



Oil Industry Segment Update

Jerry Tamborski

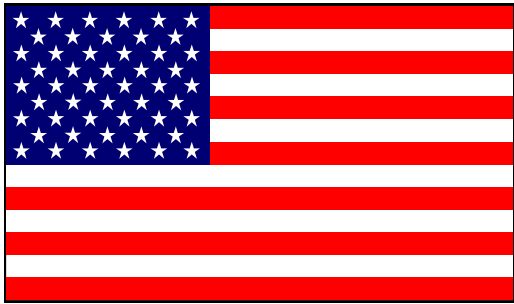
*Vice President, Operations and Projects
Hess Midstream Partners*

**Rail Energy Transportation Advisory Committee
Surface Transportation Board**

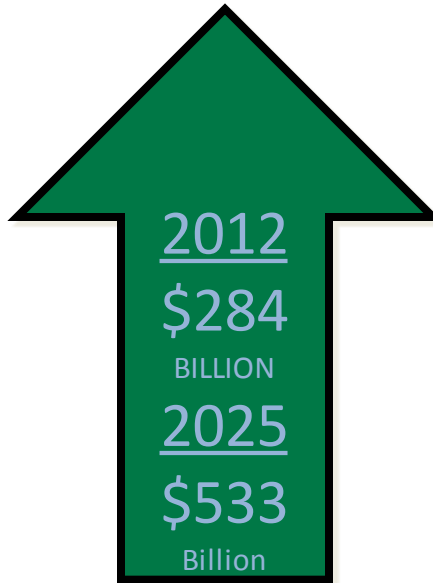
April 14, 2015

Economic Contribution/Growth

2.5 million jobs are supported by the unconventional development of crude oil fields in 2015, and by 2025 the US GDP estimated to increase by \$533 billion

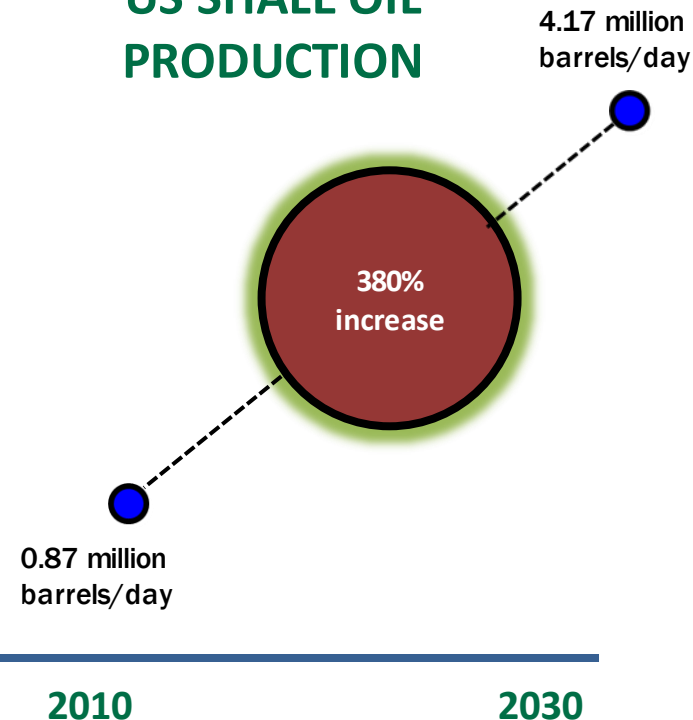


**2.5 MILLION
JOBS**



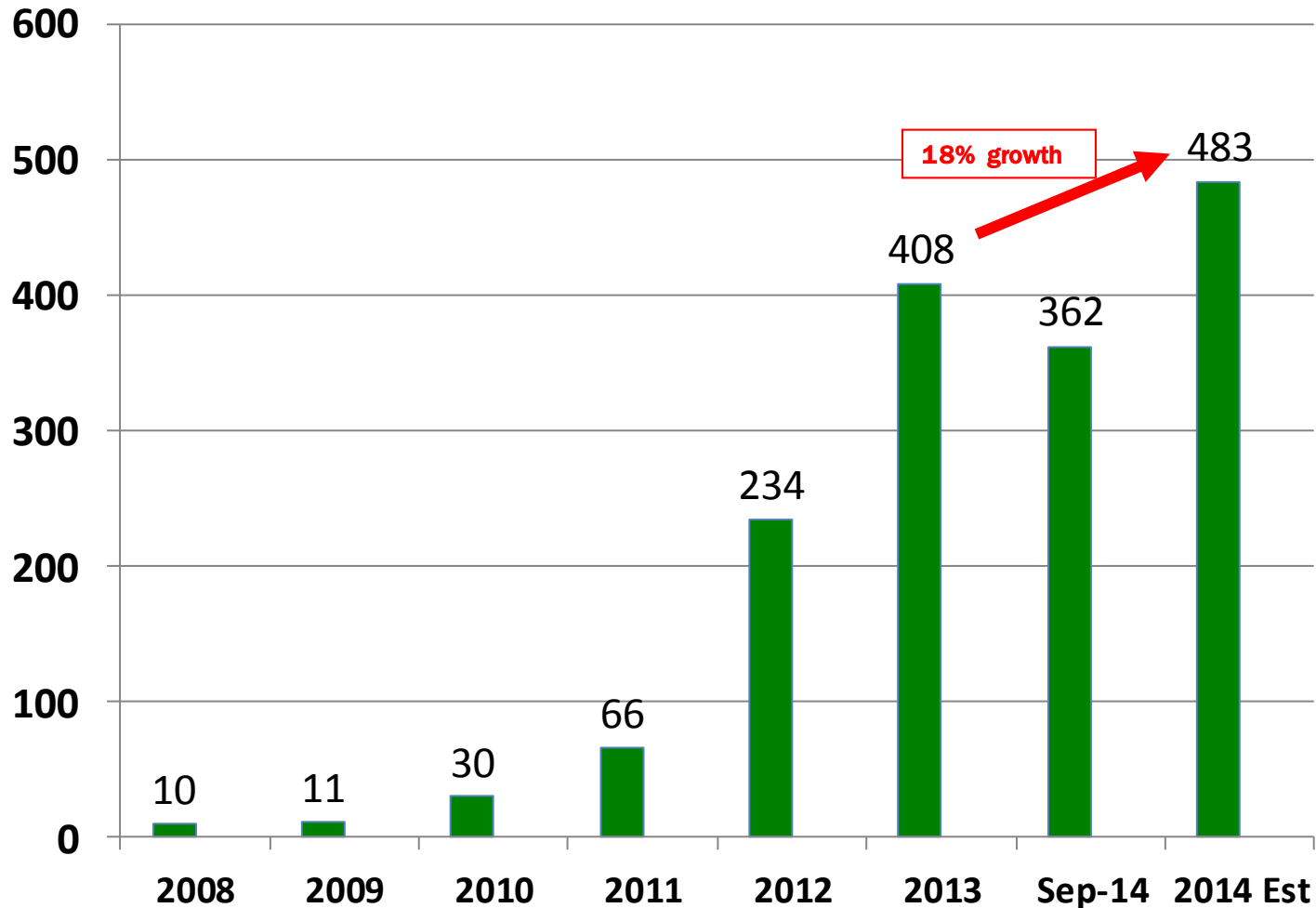
GDP

US SHALE OIL PRODUCTION

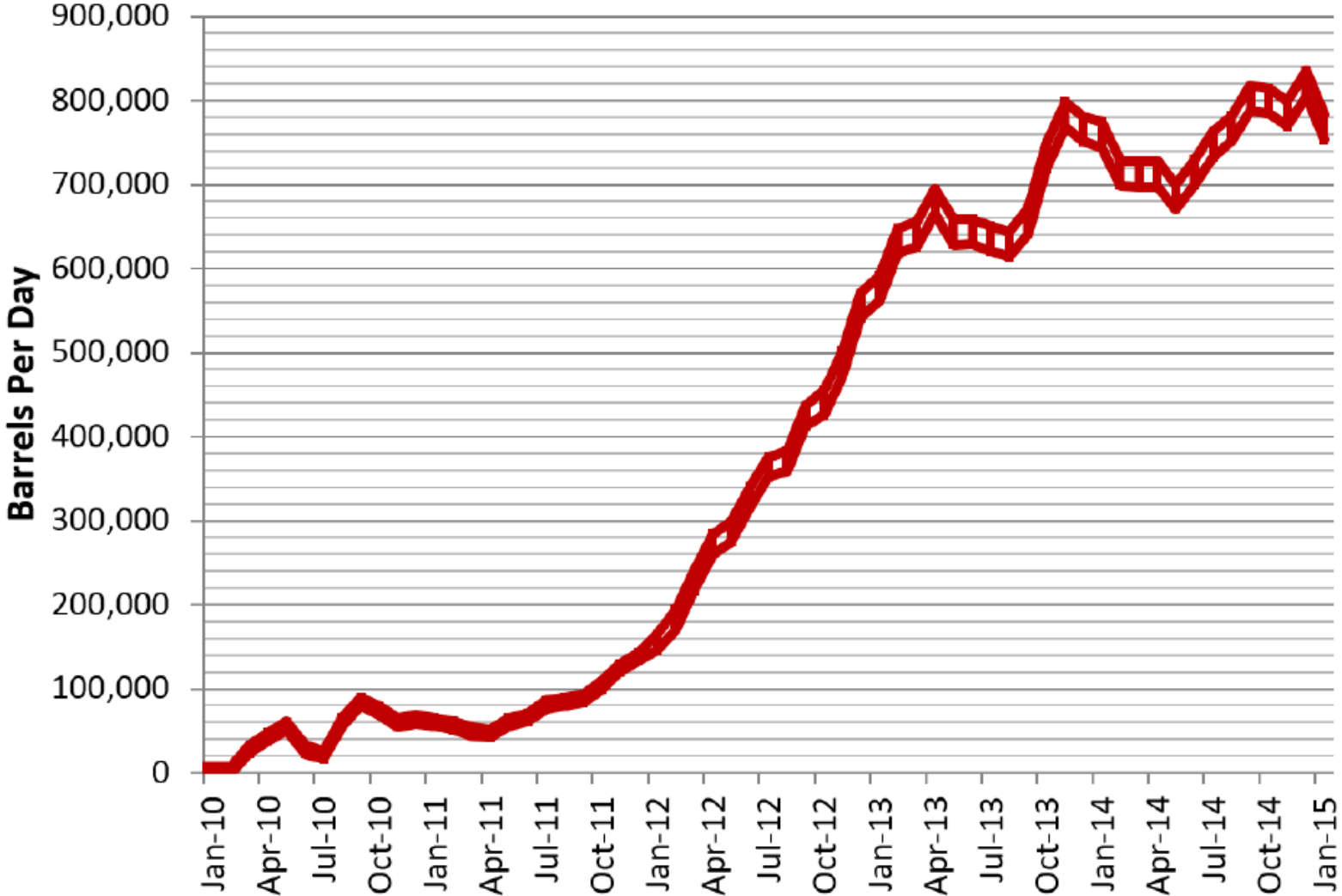


Growth of Crude by Rail Carloads

Originated Carloads on Class I Railroads (1,000's)



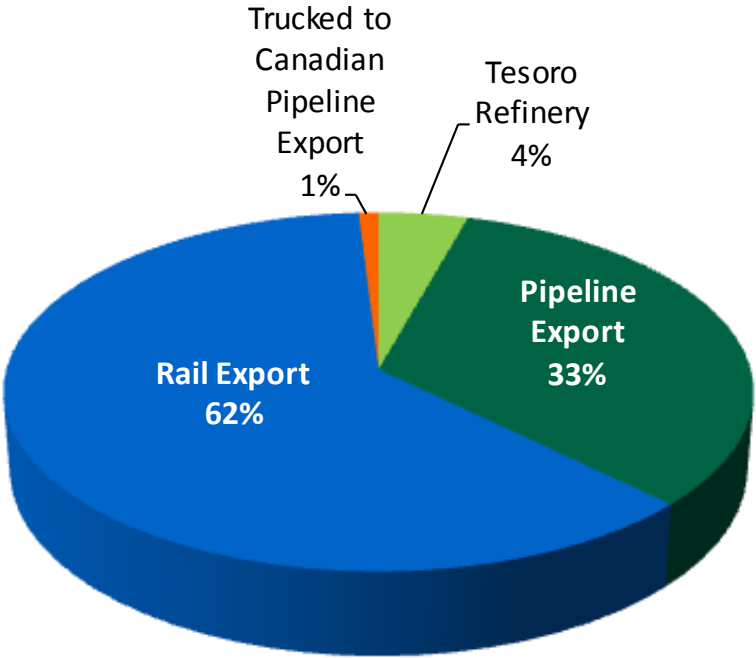
Estimated North Dakota Rail Export Volumes



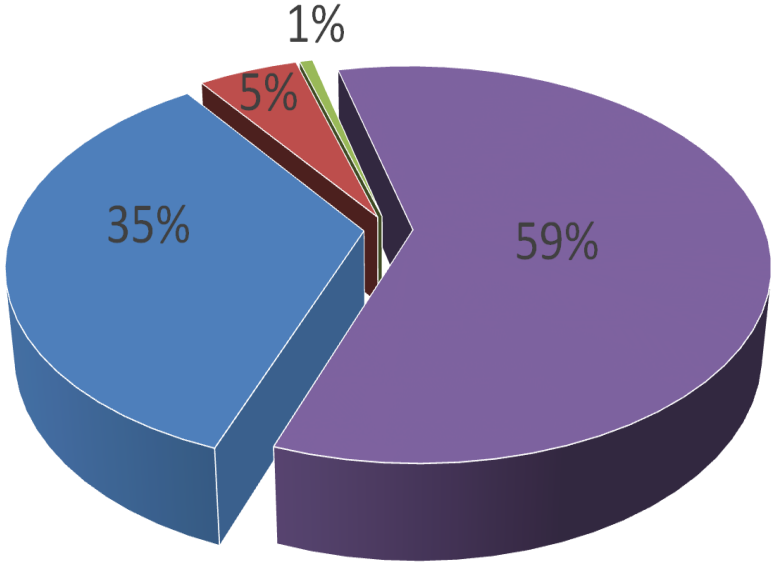
Source: North Dakota Pipeline Authority, February, 2015 Update,

Williston Basin Crude Oil Transportation

2013



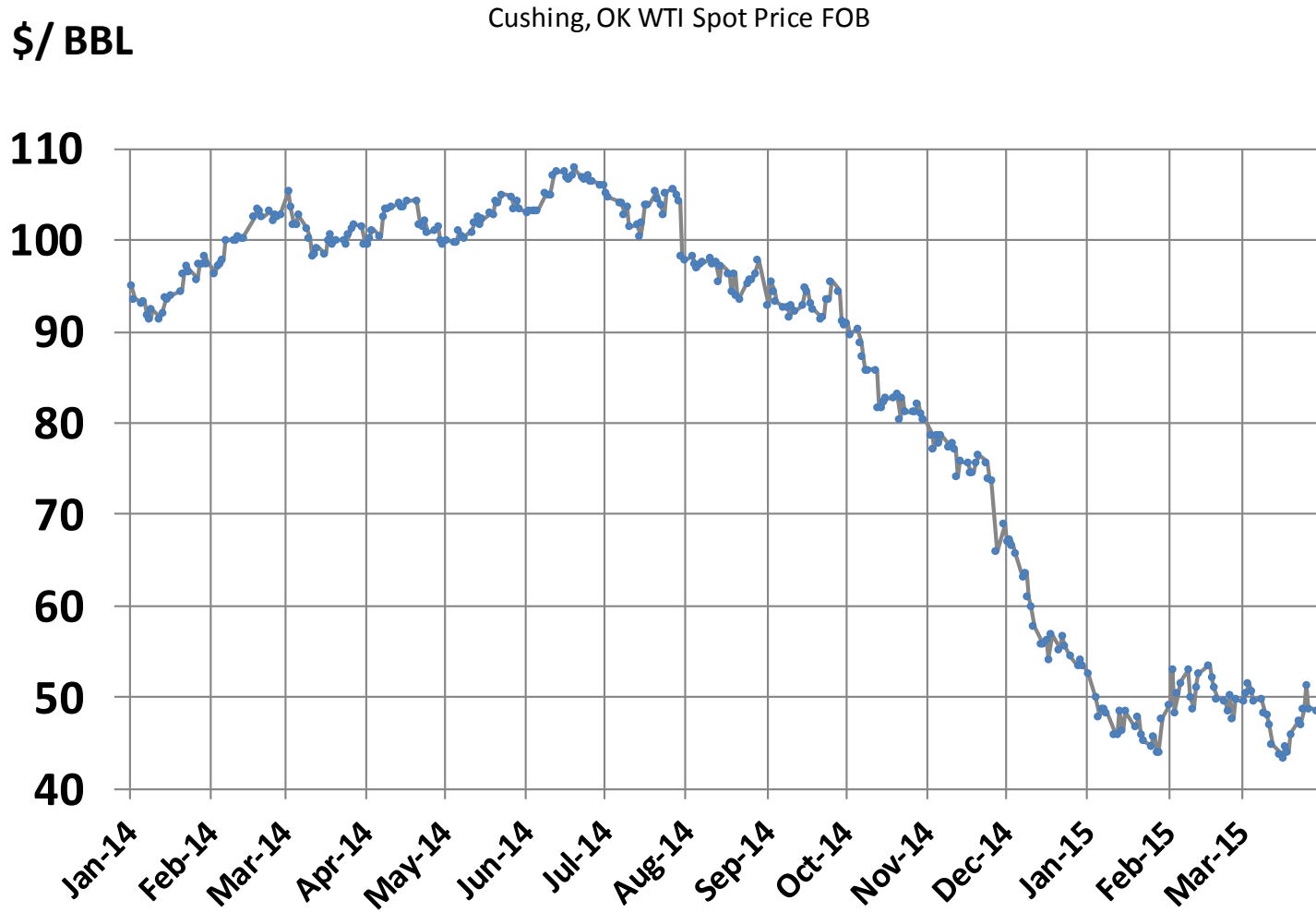
2014



- Estimated Pipeline Export
- Tesoro Refinery
- Truck to Canadian Pipelines
- Estimated Rail

Source: North Dakota Pipeline Authority, January 2014 and February 2015 Updates

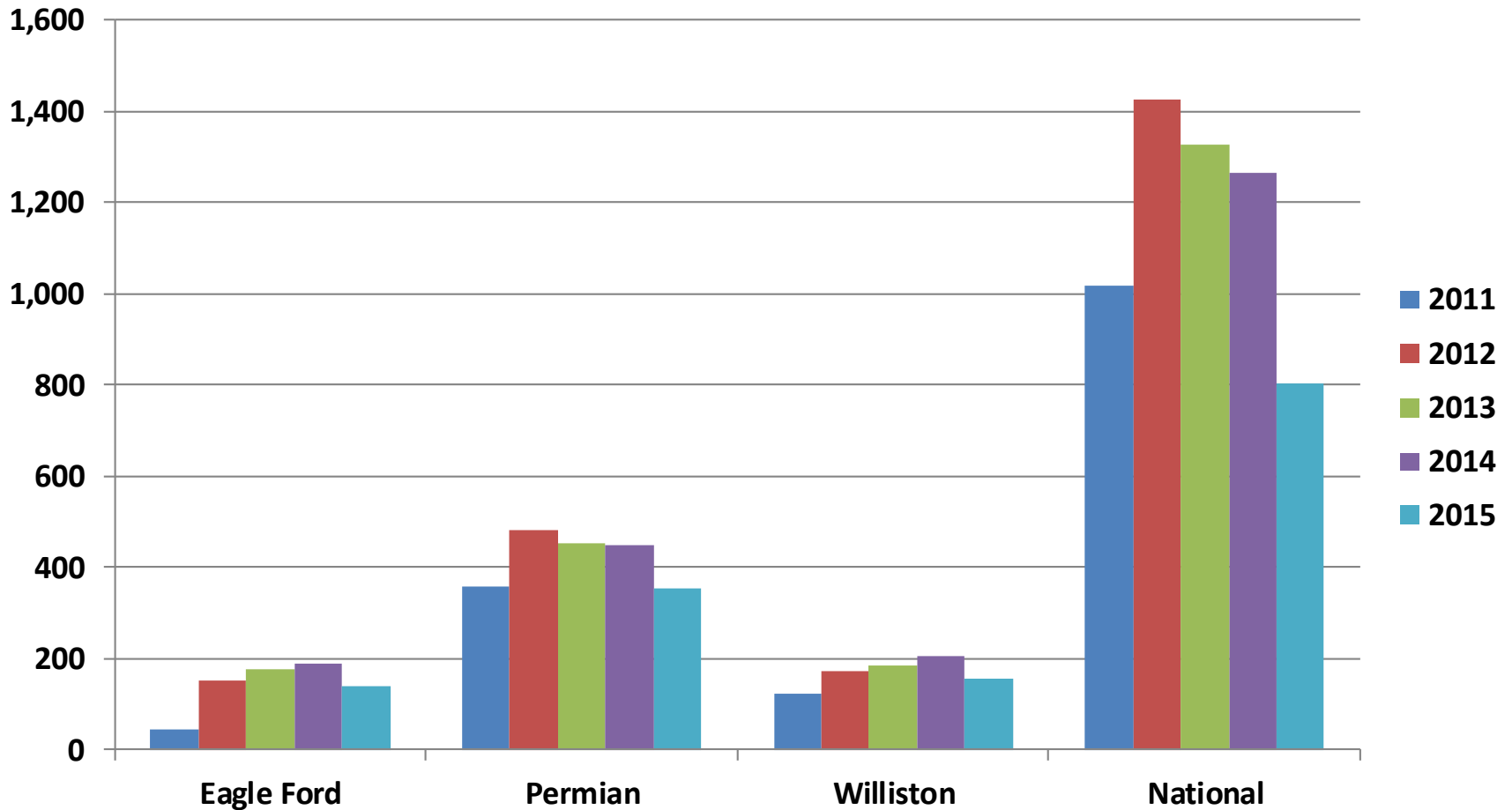
WTI Price Decline



Source: U.S. EIA

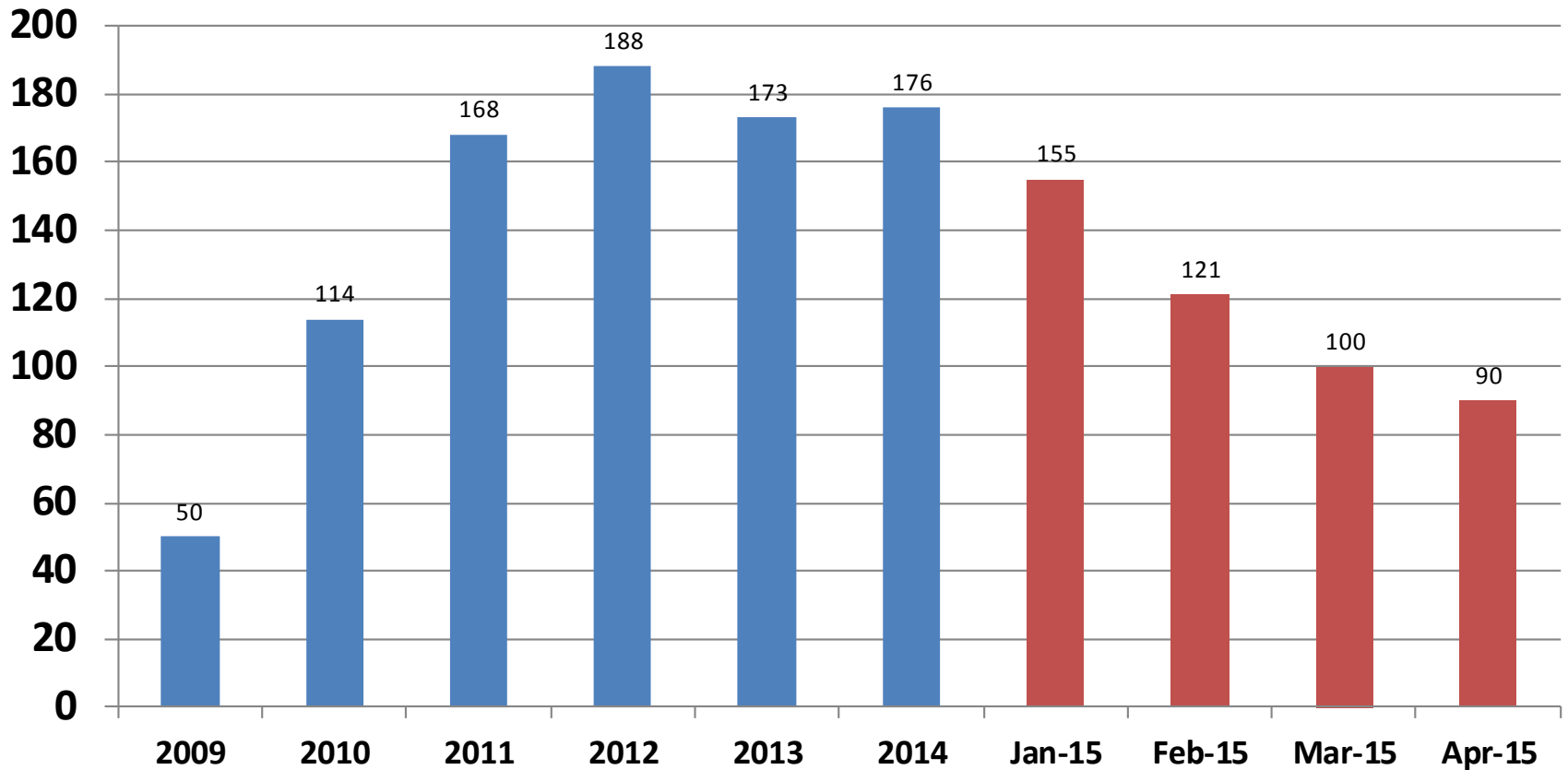
US Rig Count

February Year-to-Year Comparison



North Dakota Rig Count

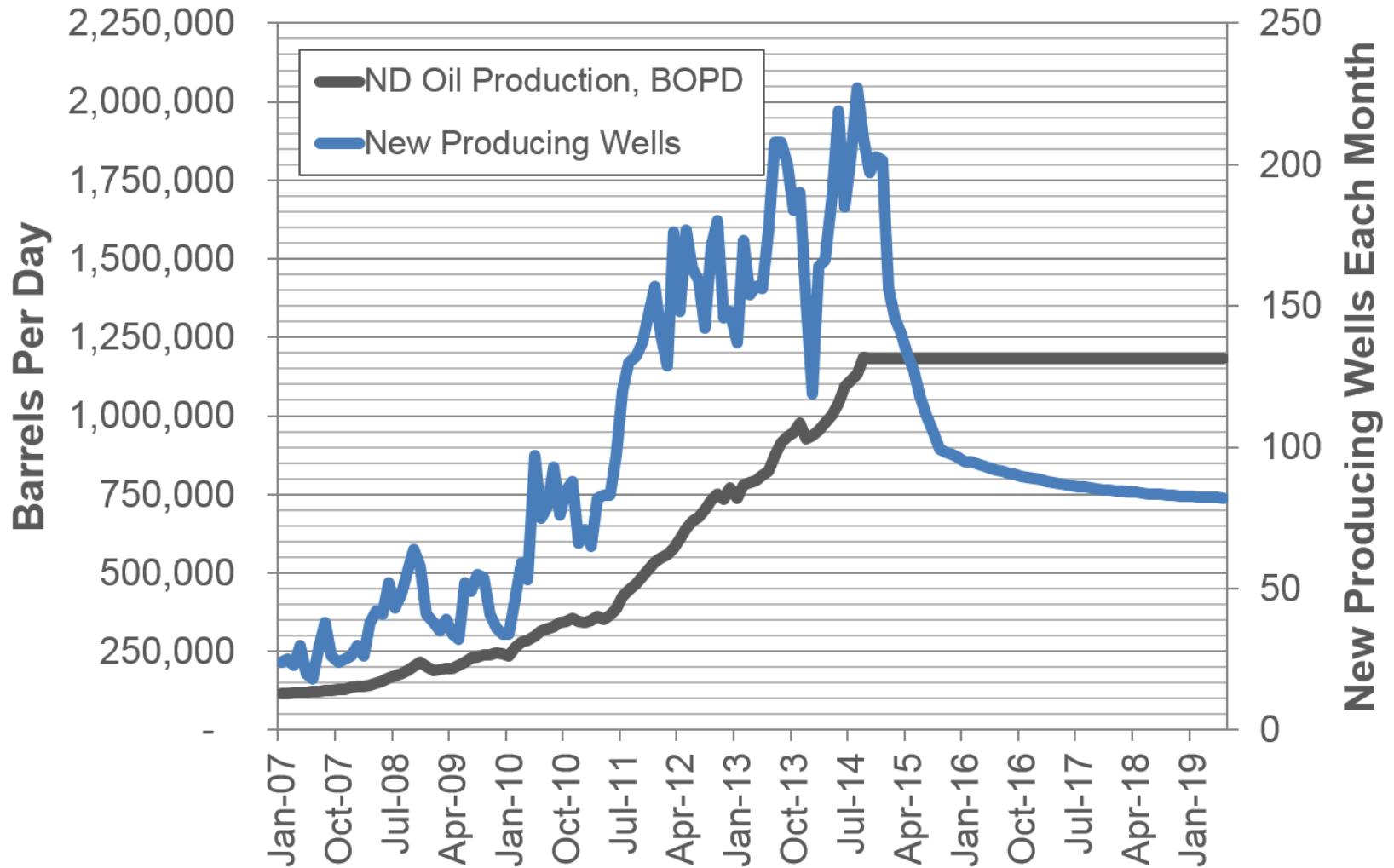
Are We Approaching the Bottom?



Source: Baker Hughes

Annual and Monthly Averages

Current Price Environment Impact



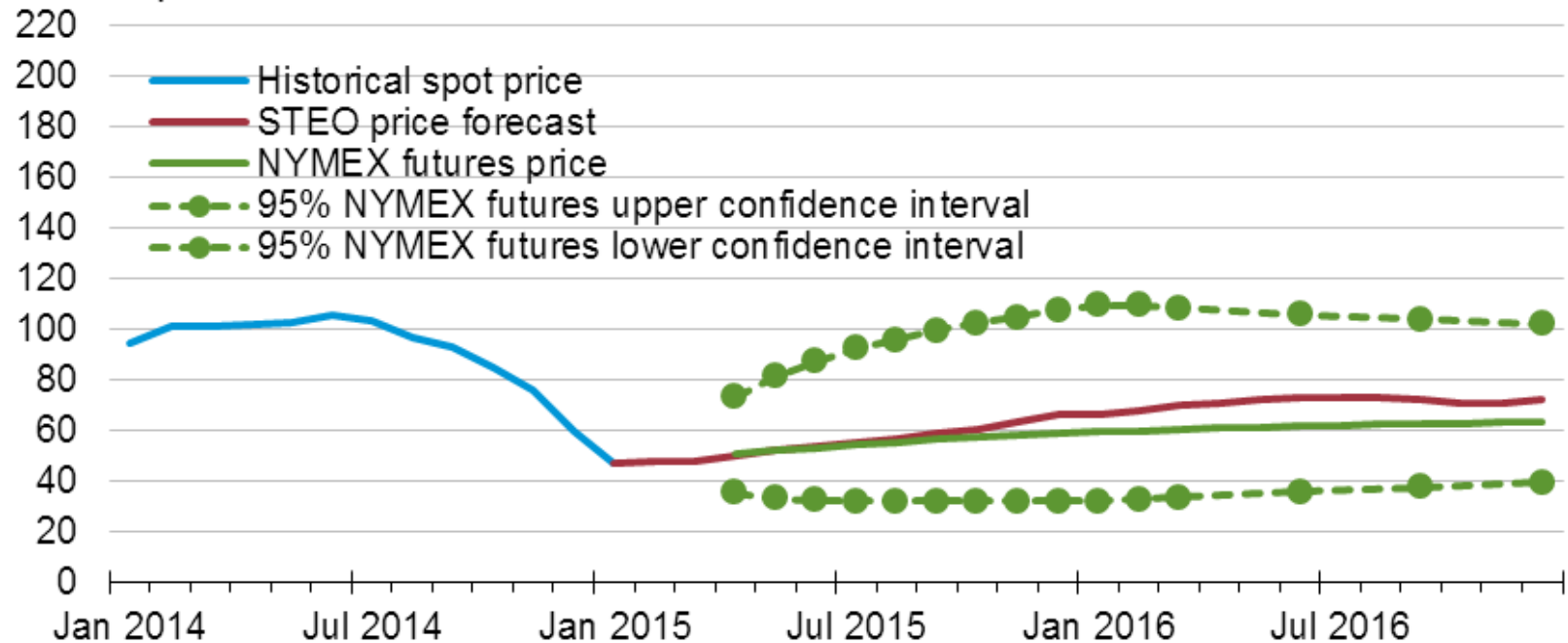
Source: North Dakota Pipeline Authority

So Where Are Prices Going?

West Texas Intermediate (WTI) Crude Oil Price



dollars per barrel

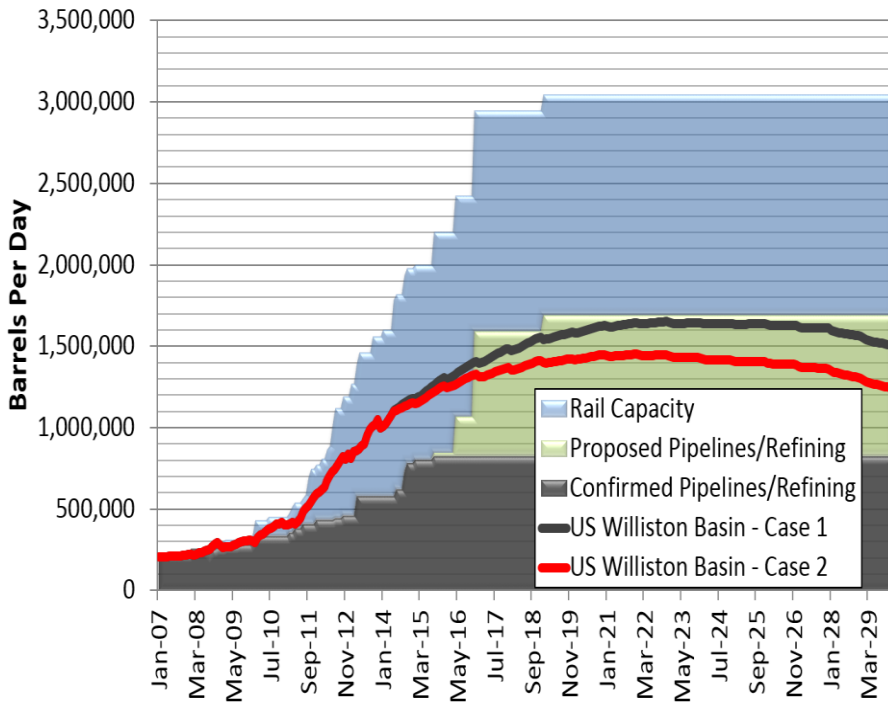


Note: Confidence interval derived from options market information for the 5 trading days ending Feb. 5, 2015. Intervals not calculated for months with sparse trading in near-the-money options contracts.

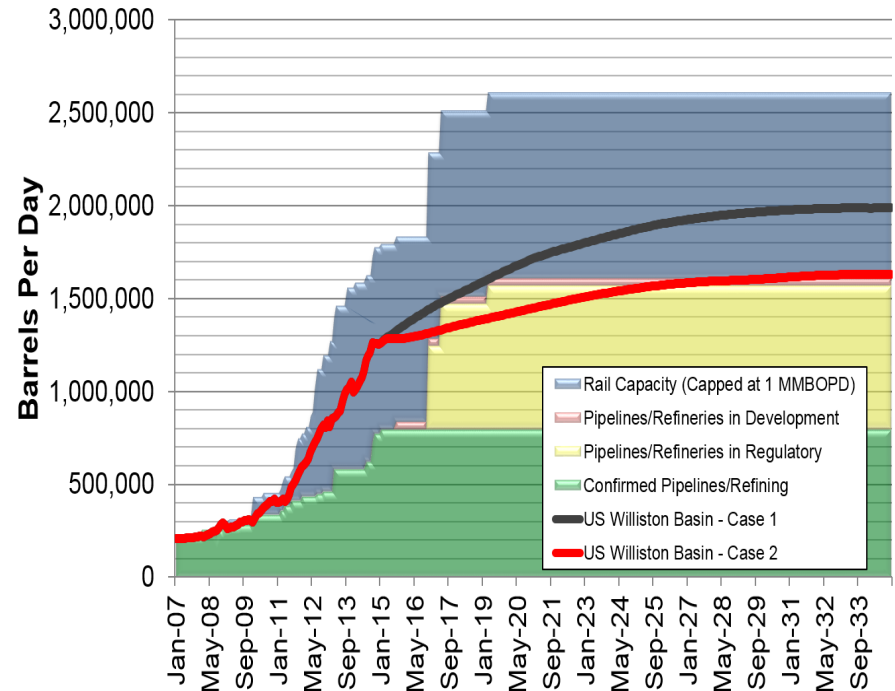
Source: Short-Term Energy Outlook, February 2015.

Williston Basin Oil Production & Export Capacity, BOPD

June 2014

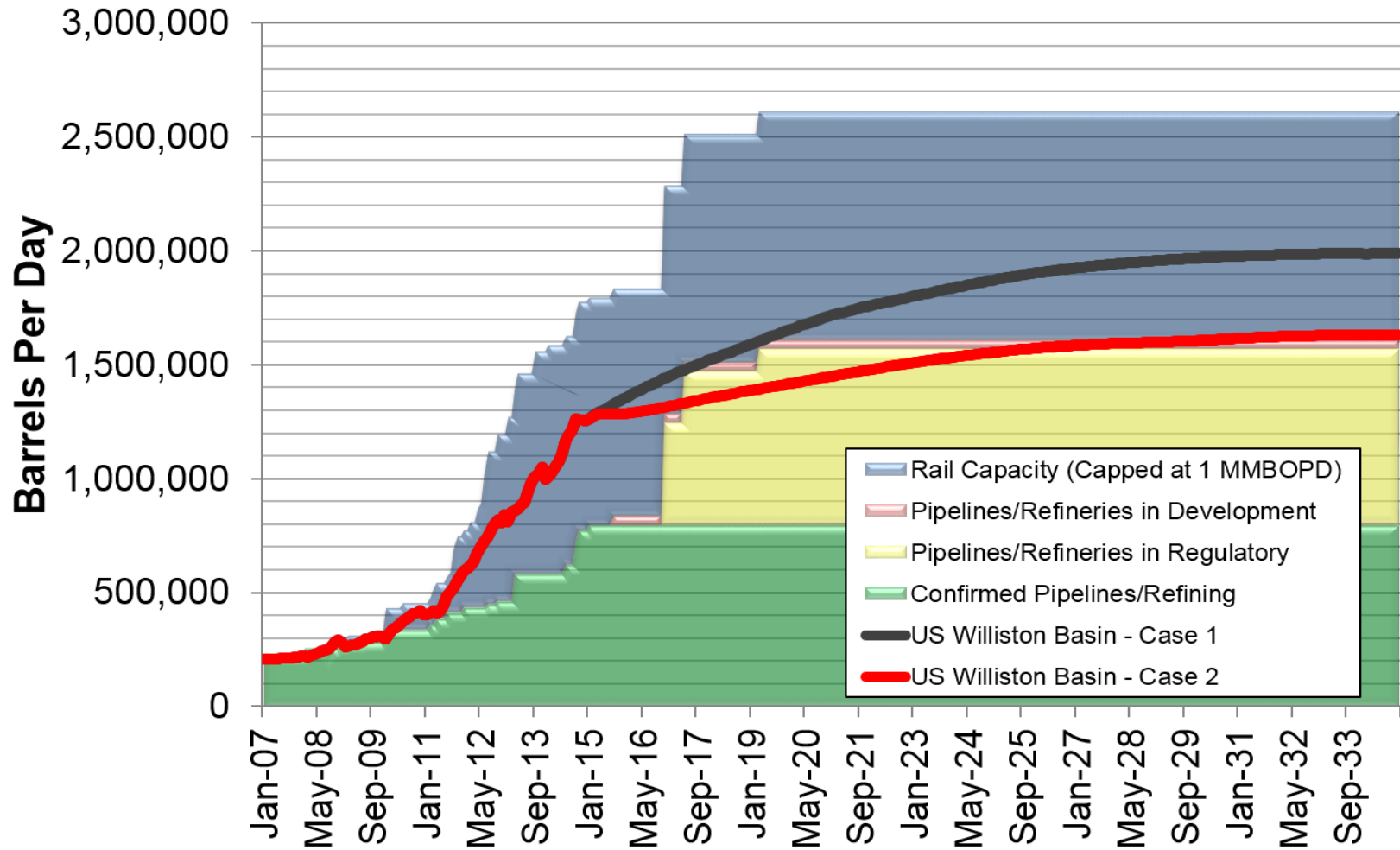


January 2015



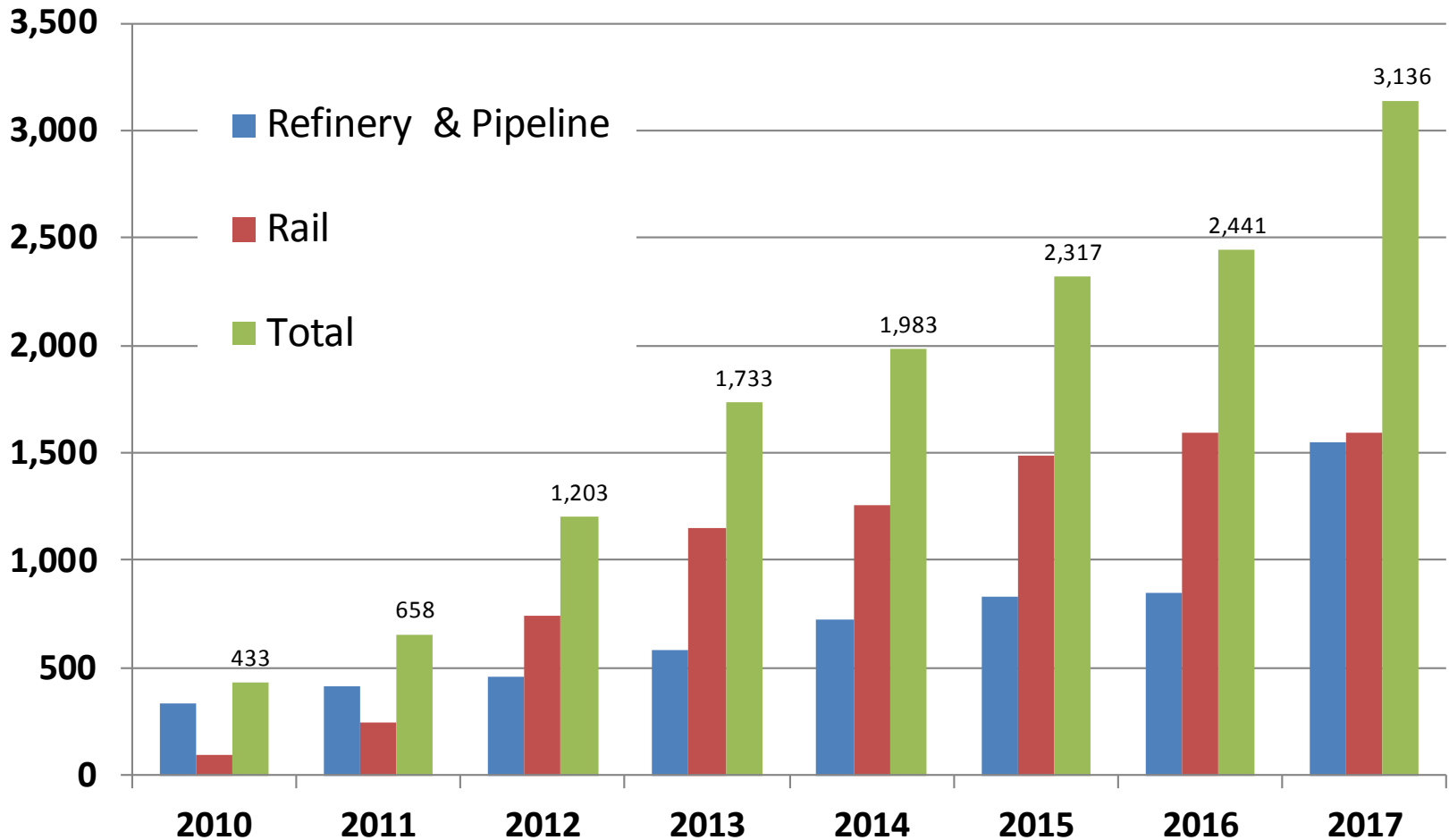
Source: North Dakota Pipeline Authority June 2014 and January 2015

Williston Basin Oil Production & Export Capacity, BOPD



Williston Basin Crude Oil Export Options

(Capacity – Not Market Share)



Rail: Loading terminal capacity/not railroad

Enhanced Rail Tank Car Standards

Proposed Rule

- Issued on August 1, 2014
- Applies to trains carrying flammable liquids
- Proposed 3 options for car thickness for new and existing tank cars – 2 shell options: 9/16- inch and 1 option: 7/16-inch
- New and existing cars to include jackets, full-height head shields, reconfigured bottom outlet valve handle, reclosing pressure relief valve, thermal protection system
- New cars must have top fittings protection; no additional top fittings protection required for existing cars
- Electronically controlled pneumatic brakes required for the Option 1 car
- Retrofit schedule for existing cars is staggered by Packing Group for material being transported beginning in 2017
- Sampling and testing program required
- 3 options for speed restrictions across the entire railroad network
- Additional reporting to assist emergency responders

Issues with Rule

- Modification timeline is unrealistic
- Proposal failed to account for repair shop ramp up period
- PHMSA's predicted modification rate is too high
- Reduction in tank car capacity = more trains on the tracks, increased use of other transport options or production cutbacks
- Harmonization with Canada's rule

Final Rule Expectations

- Under review at White House Office of Management & Budget; expected to be issued in May 2015
- Shell Thickness ?
- Enhancements ?
- Retrofit Schedule ?

Conclusions

- All stakeholders are committed to the safe and compliant transport of crude oil by rail
- Unconventional production continues to contribute materially to employment, GDP & energy independence
- Oil has responded quickly to price pressure
- Unconventional production of crude oil is expected to grow slowly into 2Q 2015 then flatten
- Rail alternative will remain an important delivery mode particularly to the east and west coasts
- Marketplace awaits the finalization of the rulemaking