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THE MIDSTREAM 50

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Also inside >>

- Capital Formation
- Permian Update
- After Jordan Cove

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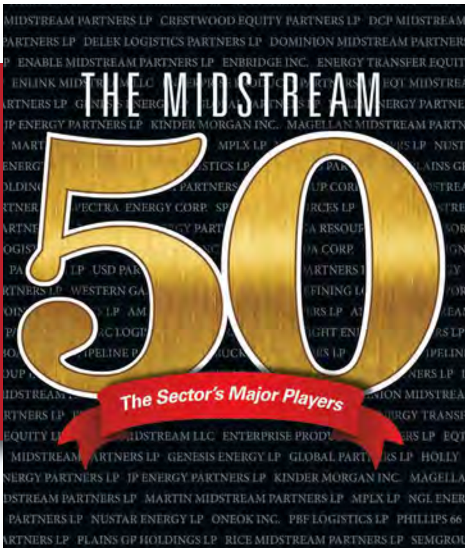


On The Money

ARB Midstream is making moves in the midstream by taking an analytical approach to deals and projects.

By Frank Nieto, *Senior Editor*

Analytics have permeated a large portion of everyday life in the past 16 years. The movement that began in science and finance is now helping decision makers in such disparate fields as entertainment, politics, sports and energy, including midstream.

It's unlikely, however, that other startups have focused as much of their resources on analytics as ARB Midstream LLC since it began operations in 2014.

While more companies are using analytics to a large degree, not many can state that their CEO has such a strong background in analytics as ARB Midstream's CEO, Adam Bedard. An MBA graduate from the Wharton School of Business at the University of Pennsylvania, he previously served as senior director, energy analysis at BENTEK Energy and vice president, strategic planning and market analysis, at NGL Energy Partners.

"It was through those two opportunities that I was able to get comfortable with my ability to look at and identify market dynamics," Bedard told *Midstream Business*. "I helped a lot of companies define strategic opportunities in the space while at BENTEK. During my tenure at NGL Energy Partners, the company grew quite a bit through acquisition and some new build. I was able to really see the model from the inside."

Bedard was approached by Ball Ventures, a private entity firm based in Idaho, to help the company enter the midstream. The firm was heavily invested in real estate and consumer packaged goods and wanted to diversify its holdings into energy. "It was a golden opportunity to strike off on my own, pull together a team and build a company," he said.

Analytical DNA

Given Bedard's background, analytics are a large part of ARB Midstream's DNA as the company wants to be as close to the data and as informed about markets as possible. The company's strategy is to use quantitative analytics to find dislocations in the market. In fact, the ARB in the ARB Midstream name is short for arbitrage.

"We tend to hire folks that have a deep understanding of the market so everyone to some degree is analytical. Even our marketers have a really good understanding of analytics. We dedicate about 25% of our time and a significant portion of capital toward analytics. That's something a lot of companies our size probably aren't willing to do," he said.

ARB Midstream develops its own in-house analytics, which include monthly crude oil and natural gas pro-

ARB Midstream's Niobrara Connector (NiCon) energy rail hub in Evans, Colo., is officially open for business. NiCon received its first ever train recently, which was carrying about 6 million pounds of frac sand from Wisconsin to the Denver-Julesburg Basin. The train was 30 cars long, and came in via the Union Pacific Railroad. *All images courtesy ARB Midstream LLC*

duction for the entire U.S., while also studying weekly rig counts, permits and other indicators of market health.

"This approach doesn't necessarily make us unique since there is a lot of competition in the midstream space. We try to differentiate ourselves through our long-term approach that seeks to position us three to four years out with smaller assets in the $10 million to $50 million range. We're not contrarian. We're not looking to go into something like coalbed methane in the Powder River Basin. We are looking at assets that may have had their value impacted by the downturn and are smaller than a lot of portfolios want to look at," Bedard said.

He said this approach is utilized on both greenfield development as well as M&A activity, where analysis is used to identify micro and macro trends in the market such as if a region has too much or too little pipeline or other infrastructure. "The strategy helps get us into the vicinity that we want to be and then we look at targets that fit some of our investment criteria," he added.

Granular approach

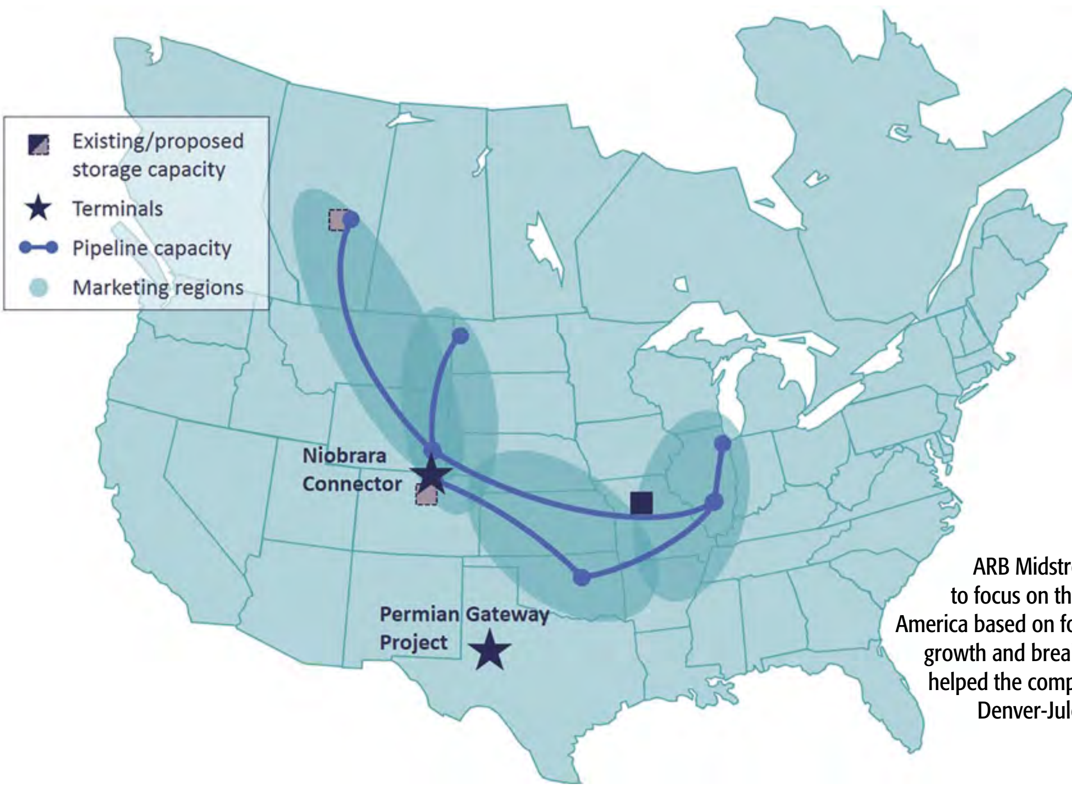
Rather than focus on plays, the company takes a more granular approach by concentrating on where production is taking place within a given play or region and how it will ramp up when the market improves. This information is then matched up with demand components such as takeaway capacity to see where opportunities can be found.

The company still gravitates to regions with some of the best economics such as the Denver-Julesburg (DJ) Basin, Eagle Ford Shale and Permian Basin, but dives down into individual counties within those regions.

"We look at the more active counties in the better shale plays along with pipeline and storage hubs that are seeing a greater throughput today than they were originally designed to handle. These are regions with a nexus of pipelines and a lot of ability to storage and/or blend various grades of crude oil for refiners," Bedard said.

Since it is private, the company can take more of a chance on acquisitions and projects than a public company, which typically requires acquisitions to be immediately accretive. He cited ARB Midstream's first projects, the Niobrara Connector (NiCon) rail hub in the DJ Basin and the Permian (Basin) Gateway, as an example of early-stage development opportunities the company can take. Of course, these opportunities are backed by a deep analytical assessment of the market, helping to de-risk the project from the start.

"We have a mantra that you have to be in business to get business, which is proving to be true. NiCon was our first developed project and was done entirely on spec. We acquired the 225 acres and didn't have any contracts initially backing it. It was a fairly risky first step, but that's where our analytics inform us. Analytics drive our conviction that a project will be what the market needs. By analyzing and understanding markets, we can step out and take a little more risk, but feel comfortable about it. A lot of companies don't have the flexibility that we do with an investor that is able



ARB Midstream is utilizing its analytics to focus on the best crude plays in North America based on forecasted crude production growth and breakeven prices. These studies helped the company decide to focus on the Denver-Julesburg and Permian basins with its first two projects.

to provide capital with some risk on it," he said. Since acquiring land for NiCon, ARB has successfully developed long-term usage contracts for the project.

ARB Midstream is also flexible when it comes to commodities as it focused initially on crude, but is now seeking opportunities in NGL and refined products. According to Bedard, ARB Midstream can drive its vision and strategic growth as it sees fit with the input of its board.

"We can be more nimble and flexible than public companies in the market," he said. Its nimbleness was evident in its ability to change its approach slightly with the market downturn. Initially the company intended to focus on being a first-mover in a region by building projects that were too risky for a public company to undertake.

"It's a difficult market now and the ground is changing beneath us every day. There's a lot of uncertainty out there and if we were to deploy all of our capital into one project and be locked into it with things changing so quickly, I feel that would be a disadvantage. The flexibility of capital is very valuable. It's important to see how the market sorts out and where the opportunities will be," he added.

Putting assets to work

When the company commissioned the construction of the NiCon and Permian Gateway projects, crude oil prices were more than double their current level of around $40 per barrel (bbl). As prices have leveled off, the need for crude by rail services has decreased, but that hasn't meant that these assets aren't serving an important role.

"The beauty of rail is that you don't have to only move crude oil. You can move frac sand, propane and other liquids both inbound and outbound. If you have an energy rail hub in the right market, you can really put it to work. Conversely, if you're developing a long haul pipeline, you have a lot of risk because it's one project with a lot of capital, few counterparties and one intended service," he said.

NiCon's centralized location will help the market improve efficiencies by reducing haul distances for drilling materials while also providing the ability to ship large volumes of production at lower costs than other facilities. The facility will also offer the ability to rail crude inbound from other producing regions like Western Canada and blend it with DJ Basin production that might not be pipeline spec. "NiCon will help balance a highly unbalanced DJ market. I think the facility will grow and expand with more track and storage as the market recovers," he said.

The Permian Gateway was similarly designed to provide an underserved market with increased capacity to ship crude by rail. Like the NiCon terminal, the facility is also moving frac sand and other drilling materials.

Though the Permian has multiple pipelines being developed, Bedard said that commissioning of these projects typically take longer than expected, which will allow the Permian Gateway to operate as a stopgap or pressure relief valve when necessary.

Focus on M&A

Once the risk subsides, these assets could be sold to an MLP. However, the current market is making this approach less attractive to ARB Midstream and the company is pivoting toward finding deep value in the market through acquisitions. "We have a team that can provide us with the ability to follow a two-pronged approach toward asset development and asset acquisition," Bedard said.

Indeed, since the company's start it has made two acquisitions in addition to developing the Permian Gateway and NiCon projects. This newer approach will see ARB Midstream phase in the development of these projects while growing through acquisitions in order to hold on to as much capital as possible.

Another benefit of being private is that, in the current environment, capital is cheaper than it is for MLPs. This allows private equity-backed companies to be more competitive in the M&A market, which is similar to what was seen in the last downturn in 2008-2009.

"Analytics drive our conviction that a project will be what the market needs. By analyzing and understanding markets, we can step out and take a little more risk, but feel comfortable about it."

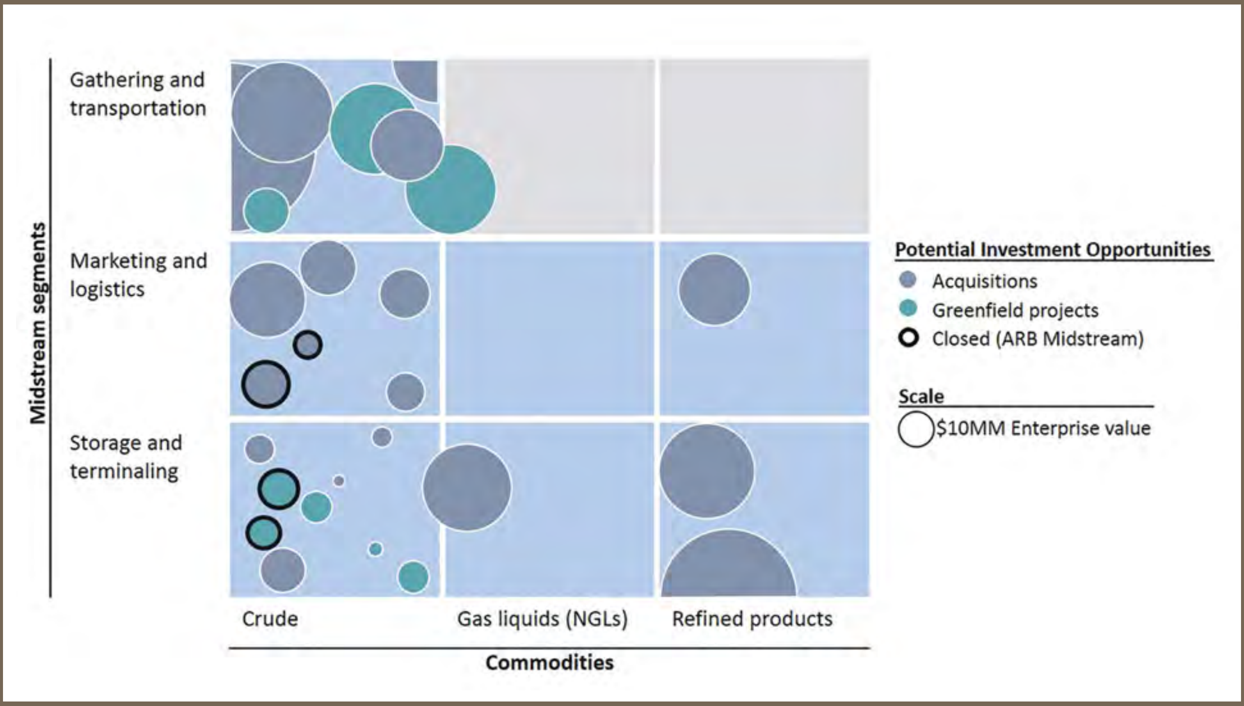
– **Adam Bedard**, *CEO, ARB Midstream LLC*

ARB Midstream acquired Calgary-based crude oil marketing and trading firm Sunwest Energy Canada Ltd., which it operates as ARB Midstream Logistics Canada. The acquisition provided the company access to both the Canadian and Midcontinent markets while also touching 18,000 to 20,000 barrels per day (bbl/d) of Canadian crude.

"There is a lot of opportunity in midstream in Canada, especially in the western Canadian oil sands, and this acquisition serves as our platform to identify assets, developments or acquisition opportunities. We felt it was important to have a local presence in the market. The acquisition also brought along some fairly robust contracts. It has very little short-term risk and a lot of long-term upside. The Sunwest team has a very intimate knowledge of the pipeline system in western Canada and how it feeds into the U.S., in particular the Chicago and Patoka, Ill., markets. These are also areas we think have a lot of potential value. We've got a good team, a good marketing book and a

The Niobrara Connector will help balance the Denver-Julesburg Basin market by providing inbound capacity for frac sand and drilling materials as well as outbound for crude and liquids production. This rendering shows the facility, in the heart of the play, from above.

Potential Investment Opportunities



ARB Midstream is evaluating multiple acquisition and development opportunities throughout the midstream. This chart plots the areas and costs of projects it is developing or evaluating.

The Niobrara Connector terminal has made the switch to operations after 18 months of development. Once the facility is fully completed, it will be capable of handling 120-car trains, offer 250,000 to 500,000 barrels of storage and will be capable of segregating crude by quality with the ability to custom blend according to customer specifications.

good platform to identify opportunities in that market," he said.

Last January's acquisition of InCorr Energy Group LLC added another piece of the puzzle that Bedard felt was missing—a marketing capability and presence.

"They have a team of ex-refiners and are very knowledgeable about what refiners want to see out of their crude supply. InCorr also brings the ability to increase utilization through our assets. Our goal is to build or buy assets and market around those. By doing so we increase utilization and capture more margins along the value chain. The team is very experienced in the Bakken, Powder River Basin, DJ Basin and the Midcontinent. They've been a great addition because not only are they growing their marketing book and increasing utilization of our assets, they're also helping us in business development and asset acquisition opportunities," he said.

The M&A deals that the company targets are up to $50 million, though Bedard said this could be stretched to $100 million for the right deal. This range is attractive because larger companies don't want to spend as much time negotiating deals in the $2 million to $8 million range. While there are opportunities in this lower range, he said the company would be more judicious about tackling too many at once because smaller deals take just as much time to complete as larger ones.

Acquisition targets will fall into three different buckets for the company: marketing and logistics, terminal and storage and gathering and pipelines. "The hurdle rate is the lowest to get into the marketing bucket and highest to get into the pipeline bucket. Its unlikely ARB will participate in a long haul pipeline because it's too big for us. Gathering is appealing, but it's a little bigger for us as well. So we tend to focus on terminals and storage assets. We look for opportunities where we can increase the growth of the asset or market around it to get more value out of it. Each of these buckets has different valuation profiles for us," he said.

To grow the business, ARB Midstream will seek to create MLP-quality assets and make them interconnected to increase their value. In accordance with this strategy, the company is planning to develop tankage to blend barrels around the first two projects—NiCon and the Permian Gateway rail hub. The company currently has 120,000 bbl of storage on lease and is looking at further opportunities to build or buy storage.

The long-term goal of ARB Midstream is to grow to $50 million in EBITDA before monetizing its assets. This monetization could take the form of a public offering or acquisition.

However, Bedard allowed for the possibility that the company could continue to grow.

"We wouldn't turn down an offer to sell the company if it was a good opportunity, but our goal is to build something that sustains for the longer haul," he said. As with other decisions the company makes, a possible sale or change in structure will be informed by analytics. ■

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ARB Midstream LLC Profile

Founded: 2014

Headquarters: Denver, Colo.

Website: www.arbmidstream.com

Executive team:
- Adam Bedard, CEO
- Rogan McGillis, CFO
- Cortney Liddiard, CEO, Ball Ventures

Key personnel:
- Joe Purdy, senior vice president, commercial
- Glen Dickey, senior vice president Canada, commercial
- Mark Wysocki, vice president U.S., commercial
- Brain Timmerman, vice president, Canada, commercial
- Brian O'Shea, corporate controller
- Larry Stockton, vice president, engineering and operations

Key assets:

Niobrara Connector Energy Hub (NiCon):
Rail transfer and loading facility located on 225 acres in Evans, Colo., that serves the Denver-Julesburg (DJ) Basin. NiCon will allow producers to ship crude from the DJ Basin to markets throughout the U.S. while also offering unit train shipping capabilities, storage and other ancillary services to oil and gas producers in the region.

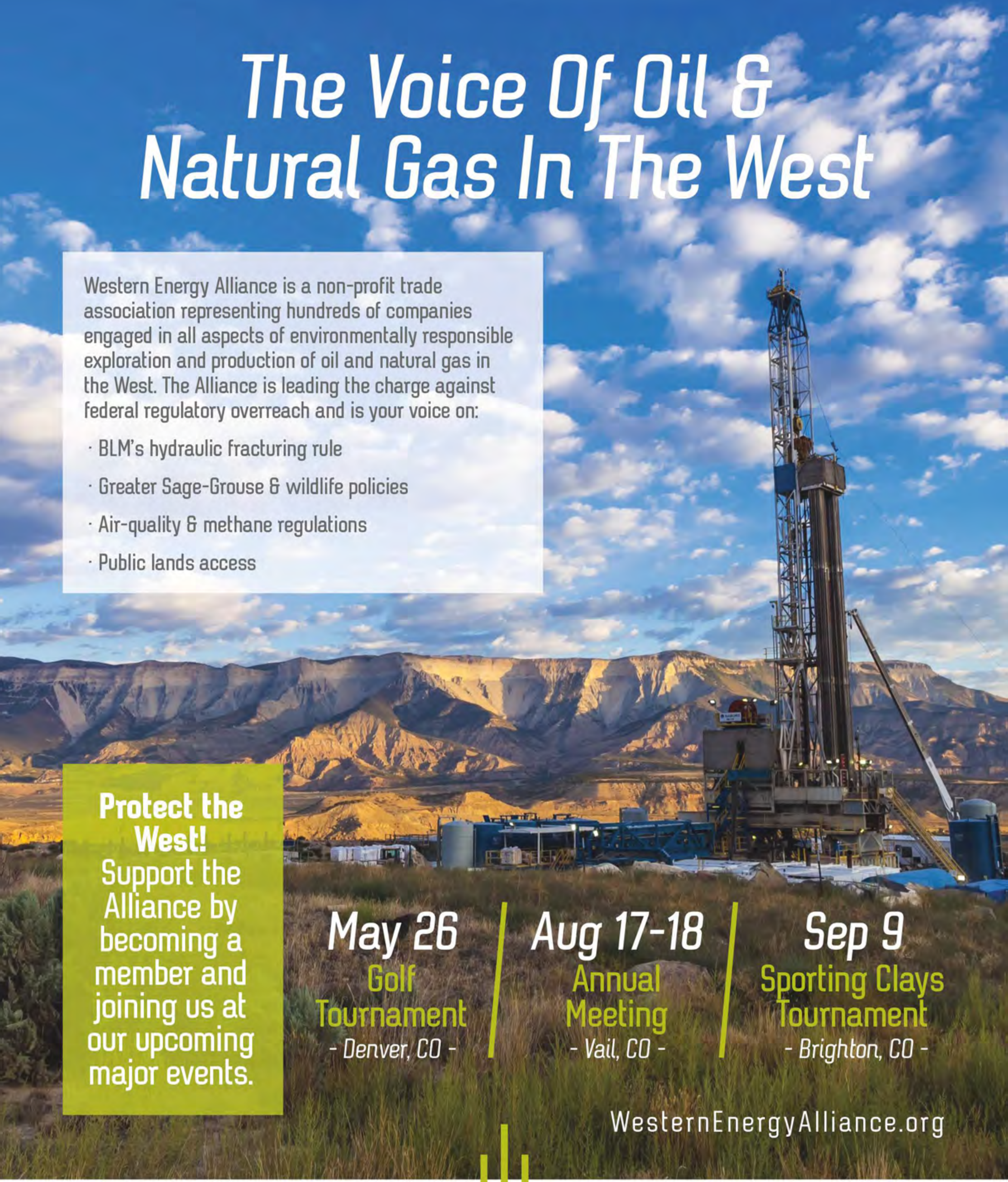
Permian Gateway:
The multimodal rail facility will be located near Big Spring, Texas, and serve producers in the Permian Basin. The facility, which will be the largest of its kind in the region, will provide proppant unloading and crude-by-rail shipping from the region and be served by Union Pacific Railroad.

Acquisitions:

InCorr Energy Group LLC
The January 2015 acquisition added a crude oil marketing and trading company that operated in the Bakken, Powder River Basin, Uinta and DJ Basins. Services include marketing, storage and pipeline solutions to producers, refiners and midstream companies.

Sunwest Energy Canada Ltd. (ARB Midstream Logistics Canada ULC)
Completed in September 2015, the acquisition allowed ARB Midstream to establish a foothold in western Canada. The crude oil marketing and trading firm held contracts for more than 20,000 bbl/d of crude in the U.S. and Canada. The company has marketed and shipped Canadian crude oil into, and throughout, the western Canadian and U.S. pipeline systems for more than a decade.

Source: ARB Midstream LLC



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