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Sprague Overview

Sprague was founded in 1870 and has grown to become one of the largest suppliers of energy and materials handling services to commercial and industrial customers in the northeast United States and Quebec today

Sprague’s business is diverse and unique in the MLP space\(^{(1)}\) –

- Control 19 waterborne terminals with 14.2 million barrels of refined product storage, annually marketing more than 1.4 billion gallons
- Market natural gas in 13 states, supplying more than 57 Bcf of gas annually
- Handle more than 2.8 million short tons and 298 million gallons annually of third-party bulk and liquid materials across our docks in 14 terminals

Sprague is engaged in four primary business strategies:

- Making accretive terminal and marketing/distribution business acquisitions
- Achieving organic growth in existing business segments
- Limiting exposure to commodity price volatility and credit risk
- Maintaining operational excellence with safe, cost-effective operations and environmental stewardship

\(^{(1)}\) As of June 30, 2016 on TTM basis
Sprague purchases, transports, stores and markets distillates, unbranded gasoline, residual fuel oil and asphalt to wholesalers, resellers and commercial customers. Of our total volume sold in 2015, distillate sales accounted for 72%, gasoline accounted for 13% and residual fuel oil and asphalt accounted for approximately 15%.
Sprague sells natural gas and related delivery services to industrial, commercial, institutional and government customers.

**Example Customers**
- Power Generation
- Manufacturing
- Retail
- Education
- Government
- Commercial Real Estate
- Health Care

**Activities**
- Schedules delivery on major pipelines
- Delivers gas to utilities and/or customers directly
- Bills customers for supply
- Provides value-added products and services

**Sprague**

**Exploration / Production**

**Processing**

**Storage**

**Transportation**

**Local Distribution (Utility)**
Sprague utilizes its waterfront terminal network to offload, store and prepare for delivery a wide variety of liquid, bulk and break bulk materials on long-term, predominantly fee-based contracts.

**INBOUND**

- **Source**: South America, Europe, Asia, Canada
- **Transport**: Ship
- **Offload**: Windmill Components
- **Store**: Asphalt
- **Load**: Gypsum
- **Customers**: Domestic Paper Mills

**OUTBOUND**

- **Source**: New England, Canada
- **Transport**: Rail, Truck, Ship
- **Offload**: Wood Pulp
- **Store**: Newsprint
- **Load**: Crude Oil
- **Transport**: Export to Final Destination
In addition to its 19 owned and/or controlled terminals, Sprague also has access to an extensive network of third-party terminals across the Northeast.

(1) As of June 30, 2016

(2) Does not include ~2.0 million barrels of storage capacity (45 storage tanks) currently out of service and not necessary for current operations.
PADD = Petroleum Administration for Defense Districts

PADD 1: East Coast
- New England
- Central Atlantic
- Lower Atlantic

PADD 2: Midwest

PADD 3: Gulf Coast

PADD 4: Rocky Mountain

PADD 5: West Coast
- West Coast
- Rocky Mountain
- Midwest
- Gulf Coast
- East Coast
Supply and Logistics

The East Coast and Gulf Coast are highly dependent on each other to balance supply and consumption. East Coast fuels consumption is met through a number of supply sources but none is more important than supply from the Gulf Coast.

Conversely, surplus supply in the Gulf Coast is distributed to a number of domestic and foreign markets, but none is larger than the East Coast. Critical to this inter-PADD trade are two interstate pipeline systems—the Colonial Pipeline and the Plantation Pipeline. **The net movement to the East Coast on these systems—2.3 million b/d—is equal to 47% of total East Coast consumption and 30% of Gulf Coast supply.**

An additional 0.5 million b/d is shipped from the Gulf Coast to the East Coast via coastwise-compliant tankers and barges, primarily to ports in Florida. **Altogether, net pipeline and waterborne shipments from the Gulf Coast to delivery points in the East Coast are equal to 58% of East Coast consumption and 37% of Gulf Coast supply.**
Northeast US Petroleum Product Supply

New England Supply Dynamics

New England has neither in-region refinery production nor any pipeline connections to refining centers outside the region. The region’s largest markets, located along the Atlantic coast, are dependent on reliable port operations and a continuous supply of marine deliveries from both foreign and domestic sources.

Disruptions to New England ports resulting from hurricanes, severe winter storms, or extensive ice accumulation, pose the greatest threat to the continuity of the region’s fuel logistics. There are no feasible alternatives to marine supply, and an extended disruption to the region’s ports can lead to product shortages, particularly during the winter months when heating oil consumption is the highest.

Realizing this vulnerability, the U.S. Department of Energy (DOE) maintains emergency reserves of heating oil and motor gasoline at commercial terminals in several New England ports.

New England supply can also be impacted by disruptions further up the supply chain, specifically disruptions to terminal operations in New York Harbor, which delivers the bulk of New England’s domestic marine supply, or to Irving Oil’s 320,000 b/cd refinery in St. John, New Brunswick, which delivers more than half of the region’s foreign imports.

In the event that either of these sources is disrupted, alternative supply could be imported from other sources in the Atlantic Basin, or from the U.S. Gulf Coast, subject to the availability of coastwise-compliant vessels or a waiver from the U.S. Department of Homeland Security to allow the delivery of products from Gulf Coast ports aboard noncompliant vessels.
PADD 1 (Atlantic US) Distillate Stocks

The chart to the left shows that PADD 1 distillate stocks breached ~66 million barrels in September 2016, surpassing a 2015 record high inventory of ~65 million barrels not realized until December of that year.

PADD 1 distillate inventory is robust by any standard and given current refining margins and forward market structure (contango) we expect refineries to continue producing and tankers to maintain near maximum stock levels for the foreseeable future.

Barring extreme cold, widespread refinery curtailments or a disruptive geopolitical event that would invert the forward market (or any combination thereof) New England distillate supply appears more than adequate to cover regional demand this year.

Storage Utilization

The 66 million barrels of distillate currently in tank in PADD 1 represents 71% of the total shell capacity (for distillate) available. Even at record-high inventory levels, there is still significant tankage (~27 million barrels) available for additional material.
The above chart shows PADD 1 distillate demand in barrels per day 2014, 2015 and 2016 year-to-date. Assuming “normal” 1st and 2nd quarter demand levels of ~1.5 million barrels per day, inventory currently in storage affords nearly 6 weeks of forward cover.
PADD 1A (New England) Distillate Stocks

The chart to the left shows that New England regional distillate stocks breached ~13 million barrels in November 2016, surpassing 2015 record-high inventories of ~12.5 million barrels not realized until December of that year.

In line with the greater PADD 1 region, New England distillate inventory is healthy by any standard and given the current market structure, we expect stocks to remain at high levels for the foreseeable future.
The Eastern US is a net draw of petroleum products from the Gulf Coast and abroad

- Limited regional refining capacity cannot meet demand requirements
- 2 key pipelines connect Gulf Coast production center to Atlantic Coast demand center
- International imports augment shortfalls in local and US Gulf production

Natural logistical bottlenecks do exist – particularly in New England – where there are no major pipelines providing a path for Gulf Coast production to move any further north than New York Harbor

- All bulk deliveries into New England are waterborne, making them vulnerable to weather
- Limited deep water berths capable of accommodating large vessels

Current regional fundamentals and existing infrastructure will mitigate the threat of these inherent constraints in the near-term

- PADD 1 (Atlantic US) distillate stocks are near an all-time high at ~66 million barrels
- Product currently in tank can cover approximately 6 weeks of normal winter demand
- Given current refining margins and forward market structure, product will continue to come
- Despite the record-high stocks, there is still roughly 27 million barrels of storage available
- PADD 1A (New England) stocks are at an all-time high of 13 million barrels