FRANK RODRIGUEZ, VICE PRESIDENT, JEFFERSON ENERGY COMPANY

Many of the headwinds that affected the upstream and midstream businesses in 2016 had an effect on Jefferson as well – low flat crude prices, shutting in of production, compressed price spreads versus WTI and pipeline takeaway capacity.

Although there were challenges, there was substantial recovery in the crude by rail business in the last half of the year. 2016 was also the start of several expansion projects at Jefferson, which will bear fruit in 2017 and beyond.

The first project is two 250,000 barrel tanks that will be used to receive, store, and transship a heavy (heated) feedstock for a local refiner. Jefferson has world class heating capabilities, and this is a natural segue from our heavy crude receipt capabilities. The feedstock will come in via Aframax ships and load out by barge, taking advantage of our marine system efficiency. This project is expected to be online in the third quarter of 2017.

In addition, the ethanol joint venture project with Green Plains continues on schedule. Phase I of this project consists of four new-build tanks of 550,000 barrels total capacity, for distribution both locally as well as for export. From an export standpoint, the terminal will be an open access co-mingled facility, and will take advantage of our unique location, which has access to three US Class I railroads as well as two Canadian Class I railroads.

This will be a very efficient operation, with unit trains targeted to be unloaded within 15 hours and no short line switches adding to the handling time. The facility will be able to land two full ethanol unit trains simultaneously, and handle up to Aframax sized vessels at load rates of 10,000 barrels per hour. There will also be a truck rack for local distribution. We are already evaluating a fifth tank in ethanol service to take advantage of other opportunities with Green Plains that have surfaced since the creation of the joint venture last June. We have an excellent working relationship with the people at Green Plains, and are very excited about additional opportunities together.

OUTLOOK

Jefferson is bullish on 2017 and beyond. Both of the agreements mentioned above were signed in 2016 with an eye to startup in 2017. Ethanol exports are forecast to be strong this year as well as next, so we expect to see strong volumes ramping up quickly on the ethanol side.

This year we continue to push forward with developing a rail loading system at the Beaumont terminal for shipping light products (gas and diesel) to Mexico as part of the liberalisation of the Mexican energy sector. Mexico currently imports a considerable amount of light products and the new energy regulations will allow the private sector to supply these products more readily. Having rail loading capability will allow our customers to get to these historically underserved markets in the interior of Mexico, where pipelines are not likely be built.

From a heavy Canadian crude standpoint, we have seen a considerable uptick in rail business at the start of this year. Undiluted/under-diluted heavy Canadian bitumen and conventional crudes have a natural home in the US Gulf Coast, with all the coking and cracking capabilities of the local refineries. These heavy crudes are also a good fit in the fuel oil market. The heavy crudes are either blended with local crudes or shipped neat on heated barges. By mixing to spec at the terminal, we can create 'look-alike' blends at very competitive economics versus other foreign or domestic crudes, and better fill the refinery units compared to WCS, which has up to 30% condensate. Our heated tanks have paddle mixers, which create a homogeneous blend that can meet the needs of local refineries, dependent on the specific metallurgy of the refinery. The heavy Canadian crude by rail trend is expected to continue in 2017 and 2018 as new heavy crude production is brought online. Jefferson is evaluating additional heated crude storage to build upon the expected growth of Canadian crude by rail, which would be brought online in late 2017 or early 2018.

Jefferson has recently recruited considerable talent to the management team, and that has paid off with these new projects as well as attracting more heavy Canadian crude by rail, for which the terminal was specifically designed. Additional staff will be in place in the first and second quarters of 2017 to facilitate continued growth and operationalise new assets. A new ERP system was implemented last year, and an updated terminal automation system is in the works for 2017.

2016 was focused on development of commercial opportunities. For Jefferson, 2017 is focused on completion of construction and commissioning these new operations. Our ownership, Fortress Transportation and Infrastructure, has been very supportive in these new ventures, and we expect this growth trajectory to continue.

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Frank Rodriguez, Vice president, Jefferson Energy Company