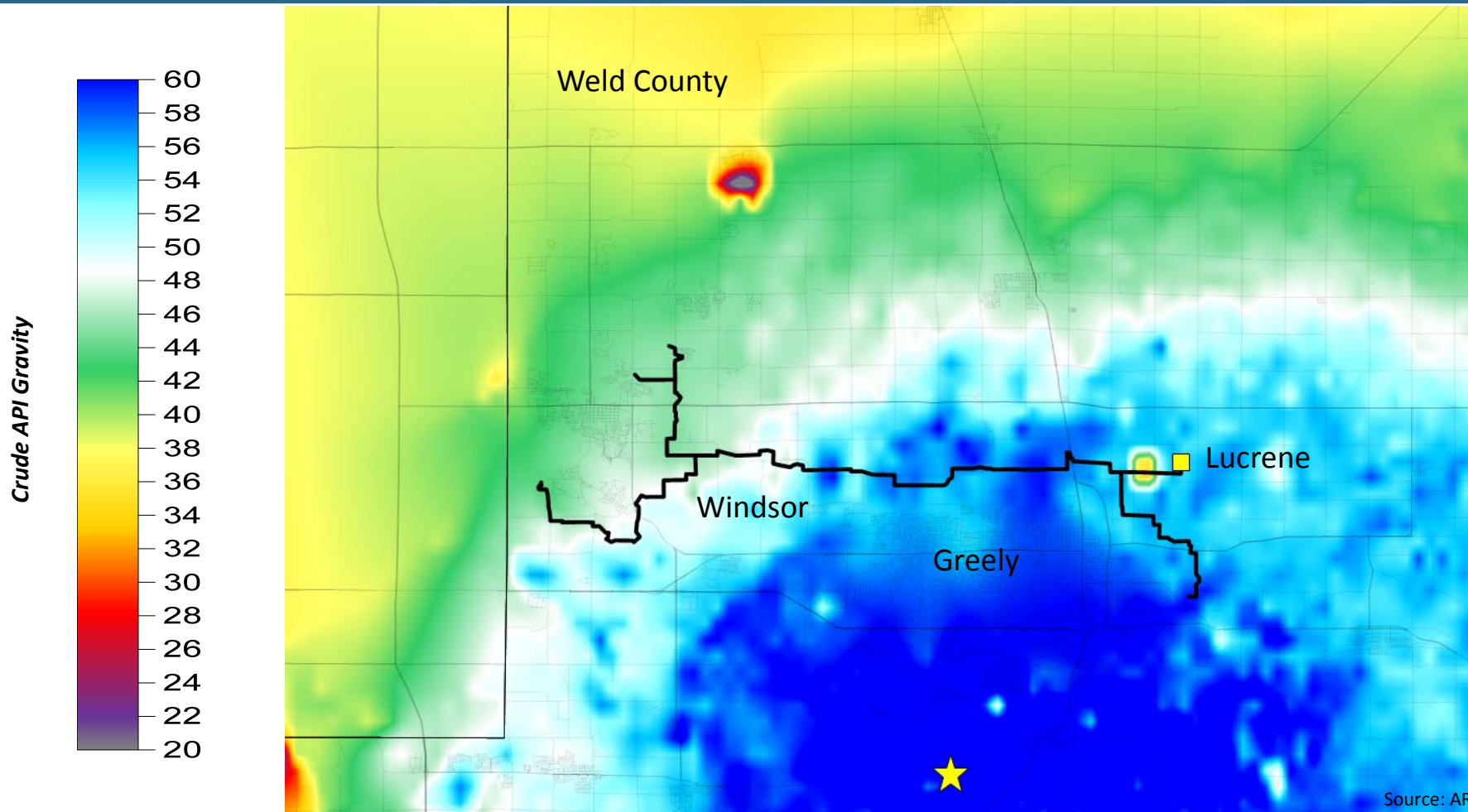
Gathering & Transportation: Platte River Gathering



- The Platte River Gathering (PRG) system provides gathering for crude oil production in the fast-growing Niobrara and Wattenberg plays in Weld County, Colorado
- PRG provides market access to Cushing, via NGL's Grand Mesa pipeline at the Lucerne Hub, which is expected to be in-service by Nov. 2016
- PRG started transporting crude in April 2016, and Phase I will be fully online by the time Grand Mesa is in-service by Nov. 2016
- **Size:**
 - Capacity: 157,000 bbl/d
 - Phase I: 40+ miles
 - Phase II (planned): ~30.0 +/- miles
- **Storage:**
 - Phase I: 20x 1,000-barrel tanks
 - Phase II (planned): 4x 150,000-barrel tanks
- **Customers:**
 - PRG is backed by multiple long-term producer commitments



PRG Positioned to Capture Good Quality Barrels in the DJ



Global Backdrop

Supply glut may persist throughout 2017



Global Backdrop - Supply Surplus is Forecast to Average 760,000 b/d in 2017



- Signs point to an oversupplied market in 2017
 - OPEC Production is at a Multi Year High
 - Aug 2016 Production: 33.32 MM b/d (July was slightly higher by 23,000 b/d, but highest since 2008)
 - Saudi = 10.67MM b/d (down 40,000 b/d from July)
 - Iran = 3.63 MM b/d
 - OPEC forecasts non-member countries will increase production
 - Non-OPEC supply to increase by 200,000 b/d in 2017
 - US Shale proving to be more resilient than expected to cheap crude
 - New fields coming online
 - Kazakhstan's Kashagan start up
 - Near-record OPEC output, and higher supply from outside, could make it harder for OPEC and Russia to come up with steps to support the market
- Crude Demand:
 - Global Demand Outlook: Growth of 1.15MM b/d in 2017
 - Demand for crude from OPEC will average 32.48 million b/d in 2017
 - That is down 530,000 bpd from the previous forecast.
- Storage:
 - Continues to run at high levels

Price

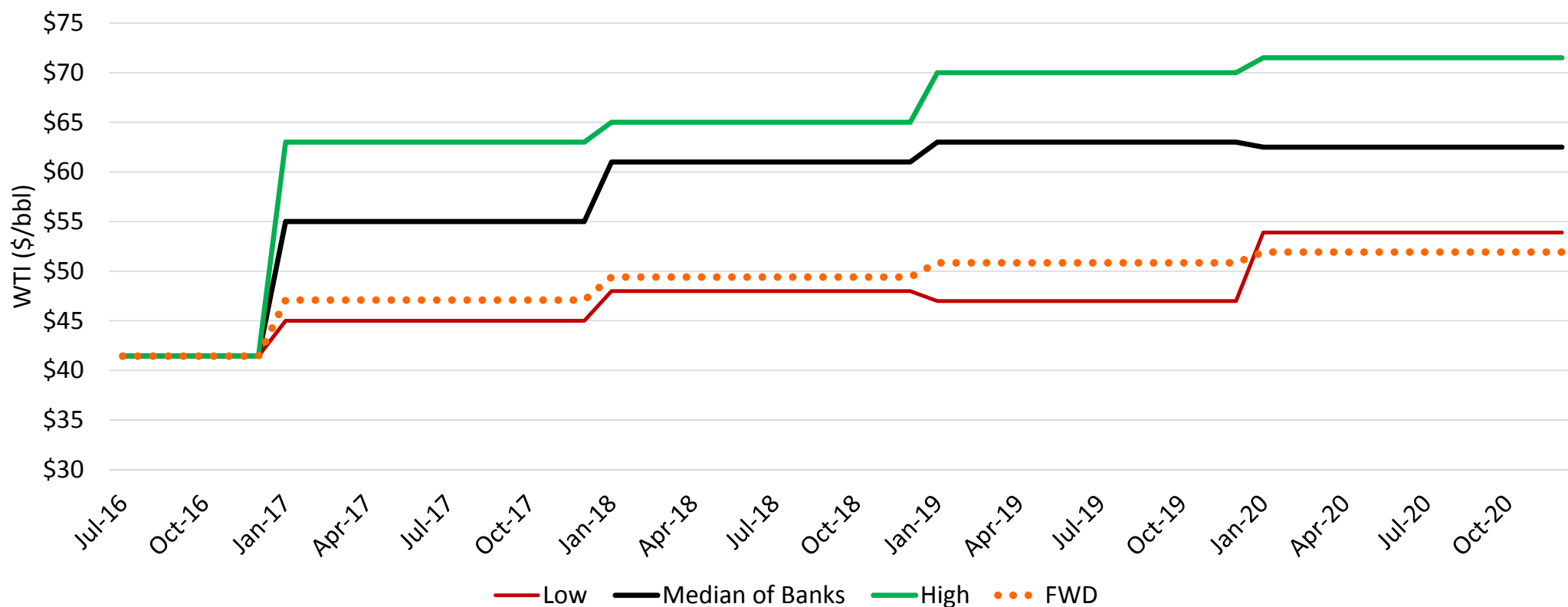
Consensus has crude prices (WTI) between \$45 and \$63/bbl in 2017, and \$48 and \$65/bbl in 2018



WTI Scenarios: range-bound from \$45 and \$65 Over Next Two Years, On the Cusp Between Production Growth and Production Declines



Top 11 Banks - WTI Price Forecast (as of 8/5/16)



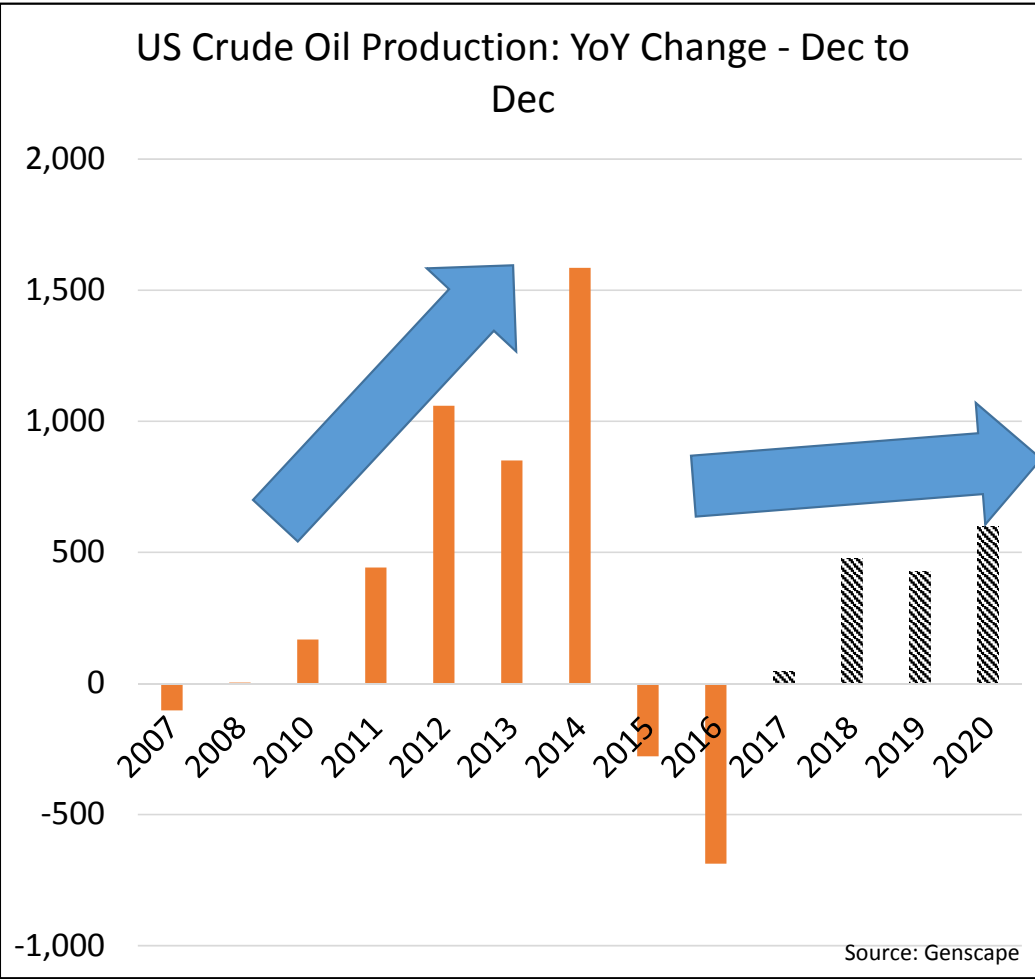
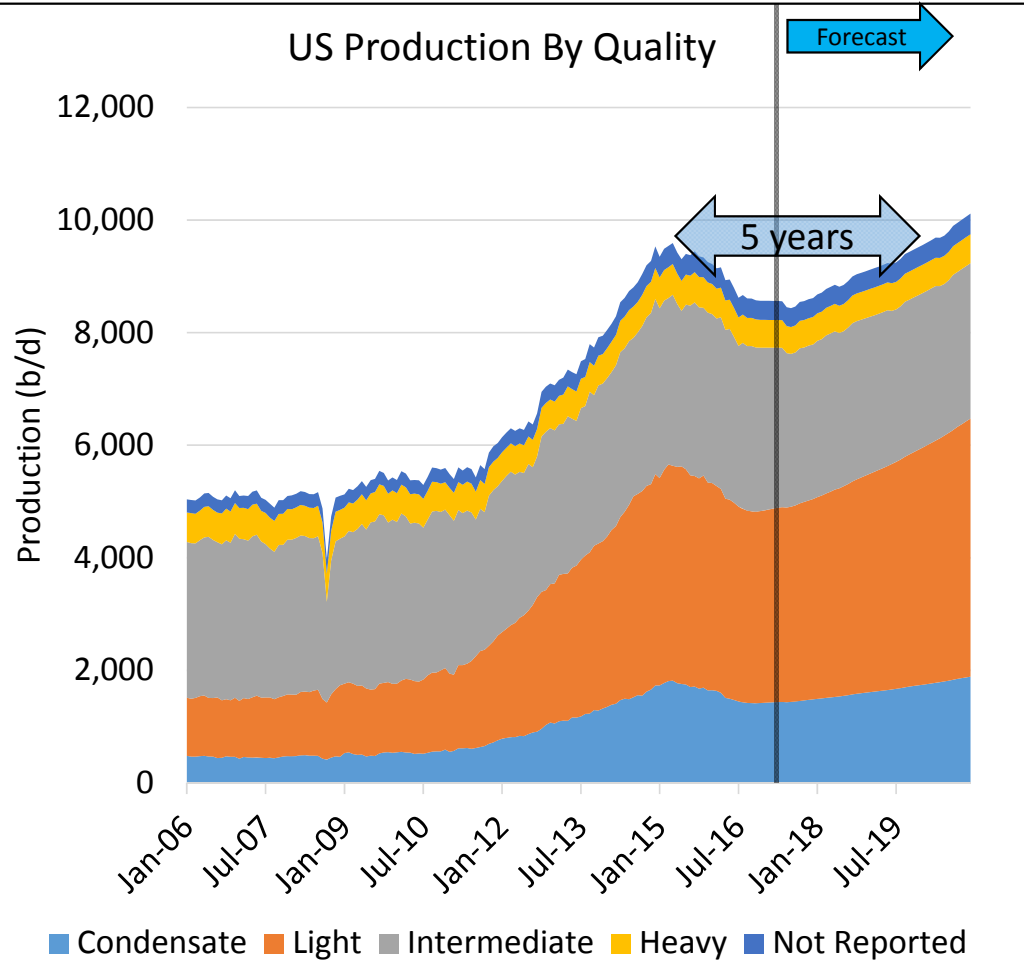
Macquarie, Capital Economics Ltd, RBC, Bank of Nova Scotia, Itau Unibanko, Danske Bank, Wells Fargo, Westpac, BMO, Toronto Dominion, Soc Gen

US Crude and Lease Condensate Production Forecast

Back to 2015 by 2020



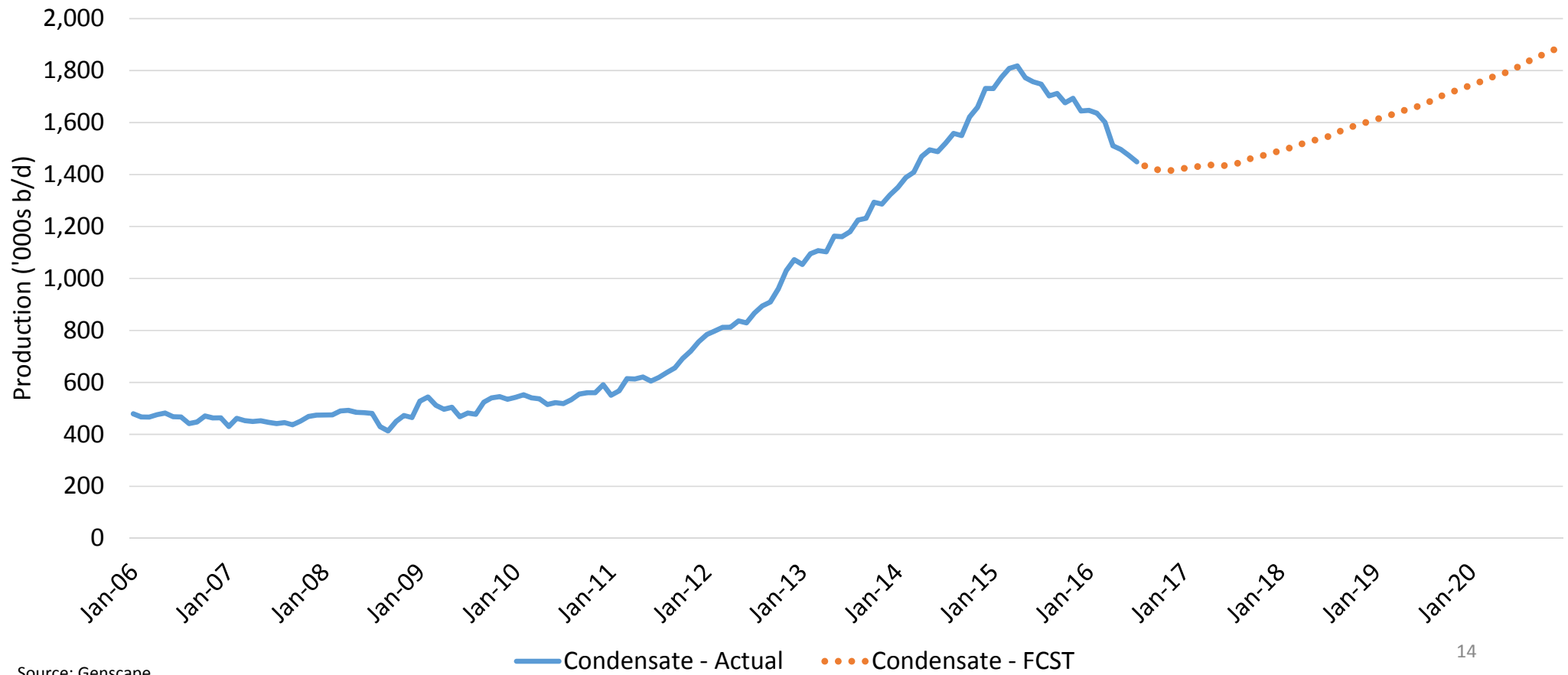
Production is Forecast to Get Back to Peak Levels of ~9.6 MM b/d by early 2020, However Growth is Much More Tempered Than Previous Years



Lease Condensate Production is Forecast to be Flat for Next 12 months, Then Growing by 400,000 from 2018-2020, Returning to Peak Levels

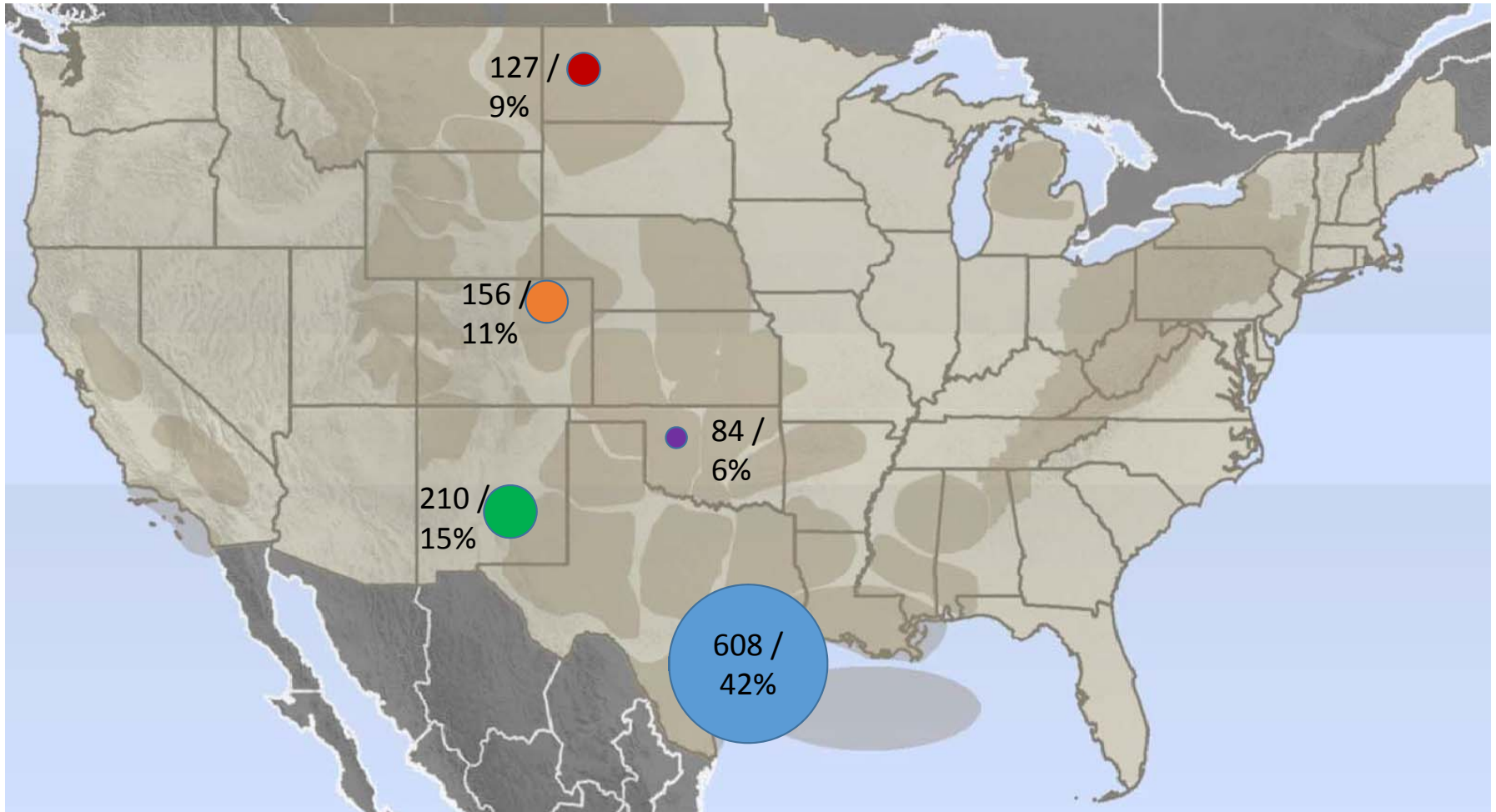


Condensate Production



Source: Genscape

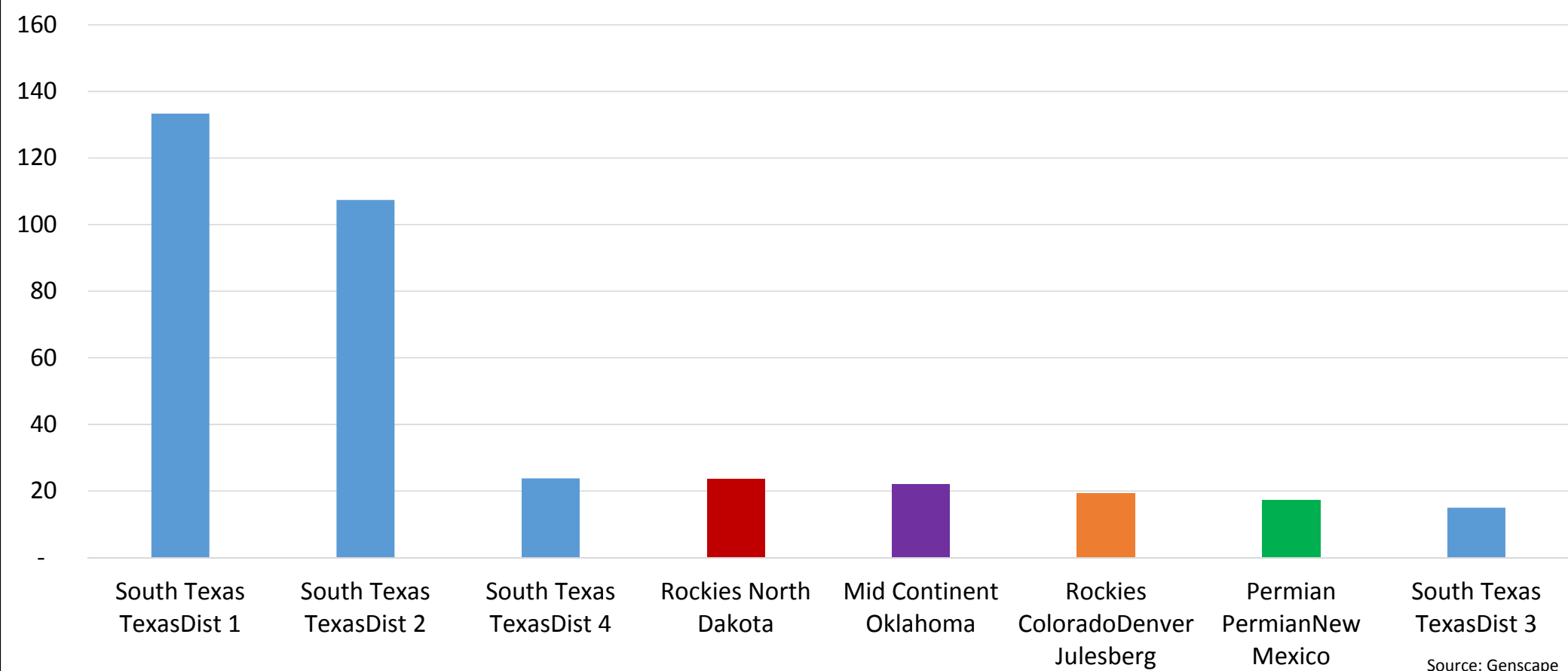
August 2016 Lease Condensate Production ('000s b/d) – By Region. Eagle Ford Makes up >40% of Condensate Production...



... But Eagle Ford Accounts for 70% of the Decline to Date



Drop in Condensate Production by Region - Peak to Trough (Apr. '15 to Nov. '16)

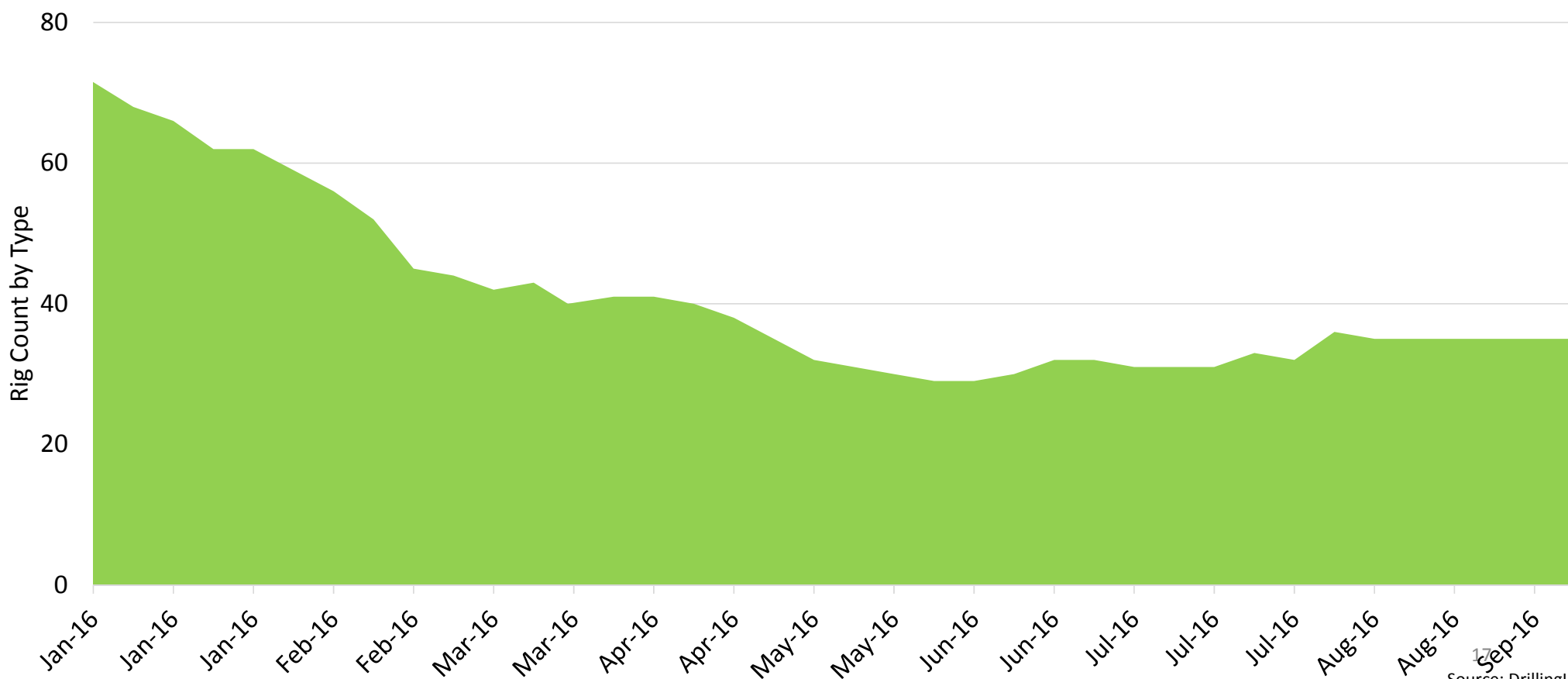


Source: Genscape

2016 YTD: Horizontal in the Rig Count Hasn't Increased Materially



Eagle Ford Rig Count – Horizontal Rigs



Source: DrillingInfo

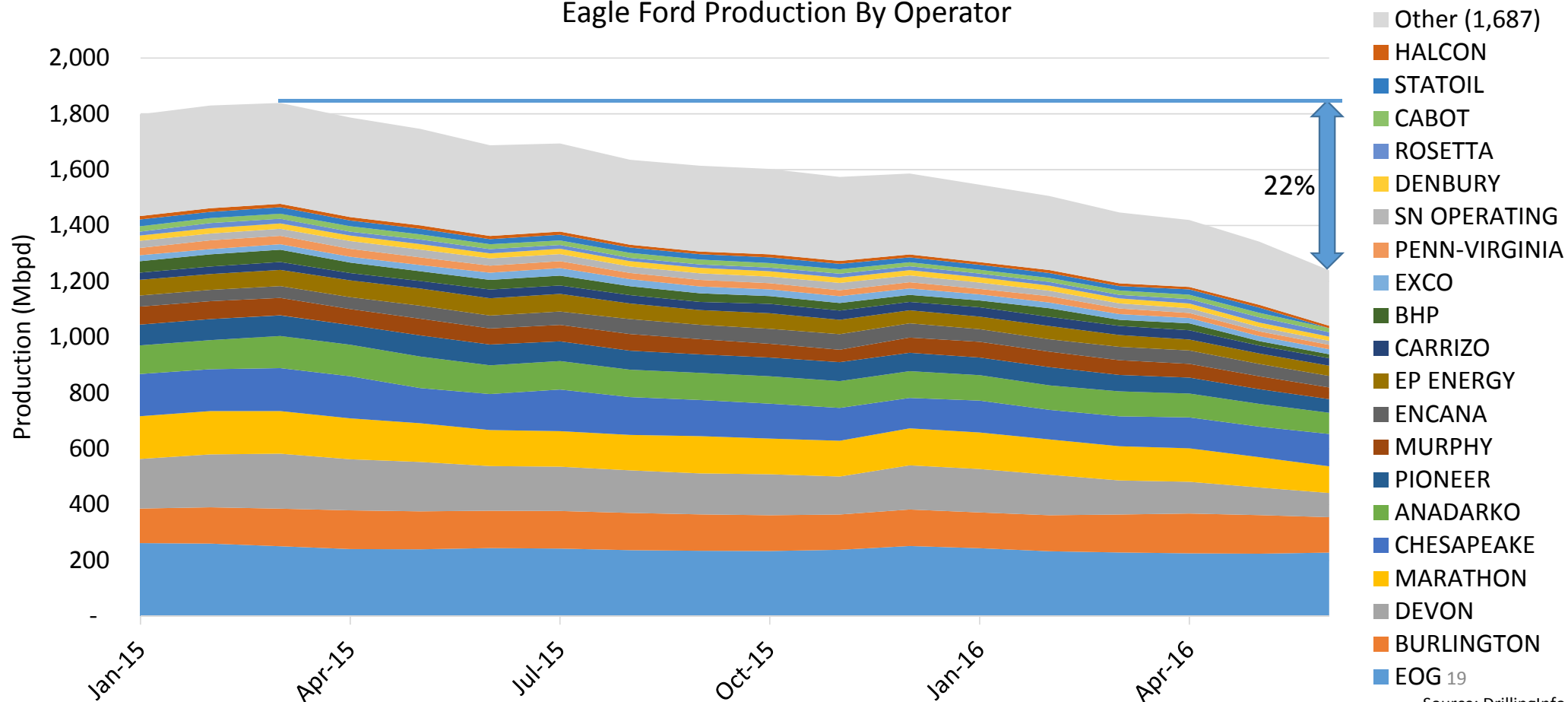
Producers



Eagle Ford Production Down By 22% From the Peak, With Declines Spread Across Most All Producers

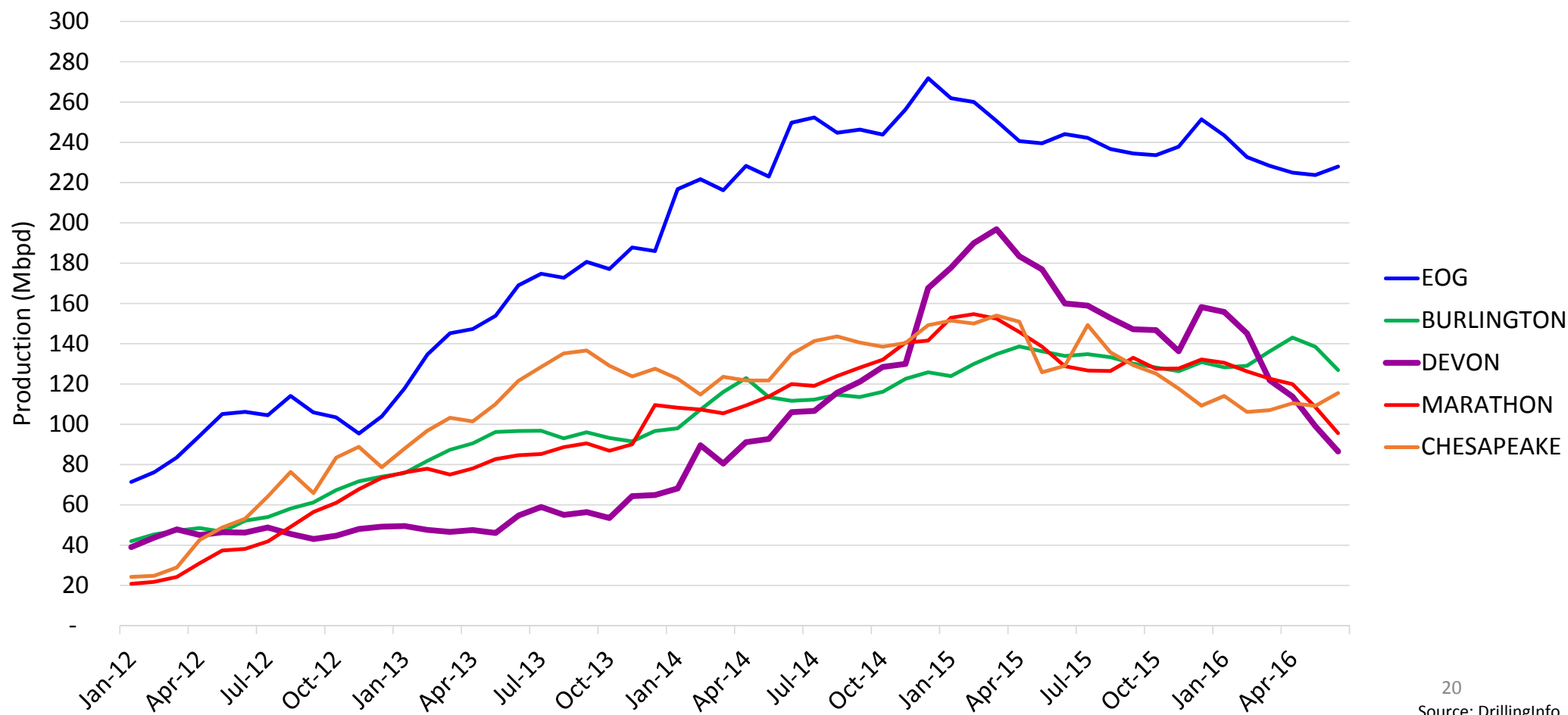


Eagle Ford Production By Operator



Source: DrillingInfo

Eagle Ford Production from Top 5 Producers. Devon Down By Over 55% For Peak



Devon – Reduced CapEx and Strong Asset Base Pull Investment Away from Eagle Ford



- Q2 2016 Earnings Results
 - “First, we continue to achieve significant efficiency gains across Devon's entire portfolio. Productivity from our **top two franchise assets, the STACK and Delaware Basin**, was once again outstanding.”
 - The second key takeaway is that Devon's portfolio transformation is now complete. In December of last year, we announced a bold move to **materially add to our position in the STACK play** ...and the prolific new-well results from this asset continue to support our view that the **STACK play is the best emerging development** play in North America
- Devon Energy to Cut 1,000 Jobs in Eagle Ford (2/17/16)
- Devon slashes capex for 2016 by 75%, plans to trim workforce by 20% (2/17/16)
 - [Devon Energy Corp.](#), Oklahoma City, plans capital expenditures in 2016 of \$1.17-1.45 billion, down from \$5.26 billion in 2015.
- Devon Energy raised its 2016 capital expenditure guidance by \$200 million at both ends to a range of \$1.1 billion to \$1.3 billion. The company will deploy the additional funds in the Delaware Basin and the Oklahoma STACK play during the third quarter.

Demand



Lease Condensate Demand Drivers

- Existing US Refinery complex
 - US refinery complex was close to “full” of condensate before the drop in production
 - Vast majority of the 1.5 MMb/d of lease condensate is going to refiners
- Splitter
 - Econs challenged
 - Drop in production, Condensate discount tightened
 - Capacity ~300,000 b/d, with utilization ~70%
 - 3-2-1 Crack Spreads trending between ~\$6 and \$12/bbl
- Export Markets (incl. diluent)
 - Shift in market due to change in export policy and tight Brent-WTI
 - Exports ~160,000 b/d
 - Diluent demand should continue to grow
- Pipeline Grade Blending
 - A wet barrel is a wet barrel. Tight spreads across grades. Blend wall on pipes not as much an issue

End

Adam Bedard, CEO

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