

# The North American Midstream Infrastructure Finance Forum

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Gas Storage Strategies

Financing new asset development and expansion



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# The North American Midstream Infrastructure Finance Forum

## How are developers raising capital for new asset construction: Good projects with contracted cash flows and experienced team

### The Project

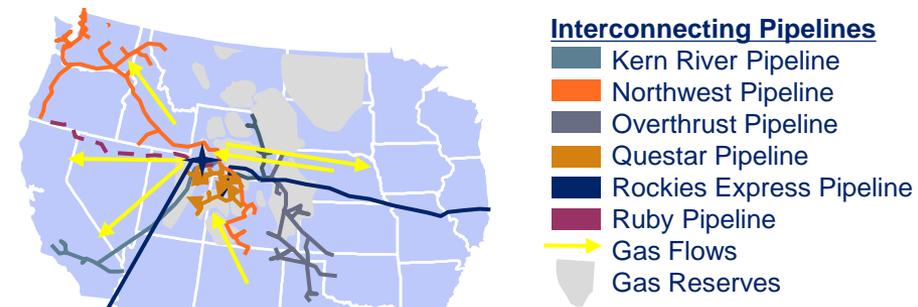
- \$270 million natural gas storage project from repurposed oil & gas production field operated from 1976 to 1999
- Capitalized with \$160 million construction/term loan and revolving credit facility, remainder funded via equity
- Depleted reservoir certificated for 35 Bcf of natural gas storage capacity and approximately 2x annual turn capability with ability to expand beyond 50 Bcf
- Anchor tenants provide ~\$87 million in contracted cash flows with weighted average tenor of ~6 years
- Oil and natural gas liquids to be produced as part of normal operations

### The Team

- Formed January 2009, identified project Spring 2009
- Successfully Developed High Deliverability Multi-Cycle Gas Storage Projects
- Demonstrated Ability to Produce Oil & NGLs Concurrently with Storage Operations
- Successful Multi-Bank Project Finance Facility at Falcon – Paid In Full Prior to Term

### The Location

- Production and consumption region ~50 miles from Opal Hub, with 5 direct pipeline connections, 9 total, providing access to key US consumer markets: California/Nevada, Pacific NW, Mid-Continent, Northeast and locally (SLC and Front Range)



- Project situated within 200 mile radius of ~150 Bcf of low cycling depleted reservoir storage with limited interconnects
- Opal Hub most liquid market hub in United States, over 700 Bcf of gas storage within 200 mile radius of Henry Hub

# The North American

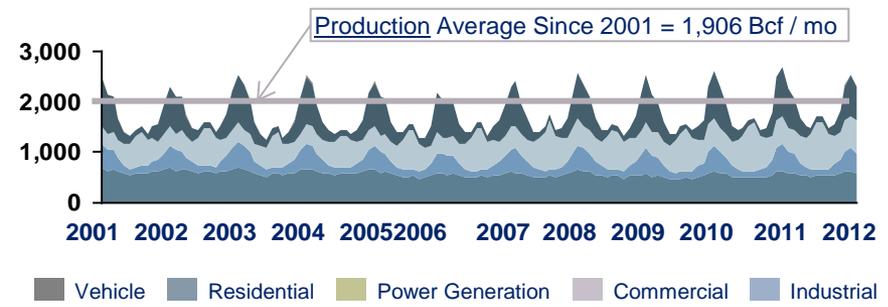
# Midstream Infrastructure Finance Forum

Assessing short- and long-term demand for gas storage services:  
Demand is there, will returns be sufficient to promote development

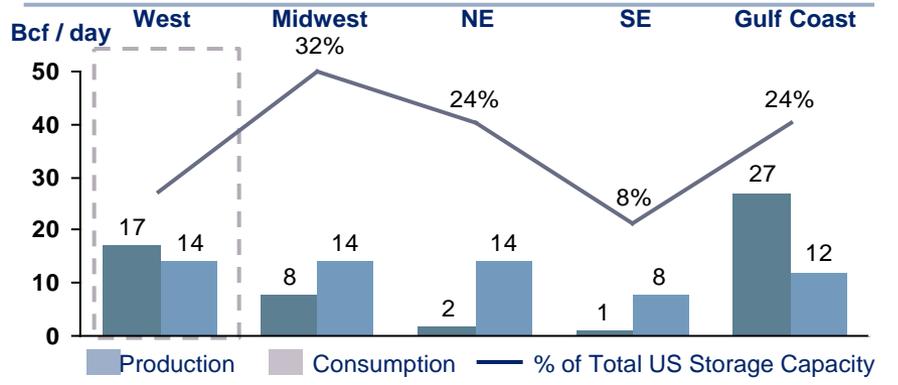
## Key Growth Drivers

- **Relatively Steady Gas Production**
  - Little variance in day-to-day gas production
  - U.S. gas production increasing in 4 shale plays only (Bakken, Marcellus, Eagle Ford, Woodford)
  - Dry gas development effectively stopped in response to low natural gas prices
  
- **Seasonality of Gas Consumption**
  - Significant variances in seasonal gas demand drives the need for storage capacity to balance ratable gas supply with highly variable demand
  - Higher residential and commercial gas demand during winter months from space heating
  - Higher gas-fired electric power demand during summer months to meet R&C cooling market
  
- **Western US Market is Underserved**
  - Tied for first in U.S. natural gas consumption
  - Strong second in U.S. natural gas production
  - *Next to last in U.S. natgas storage capacity*

## Natural Gas Production & Consumption

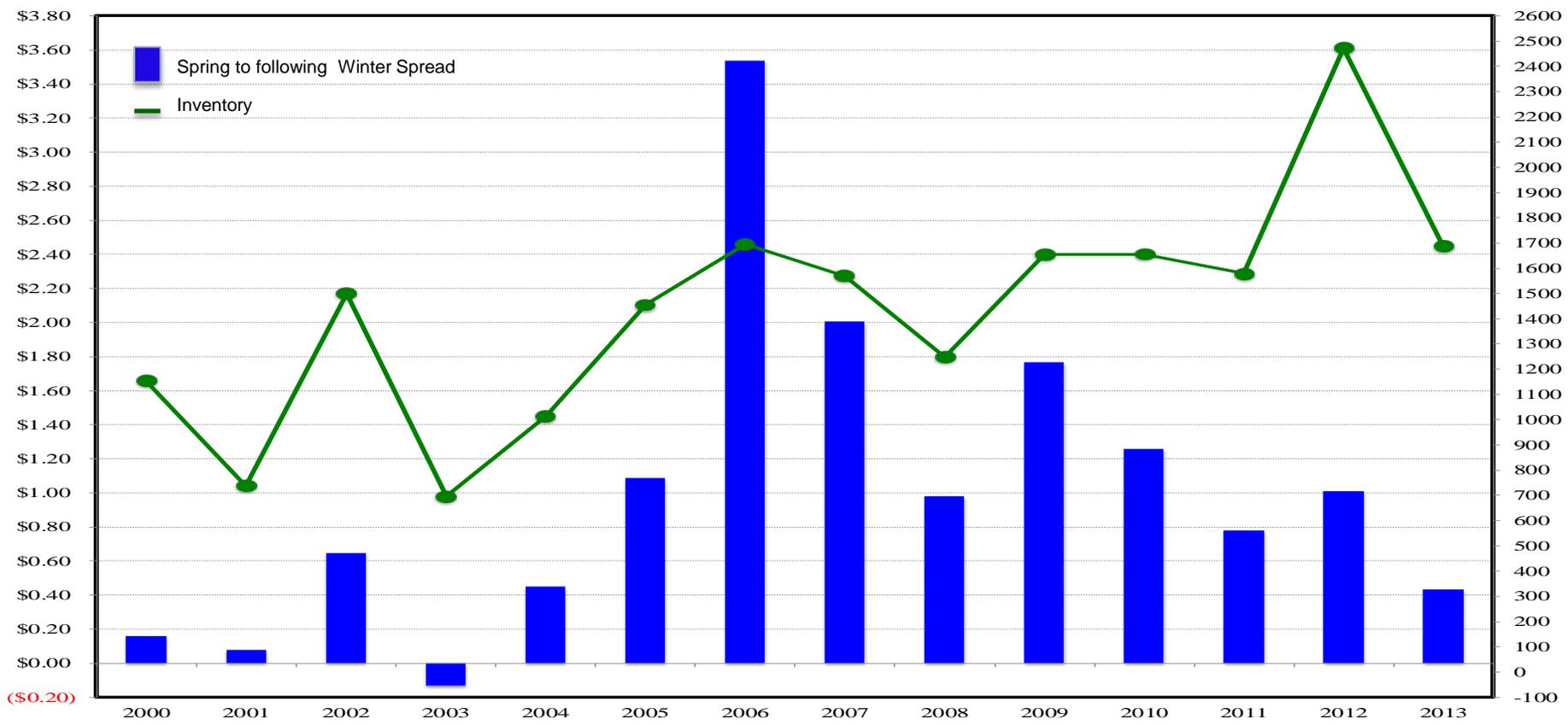


## Gas Storage Capacity vs. Supply/Demand



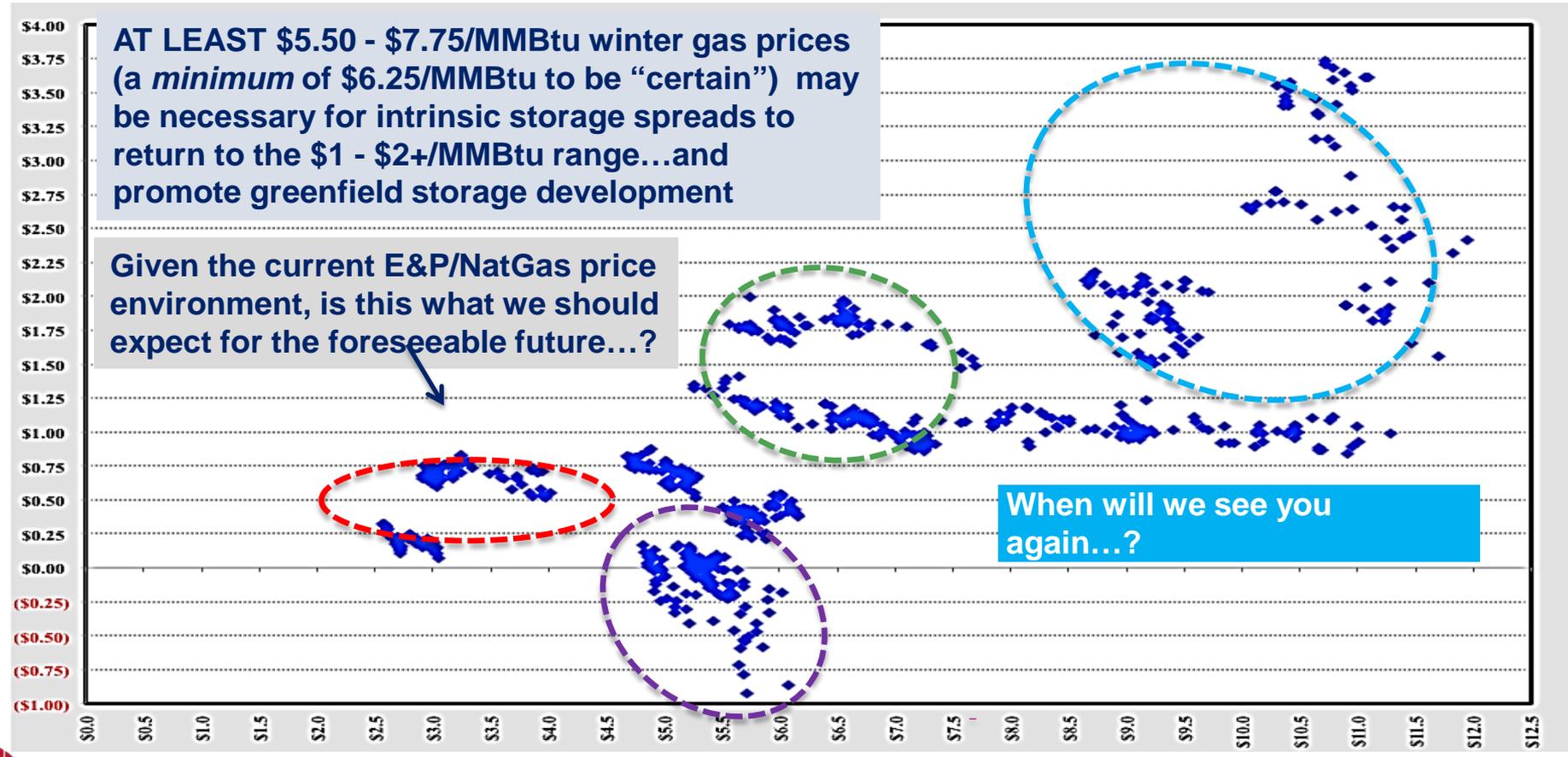
# The North American Midstream Infrastructure Finance Forum

Assessing short- and long-term demand for gas storage services  
Current spread environment at near record lows



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## Assessing short- and long-term demand for gas storage services Spreads and prices must increase to catalyze development



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Examining the role of private equity, investment banks and commercial banks in deals

### Private equity

Capital to address some unmet market need with an attractive return

- Creation of structures that align management interests with its private equity sponsor
- Transparency of communications
- Understanding of construction/development risk
- Expertise and access otherwise unavailable to the developer

### Commercial banks

Additional capital to enable realization of sufficient return

- Appropriate leverage levels at reasonable pricing and structure
- Trust based relationship that enables constructive resolution of issues as they arise
- Transparency of communications

### Investment banks

Value added advisory at key junctures in the life cycle of the deal

- Augment expertise and access of private equity when appropriate
- Trusted advisor at key strategic decision points (e.g., entry, acquisitions/divestitures, exit et al)

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What strategic relationships are developers seeking?

Leverage existing asset base to transform project into a platform



Physical interconnections with 5 interstate pipelines

- Only available gas storage option on Ruby and Kern River pipelines
- Storage availability creates collaboration possibilities
- Major independent and integrated oil & gas producers



Leverage existing gas processing to produce LNG for transport or industrial purposes

- Modest modification required to existing plant
- Strategically located at confluence of 3 interstate highways
- Significant drilling and mining operations in close proximity



~300 MW of wind power generation capacity exists within sight of storage operation

- Co-location of gas fired generation would enable improved reliability of wind power
- Existing infrastructure may complement transmission requirements



Significant water resources exist in connection with gas storage operations

- Water and methane represent key feedstocks for industrial use (e.g., fertilizer)
- Feasibility of water reclamation inhibited by market willingness to pay
- Regulatory interventions may catalyze opportunity

## Midstream Infrastructure Finance Forum

### The acquisition and development market for gas storage assets: What is on the horizon?

#### Acquisition and development market

- **Current market environment does not support greenfield development**
  - Greenfield salt cavern development >\$20/mcf
  - Greenfield depleted reservoir development >\$10/mcf
  - Ability to contract at rates sufficient to obtain financing not present absent special circumstances (e.g., Ryckman, Cadeville)
- **Valuation expectations remain high for developed assets**
  - Capitulation has not yet occurred
  - Strategic buyers, primarily MLPs, only potential option for exit
  - Storage MLP pure plays digesting recent acquisitions
- **MLPs need to grow distributions**
  - Via expansion or acquisition

#### What is on the horizon?

- **No meaningful greenfield projects announced until market environment improves**
  - Scale necessary to win in low gas price environment, favors expansion
  - Intrinsic spreads may need to return to >\$1
- **Capitulation and consolidation**
  - Scale necessary to win in low gas price environment
  - Valuation expectation gap must close or market conditions improve
- **MLP bias appears to be expansion**
  - Scale necessary to win in low gas price environment
  - PNG and NKA aggressively expanding existing gas storage capacity
  - Inergy expansion focus on other midstream opportunities

