Take or Pay Contracts

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Midstreaming in a Low Commodity Price

PJVA & GPAC Joint Conference
Taylor Merritt
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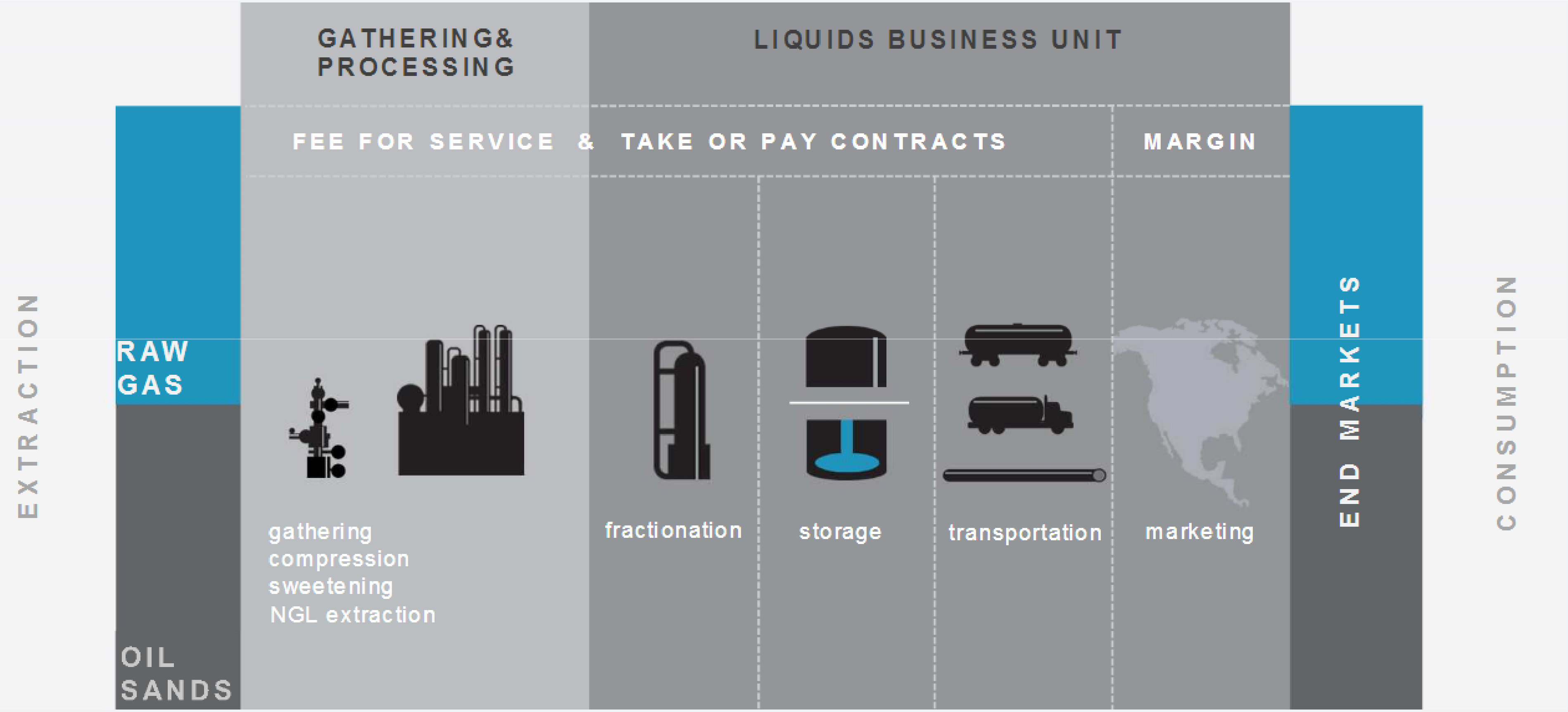
Agenda

1. Take-or-Pay Contracts
   – What are they?
   – Producer/midstreamer considerations

2. Midstreaming in a Low Commodity Price
   – Business drivers and examples
   – Solutions that create value for all

"midstreamer" = infrastructure company

About Keyera



2.9 Bcf/d licensed gross capacity

5,000 km's of pipelines

2,300 rail cars

137,000 bbls/d gross fractionation capacity

13,600 bbls/d iso-octane plant

12.5 MM bbls/ of gross cavern capacity

Take-or-Pay contracts

Standard contract elements involved in a TOP:

- Term
- Consideration (price)
- Specifications

TOP specific characteristics:

- Financial/volume commitment (producer)
- Financial/capacity commitment (midstreamer)
- Enforcement provisions
- Accounting/financial reporting often treated differently
- May require additional financial assurances
- Generally longer term, but not always

Take-or-Pay contracts

Midstreamer benefits:

– Backstop an investment

– Secures volumes (competition)

– Deters over-capitalization (ie. NGTL system)

Producer benefits:

– Reduced risk via priority access (ie. NGTL system)

– Reduced risk via lower fees (capital & operating) as a result of reduced midstreamer risk

– New markets/opportunities

– Deters over-capitalization (ie. gas plant proliferation)

<u>Excess</u> capacity ≈ <u>discount</u> on TOP contracts
<u>Limited</u> capacity ≈ <u>premium</u> on TOP contracts

Take-or-Pay contracts

TOP's are a risk reduction strategy

- They can be very complex to achieve this outcome:

  (tiered fees, credit provision/rating, Force Majeure, trigger events, reliability targets, enforcement provisions, etc.)

Risk should be shared between counterparties

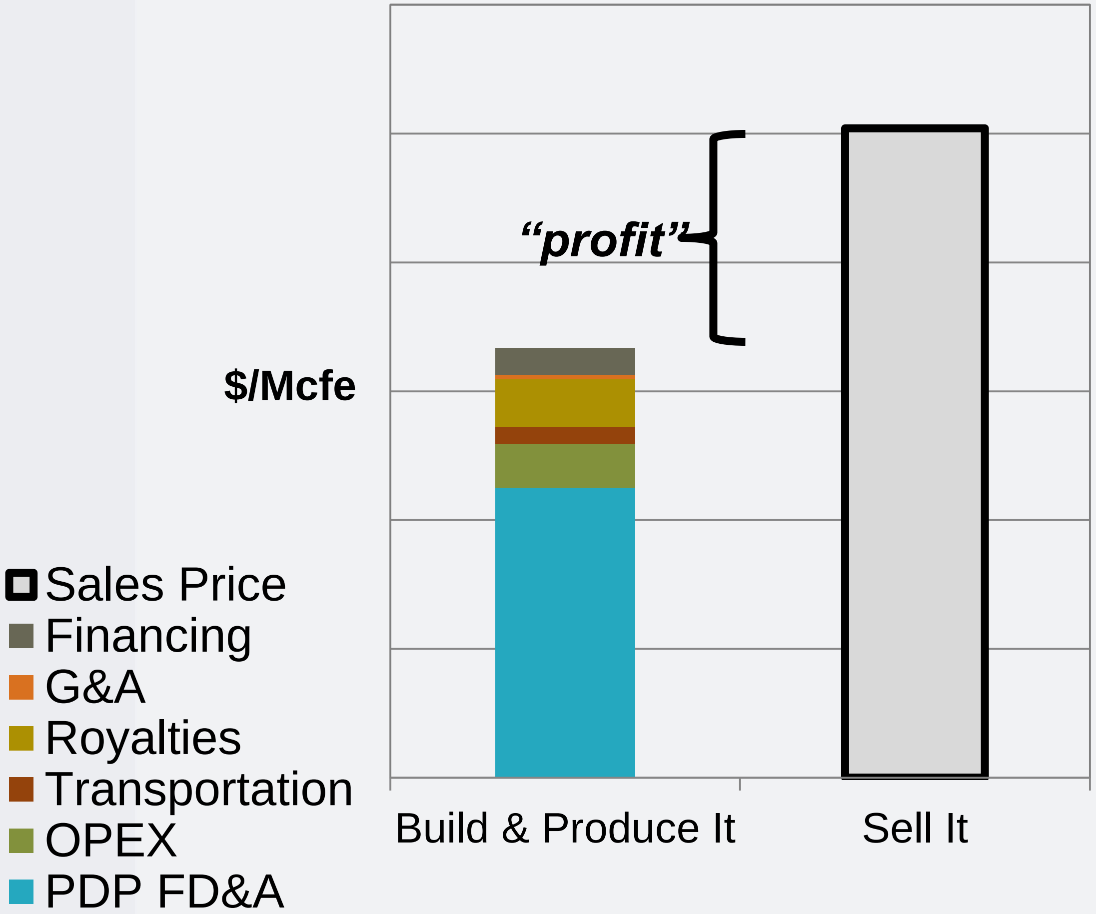
- Recognize the value each party is bringing
- Aim is to reduce risk for all parties vs. their alternatives

What does being profitable mean?

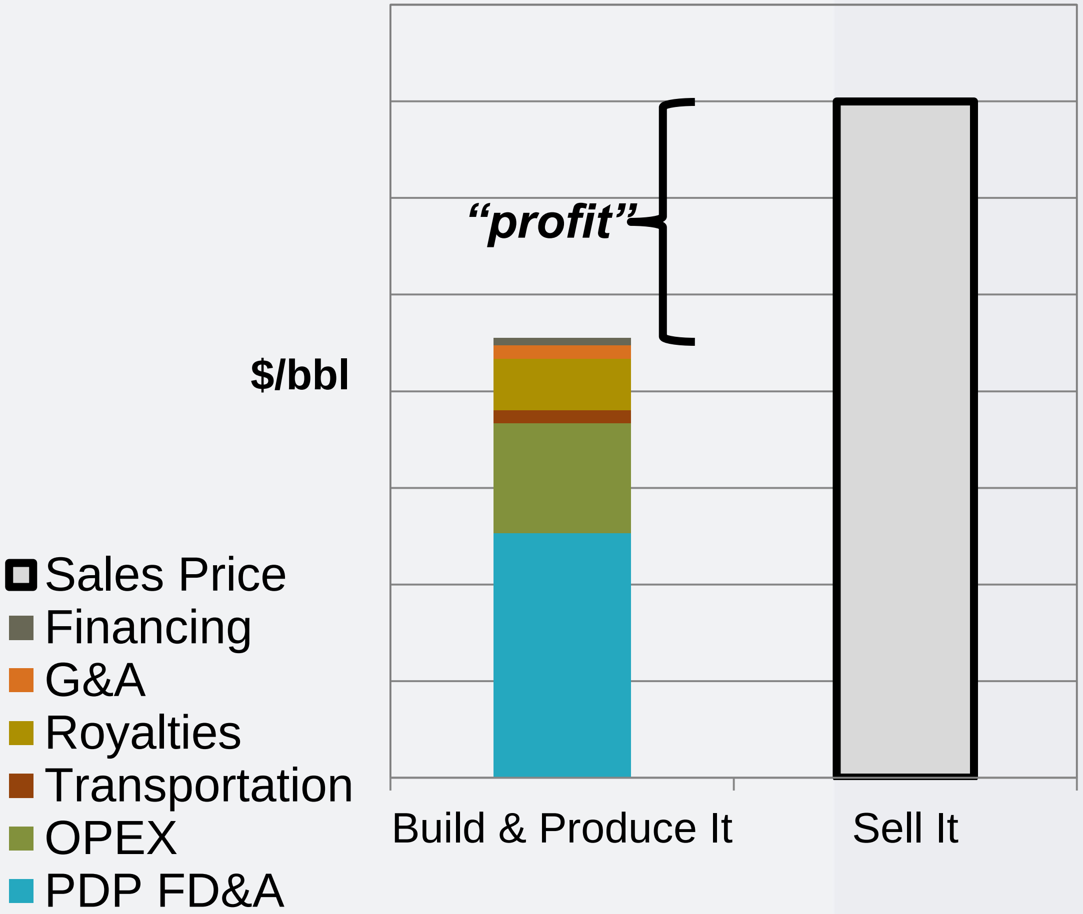
Costs < Revenue

This statement holds true for both midstreamers and producers…
…and periods of high prices or low prices!

What does being profitable mean?



Natural Gas



Crude Oil

Understanding oil and gas supply costs

“**Produce it**” costs

– Operating

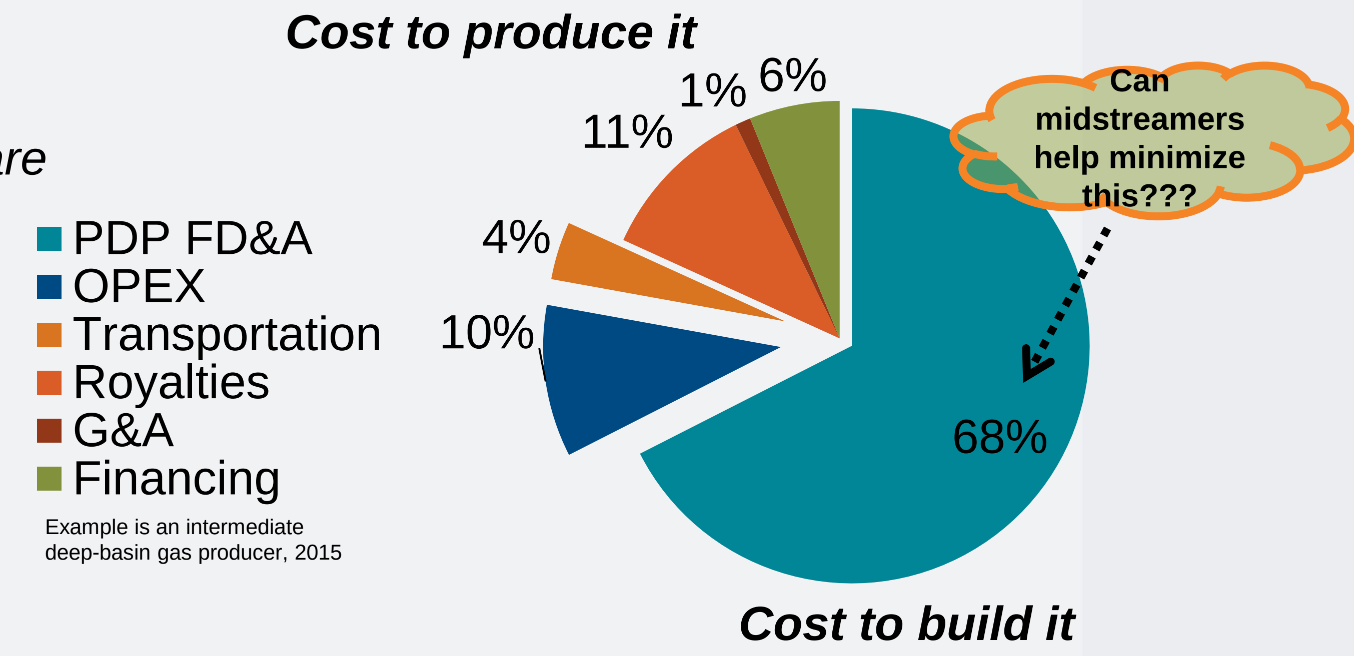
– Transportation

– Royalties

– G&A

– Interest/financing

Midstreamer fees are in this group



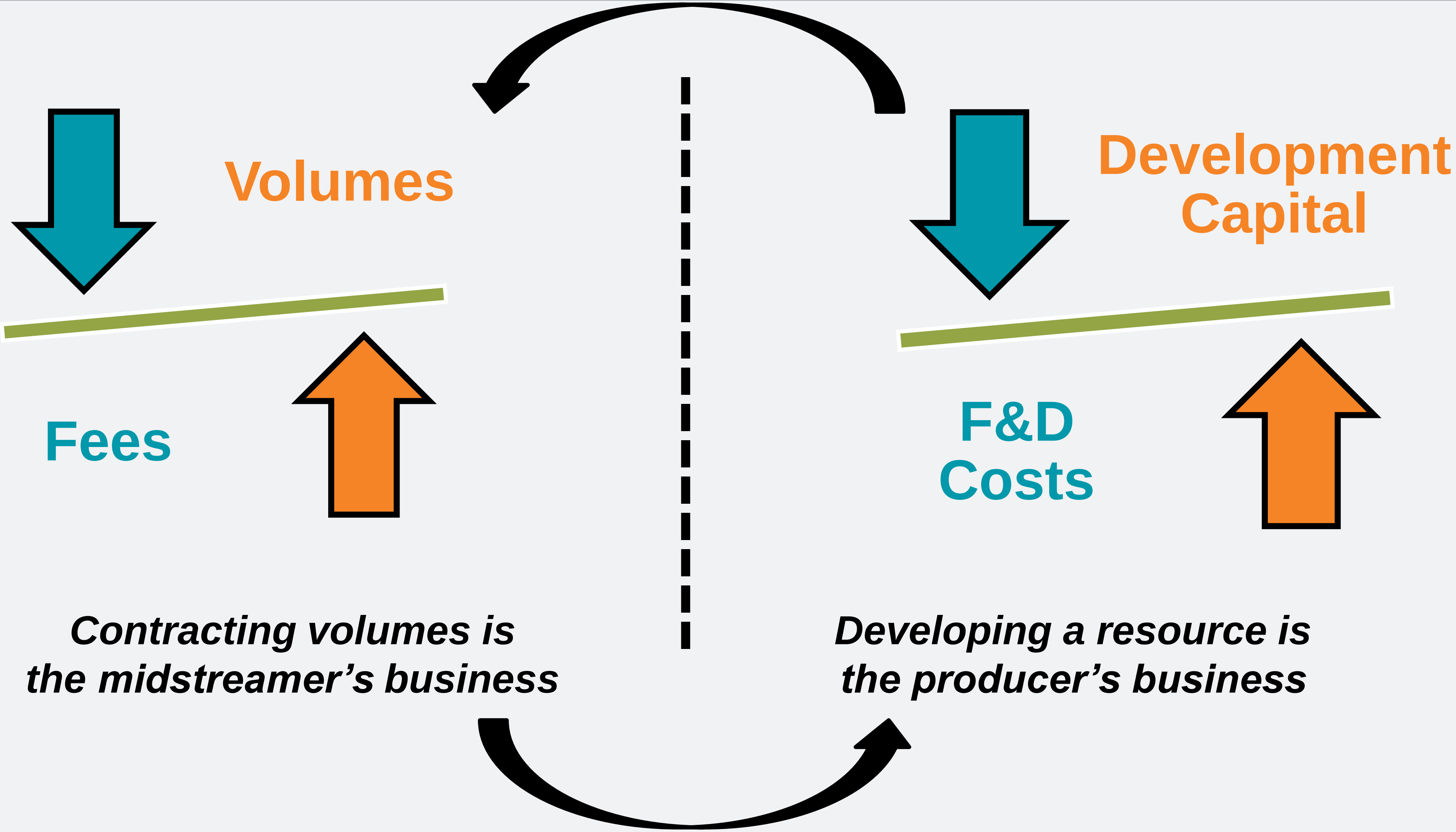
“**Build it**” costs

– The cost to add a barrel of <u>producing</u> reserves

– FD&A = Finding development & acquisition cost

Midstreamers can help maximize producer capital for development

A division of duties



Contracting volumes is the midstreamer's business

Developing a resource is the producer's business

Low price environment – key considerations

Midstreamer considerations:

- Economic viability of our customers
- Fixed vs. variable operating costs
- Cost of capital; value of spare/incremental capacity
- Marginal processing cost/capacity

Producer considerations:

- High grading investment opportunities to increase margins
- Infrastructure development vs. reserves development
- Development timeline and running room
- Higher costs are acceptable if producer netback is increased (margins)

Midstreaming solutions that create value for all

<u>Example scenario:</u>

– Producer with a TOP contract is currently cash-flow negative @ $2.00/Mcf

- 60% of plant throughput, no hedges in place

– Future gas prices <$2.00/Mcf for next 24 months

- Will minimize cash burn by shutting in volumes

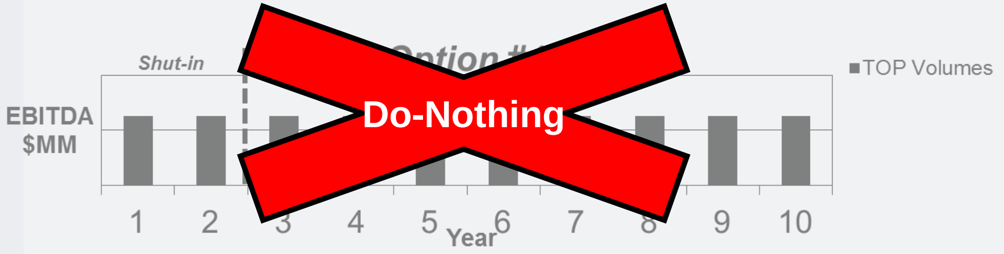
– Other producers at the plant produce solution gas (oil revenue)

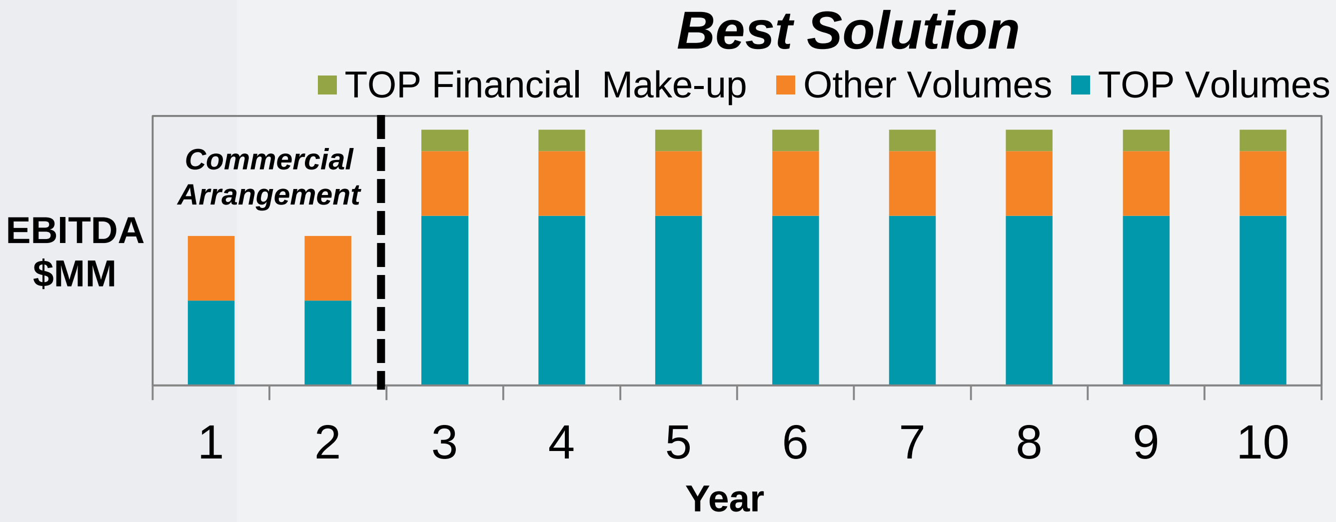
- 15% of plant throughput, could build pipeline to other area plant

– Gas plant operational limit is 20% of capacity

- All infrastructure assets have operational limits

Midstreaming solutions that create value for all





Midstreamers can provide physical or commercial arrangements to maximize value for all

Unlocking value in a low commodity price

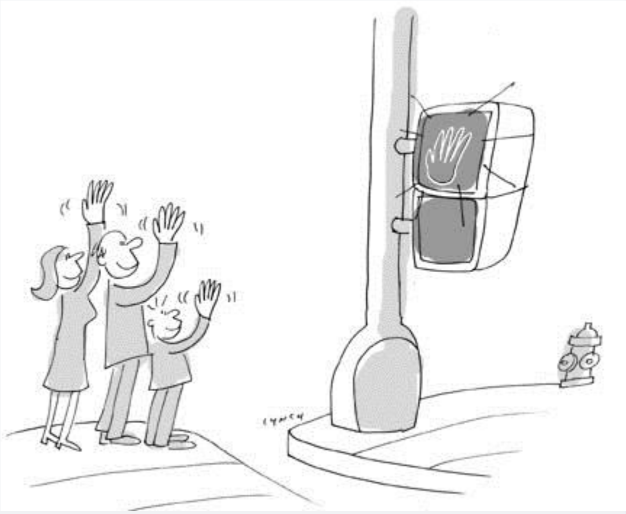
Work with your stakeholders

-Not a game of cat and mouse

-Volumes don't come from the sky

-Money doesn't grow on fees

Correctly identify the signs of win-win opportunities

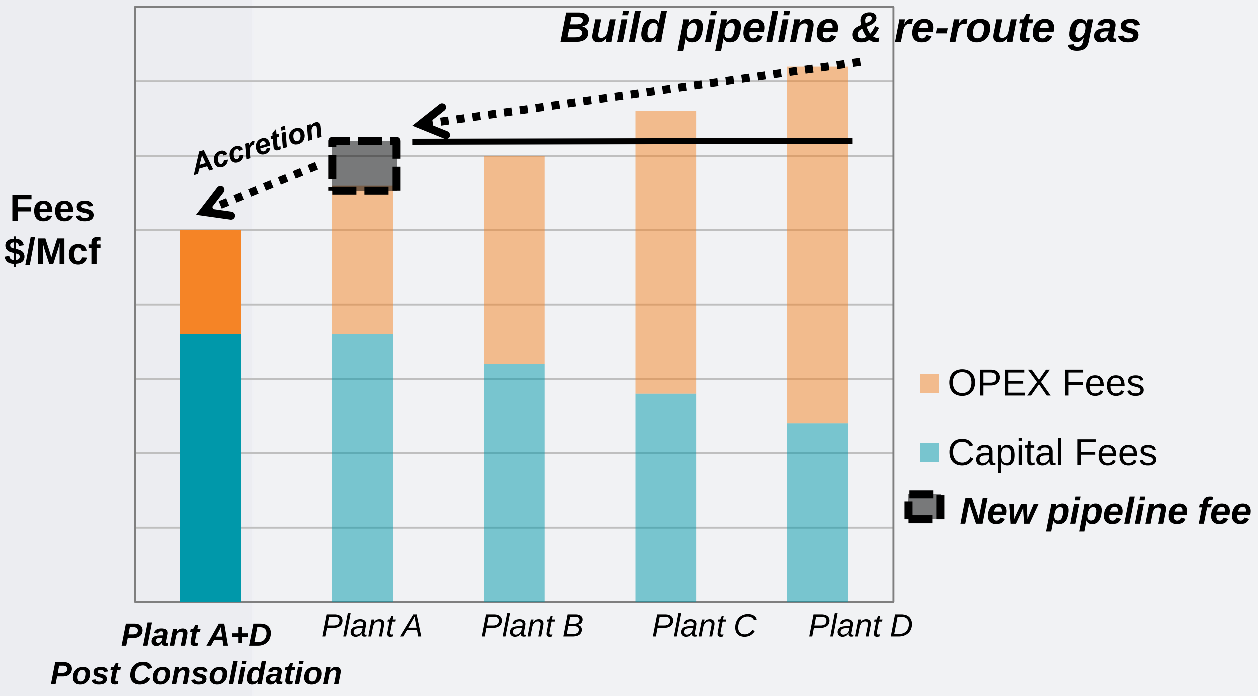


-Leverage off the most efficient/effective

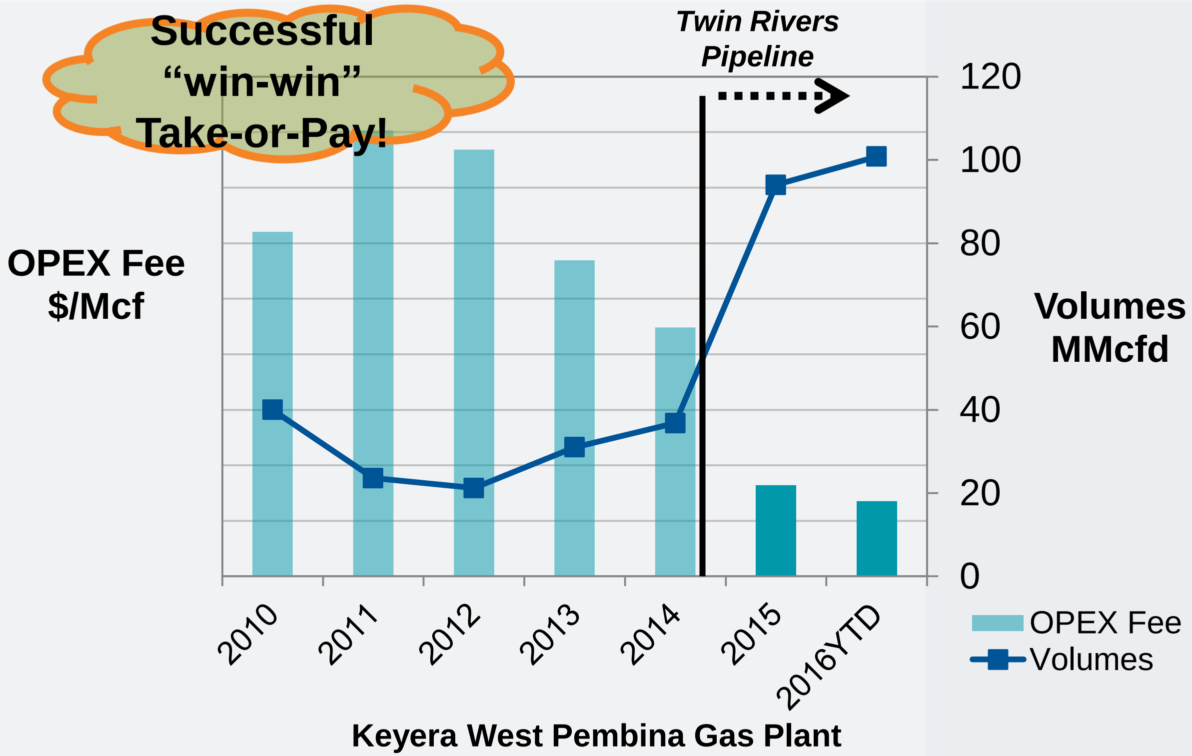
-Consider each party's alternatives

-Money has legs, people have memories

Unlocking value in a low commodity price



In theory…



In reality…

Midstream projects that consolidate volumes to more efficient/effective facilities make more sense than ever with a low commodity price

In closing…

- Take-or-pay contracts aim to reduce risk and costs for all parties
  - Midstreamers can contract volumes and broker deals not possible via single producer
- ~66% of producer full-cycle costs are incurred “building reserves”
  - Midstreamers help maximize the producer capital for reserve development
- Effective midstream solutions result in volume and margin growth for all
  - Midstreamers are independent, confidential and volumes driven
- Low commodity prices promote the most efficient/effective solutions
  - Midstreamers can leverage off their assets and services to maximize value

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