Message

From: Streett, Mary [/O=EXCHANGELABS/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN[redacted]
Sent: 16/10/2019 19:00:16
To: Ellis, Joe [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=[redacted]; Seymour Khalilov [redacted]@bp.com) [/o=ExchangeLabs/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=[redacted]
Subject: FW: North America Midstream & MLPs: Evaluating the Risk of Warren's "Fracking Ban"
Attachments: TPH fracing ban research note.pdf

Mary M. Streett

Senior Vice President, U.S. Communications & External Affairs
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Confidential

From: Sullivan, Brian D (IR) <[redacted]@bp.com>
Sent: Wednesday, October 16, 2019 2:48 PM
To: Coburn, Craig <[redacted]@bp.com>; Streett, Mary <[redacted]@bp.com>
Subject: RE: North America Midstream & MLPs: Evaluating the Risk of Warren's "Fracking Ban"

Redacted - First Amendment

Brian

Confidential

From: Coburn, Craig <[redacted]@bp.com>
Sent: Wednesday, October 16, 2019 11:23 AM
To: Streett, Mary [redacted]@bp.com>
Cc: Sparkman, Douglas <[redacted]@bp.com>; Dio, Susan W [redacted]@bp.com>; Sykes, Starlee R <[redacted]@bp.com>; Sullivan, Brian D (IR) <[redacted]@bp.com>; Boas, Hans [redacted]@bp.com>; Nitcher, Eric L [redacted]@uk.bp.com>; Christison, Clive R <[redacted]@bp.com>
Subject: RE: North America Midstream & MLPs: Evaluating the Risk of Warren's "Fracking Ban"

Mary,

Redacted - First Amendment

Confidential

From: Streett, Mary [redacted]@bp.com>
Sent: Tuesday, October 15, 2019 5:51 PM
To: Coburn, Craig <[redacted]@bp.com>
Cc: Sparkman, Douglas [redacted]@bp.com>; Dio, Susan W <[redacted]@bp.com>; Sykes, Starlee R <[redacted]@bp.com>; Sullivan, Brian D (IR) [redacted]@bp.com>; Boas, Hans <[redacted]@bp.com>; Nitcher, Eric L <[redacted]@uk.bp.com>; Christison, Clive R <[redacted]@bp.com>
Subject: RE: North America Midstream & MLPs: Evaluating the Risk of Warren's "Fracking Ban"

Craig -

Redacted - First Amendment

Mary

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Confidential

From: Coburn, Craig [redacted]@bp.com>
Sent: Tuesday, October 15, 2019 5:09 PM
To: Streett, Mary <[redacted]@bp.com>
Cc: Sparkman, Douglas [redacted]@bp.com>; Dio, Susan W <[redacted]@bp.com>; Sykes, Starlee R [redacted]@bp.com>; Sullivan, Brian D (IR) [redacted]@bp.com>; Boas, Hans [redacted]@bp.com>; Nitcher, Eric L <[redacted]@uk.bp.com>; Christison, Clive R <[redacted]@bp.com>
Subject: FW: North America Midstream & MLPs: Evaluating the Risk of Warren's "Fracking Ban"

Mary,

You can see a bit of back and forth between Brian in IR and Spiro at CS below.

Redacted - First Amendment

From: Dounis, Spiro <[redacted]@credit-suisse.com>
Sent: Tuesday, October 15, 2019 4:39 PM
To: Sullivan, Brian D (IR) <[redacted]@bp.com>
Cc: Li, Lei <[redacted]@se1.bp.com>; Carr, Geoff[redacted]@bp.com>; Coburn, Craig[redacted]@bp.com>
Subject: RE: North America Midstream & MLPs: Evaluating the Risk of Warren's "Fracking Ban"

Totally hear you Brian – the "fracking ban" has become the buzzword for the topic. We're of course referring to Senator Warrens broader statement:

"On my first day as president, I will sign an executive order that puts a **total moratorium on all new fossil fuel leases for drilling offshore** and on public lands. And I will ban fracking—everywhere."

Our E&P team appropriately noted that a total fracking ban would take an act of congress when it comes to non-federal land but a moratorium (while unlikely) on federal lands is conceivable and was all we got asked about last week – hence the impetus for this report.

Totally agree with you on the slow manifestation in GoM and lower decline rates due to the conventional production profile.

Some Caveats: In our view, the impact of a ban would be largely on growth volumes vs. existing volumes. While this matters less for shale production anyway given steep declines, it's important for GoM-exposed assets as these wells have lower decline rates. So while several names (notably BPMP and SHLX) are highly-exposed, the **impact on actual cash flows will be slower to manifest for those tied to more conventional production**. It is also important to note that this is our preliminary analysis (largely using US government maps and admittedly limited company disclosures); **we plan on refreshing our analysis following a more in-depth discussion with our coverage**.

Appreciate the clarification on the 45% - we'll make sure to correct the record. We were hoping for feedback like this to do a follow up report and fine tune the analysis.

Also agree that prices would necessarily increase. We addressed that in the report to the extent it impacted G&P names but didn't go down the refined products route since most of the coverage does not have direct commodity sensitivity there. Hear you though, things politically might change quickly if prices hit $4/gal. Once again, we see this as unlikely but received the question " What happens if Warren wins" constantly last week while marketing.

It prompted this report from our E&P team as well: https://plus.credit-suisse.com/s/V7jFHQ4AF-ZS6W

On the actual impact to cash flows – we get the sense its inconsequential to investors as crazy as that sounds. Investors are still wary following what happened in Colorado with prop 112. That completely changed the way people viewed the DJ Basin and the stocks have not recovered since. Despite winning the ballot, the threat alone was enough to permanently hobble some of the DJ Basin valuations. Skittish market.

Always appreciate the feedback

Spiro M Dounis, CFA, CPA
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From: Sullivan, Brian D (IR) [redacted]@bp.com>
Sent: Tuesday, October 15, 2019 4:09 PM
To: Dounis, Spiro (VPRC 6)
Cc: Li, Lei; Carr, Geoff; Coburn, Craig
Subject: RE: North America Midstream & MLPs: Evaluating the Risk of Warren's "Fracking Ban"

Thanks for the note Spiro.

It caught my attention given you highlight elevated risk to BPMP in your coverage universe from a "fracing ban" or "drilling ban".

A few thoughts / reactions to share:

- I didn't realize the MLP audience had that long term of a view! It would take years for this to play out in the courts plus offshore decline rates are shallower than shale. Certainly this can't be a serious threat to issuer's financial guidance periods.
- To be clear, GoM deepwater wells do not require fracing to flow – they flow naturally.
- We could quibble about the proportion, but BPMP's offshore portfolio is ~45% of CAFD the last time I checked. Still, to your point – a big chunk.
- What will happen to the price of gasoline on the east and west coasts upon ban announcement? Do you remember the last time gasoline was $4 / gallon and the political implications? What are the chances of such a ban being in place for any length of time?

All my best!

Brian

From: Dounis, Spiro [redacted]@credit-suisse.com>
Sent: Monday, October 14, 2019 11:08 PM
To: Sullivan, Brian D (IR) [redacted]@bp.com>
Subject: North America Midstream & MLPs: Evaluating the Risk of Warren's "Fracking Ban"

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SECTOR REVIEW

North America Midstream & MLPs: Evaluating the Risk of Warren's "Fracking Ban"

OCTOBER 15, 2019
EQUITY RESEARCH
AMERICAS | UNITED STATES
INFRASTRUCTURE

- **Weighing a Potential Warren "Fracking Ban":** We created a midstream company heatmap to frame the potential impact of a "frack ban". This report follows the publication of our E&P team's analysis of the impact of a potential "frack ban" by Democratic presidential candidate Elizabeth Warren. There are many outstanding questions on what this ban would look like, and we would refer to the E&P team's note for a discussion of the difficulties of it actually ever being enacted. For the sake of this analysis, we consider a scenario where a ban on new drilling on federal land is enacted (but largely excludes Native American reservations). Ignoring secondary effects (downstream asset utilization, commodity prices, etc.), the **impact would primarily fall on names with gathering and processing assets** in the **Northern Delaware Basin** (New Mexico portion), **Powder River Basin** (Wyoming), and **various non-DJ Rockies plays** (Piceance, Uinta, etc.), as well as names in the federal **Gulf of Mexico**. Overall, our most exposed names at this point appear to be: **BPMP, SHLX, SMLP, NGL, and WMB**. The least exposed are generally LNG, refining logistics, and Marcellus names.

- **Unclear What Happens to Contracts Tied to this Acreage:** A crucial outstanding question would be MVCs / other long-term contracts for midstream assets tied to this acreage – what happens if this land becomes "undrillable"? Some contract agreements suggest the lack of "governmental approvals or licenses" could allow for suspension of payment – **potentially weakening the protections offered by MVCs**, though we admit we need more info at this point.

- **Full Coverage Breakdown:** See our heatmap table inside this report for a full breakdown of our coverage. **Of the 35 names included, 19 have very little to no direct impact**. Only five have what we would call 'more than modest'. Again, this analysis does not include secondary effects; we would expect almost our entire coverage to be negatively impacted. That said, we could see some scenarios where a federal drilling ban could be a net positive for some names. Most notable would be if a ban pushes a producer to reallocate capital within their existing portfolio from a challenged asset (GoM, for instance) to less-exposed acreage (Bakken, for instance): HESM screens best here. A cut to supply could also be supportive of prices which could impact those with POP/KW contracts.

- **Some Caveats:** In our view, the impact of a ban would be largely on growth volumes vs. existing volumes. While this matters less for shale production anyway given steep declines, it's important for GoM-exposed assets as these wells have lower decline rates. So while several names (notably BPMP and SHLX) are highly-exposed, the **impact on actual cash flows will be slower to manifest for those tied to more conventional production**. It is also important to note that this is our preliminary analysis (largely using US government maps and admittedly limited company disclosures); **we plan on refreshing our analysis following a more in-depth discussion with our coverage**.

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