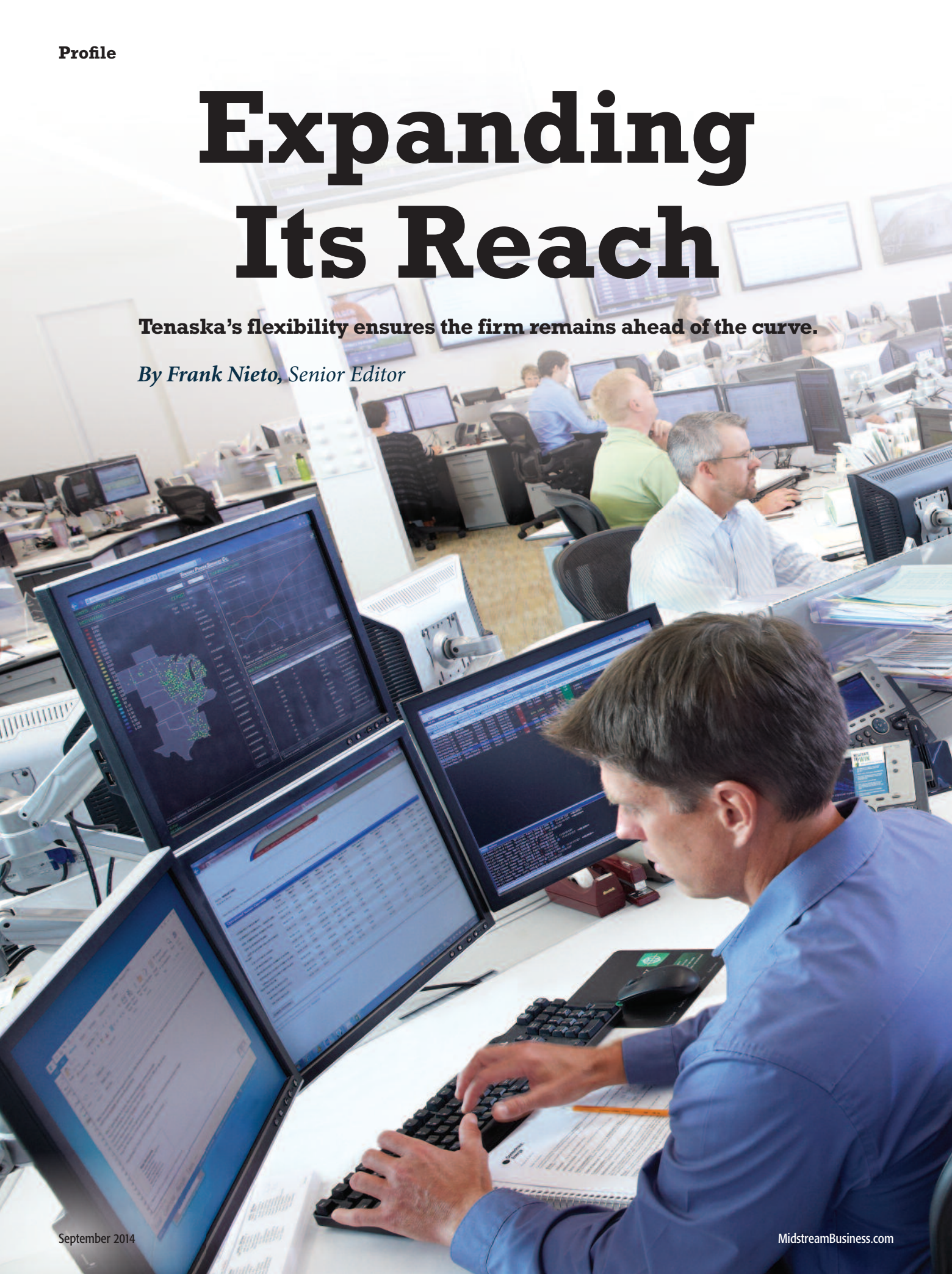
Expanding Its Reach

Tenaska's flexibility ensures the firm remains ahead of the curve.

By Frank Nieto, Senior Editor



Tenaska Marketing Ventures' trading floor handles nearly 10% of all domestic gas consumption. *Source: Tenaska Inc.*

Having a diverse asset base and financial flexibility is the goal of many midstream companies, but only the largest of publicly traded companies in the sector can ever possess both due to the complexity involved in raising capital for large-scale projects. One company that has succeeded in this achievement, without public backing, is Tenaska Inc.

Consistently ranked among the largest privately-held U.S. companies with gross operating revenue of $9.5 billion and more than $3.1 billion in assets in 2013, Tenaska has averaged $8.8 billion in annual revenue in the past five fiscal years. Throughout its history, the company and its affiliates have raised more than $18.7 billion in capital through bank facilities, capital market transactions, corporate facilities and equity from institutional investors.

Tenaska is comprised of privately held co-holding companies Tenaska Energy Inc. and Tenaska Energy Holdings LLC, and includes affiliates Tenaska Capital Management LLC (TCM), a manager of private equity investments in midstream and energy assets and companies and Tenaska Marketing Ventures (TMV), one of the largest marketers of North American natural gas.

Over time, Tenaska has grown and offers a vast array of services and products in the energy industry, including natural gas and power marketing, biofuels and related agriculture commodities, natural gas fuels, asset development and gas E&P. Among its service offerings are energy risk management, asset acquisition and operations and electric transmission. Tenaska and its affiliates have developed solar and gas-fired power plants, as well as natural gas processing plants, pipelines and gas storage facilities.

Tenaska was formed in 1987 in Omaha, Neb., by a group of investors who worked for InterNorth Inc., a large energy company with interests in natural gas pipelines, as well as independent power generation, liquids, petrochemical, coal and E&P operations. InterNorth acquired Houston Natural Gas in 1985, and eventually became known as Enron.

Attracting capital

"The founders of Tenaska believed that they could attract capital to large-scale, energy-oriented projects they would develop, construct and own based on a sound commercial foundation that met a customer's needs," Dan Lonergan, CEO and senior managing director, TCM, told *Midstream Business*.

In many ways these initial operations were similar to real estate development as the company established a commercial concept around utility-scale generation with a suite of contracts being put together to provide investment-grade financing for the individual plants.

This strategy has seen the company's portfolio of developed power plants grow to a total of 9,000 megawatts (MW) of capacity in 17 different facilities. These plants have a variety of

contracts with off-taking counter-parties, including utilities and marketers of electricity and natural gas.

Tenaska expanded its focus in the early 1990s as the pipeline market became deregulated.

"The power plant business is intermittent and there was an opportunity to have a more stable market presence that allowed us to get the Tenaska name out there, gather more intelligence and, more importantly, create a profitable enterprise that met a customer need," Lonergan said.

Gas marketing

This expansion focus occurred through the formation of TMV in 1991. This company was built with a focus on the supply-chain management and arbitrage aspects of the business through volume management, price hedging and management services. The segment's operations include activity throughout the U.S. and Canada.

"We've grown the business in the past 23 years to where we have been consistently ranked in the top 10 marketers in North America since 2003," Fred Hunzeker, president and CEO of Tenaska Marketing Group, told *Midstream Business*.

In 2013, TMV sold or managed 9.5% of total U.S. natural gas consumption—a fantastic figure for any company, but even more impressive for a company with about 140 total employees.

There is another distinct difference between TMV and the rest of the top North American marketers: It is the only independent private company consistently included in rankings that typically feature large producers, utilities and banks.

"This makes us unique, but it doesn't really change what we do. It allows us to be independent and not compete with most of our customers. We offer the same services that other companies do but without the conflicts, which has enabled us to grow this business from nothing nearly 25 years ago to a top five marketer today," Hunzeker said.

Having $1.5 billion in borrowing capacity, TMV's clout extends to its operations. It has been recognized as the largest gas pipeline capacity release trading company for the past five years. In 2013, TMV transacted an average of 3.7 billion cubic feet per day (Bcf/d) of releases. This is more than twice the amount of natural gas pipeline capacity in the secondary market than the second- and third-place companies combined.

Focus on the physical

"We focus on the physical side of the business. We're a supply-chain management and arbitrage company providing services to producers, utilities, electric generators and industrial users. Our services include the normal volume management and price-hedging services," Hunzeker said.

Its multipronged approach allowed TMV to capitalize on changing market dynamics that saw gas prices trend lower before spiking in the winter. This strategy carries on in other aspects of the organization as Hunzeker noted that being private allows the company to be very patient when developing its assets and customer relationships. "Oftentimes in our business, the resulting financial performance statistics of a company aren't consistent with the demands of a public market. We find that being private is an advantage," he said.

"The MLP business is driven by maintaining a dividend distribution, which adds financial pressure. When a company misses that distribution, it can have a very negative impact on its cost of capital on a short-and medium-term basis. When you're private, you don't face that same quarter-to-quarter pressure. That can allow for optimization of an asset or an opportunity over a longer period of time that may not be available to a company or management team that faces short-term performance and cash flow requirements," Lonergan said.

Growth has been led by a steady course of seeking to meet both their own and their customers' needs as they gained experience in the energy industry, he added. "Tenaska has continually built on its core competencies and customer relationships to meet the needs of the marketplace as they evolve in time."

This has led to nine separate business units, including TCM, the company's private equity manager affiliate that manages private equity investments on behalf of institutional investors.

Walk, then run

"You have to walk before you can run and our growth has been built on this principle. When we began developing power plants, we had to secure gas supplies, which gave us an understanding of how gas commercial structures and contracting worked. We had to build pipelines for water and natural gas laterals, which gave us an understanding for the engineering and construction aspects," Lonergan said.

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The East Texas Gathering System was developed, constructed and operated under the management of Tenaska Capital Management.
Source: Tenaska Inc.

the market and a need to move natural gas efficiently from new points of origin to new demand destinations. TMV has the ability and experience to proactively serve customers' needs regardless of market conditions," the company said in its 2013 annual report.

The marketing unit helps give Tenaska a broader understanding of market dynamics such as producer relations, constraints and arbitrage opportunities compared to the localized nature of power plants. "That presents the commercial understanding that allows for a successful development opportunity," Lonergan said.

As an example, he noted that when gas prices supported more storage construction, the company was able to develop, build and put into service a storage facility that has since been sold. Current market dynamics favor liquids operations. As a result, TCM has shifted a portion of its development resources over to the Permian Basin, where it is managing development of a crude oil gathering and pipeline system to provide producers access to Colorado City, Texas, and takeaway pipelines, addressing their need for economic alternatives to trucking.

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Gas fuels

Being close to the market has led to the creation of Tenaska NG Fuels LLC, an affiliate created to take advantage of increased domestic gas supplies by targeting opportunities related to LNG as a high-horsepower transportation fuel. This unit, which is not part of the private equity business, is aimed at designing, constructing and operating infrastructure, including LNG and liquefaction-related facilities to help grow the segment.

Just as its experience in power plant development and management paved the way to enter other aspects of the energy industry, it also provides opportunities for the company to enter the alternative fuels market. Tenaska has made several large investments in solar power projects, but its bread and butter remains the development, engineering, construction and operation of gas-fired power plants.

"With almost 55,000 megawatts of coal plants in the U.S. recently retired or near retirement, we anticipate additional opportunities driven by decisions to replace coal plants with new natural gas-fueled facilities," the company said in its 2013 annual report.

Similarly, while it has interest in various energy sources, natural gas remains a primary focal point of investments

throughout the organization—from its marketing, development and power generation groups, to its E&P and private equity divisions.

Indeed, the company not only started Tenaska NG Fuels to take advantage of increased domestic gas supplies, it also managed large investments in the space in 2013 through TCM's management of the acquisition of US Power Generating Co., which operates power plants in Queens and Brooklyn, N.Y., that have a combined capacity of 2,100 MW. More than $800 million in term debt and credit facilities was raised to support six power generating plants in 2013.

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Invest in big projects

Although the company will consider working on smaller infrastructure projects such as gathering systems or other small pipeline projects, the capital requirements for oil and gas infrastructure are typically very large, which is why Tenaska generally focuses on larger projects.

"We utilize the intellectual capital, commercial capability and technical expertise we've built up over the years to deploy capital into large-scale projects. The ideas for commercial concepts around these development opportunities are often initiated and crystallized through the needs that our marketing group sees in the marketplace," Lonergan said. These opportunities have included natural gas storage facilities, processing and natural gas and oil pipelines.

This diversity has allowed the company to capitalize on market dynamics, such as when natural gas prices supported the construction, and eventual sale, of a storage facility.

"We can develop projects internally, as well as with external management teams or portfolio companies, to meet specific objectives. Tenaska personnel can deliver tremendous in-house capabilities and resources for project oversight," Lonergan said.

Private opportunities

As a private company, Tenaska can more easily adapt by capitalizing on investment opportunities quickly. Similar to the development of the Tenaska NG Fuels business unit, the company entered the dry gas segment of the Marcellus Shale early by creating a new affiliate, Tenaska Resources LLC.

"We actively look for opportunities in North America and it was presented to us early on. It's a small portion of our business and not a core focus, but an opportunity to integrate into that market at a different level," Hunzeker said. Tenaska Resources owns lease rights to about 35,000 acres with 25 producing wells with the capacity for 18 million cubic feet per day of production.

Last year, the company entered an agreement with UGI Corp. to jointly develop gas resources in the Marcellus. This agreement also calls for UGI Energy Services Inc. to build and operate about 20 miles of new gathering pipelines and related gas processing and compression facilities for wells that Tenaska Resources intends to drill in Potter County, Pa. The initial investment in the proposed gas gathering system is estimated to be up to $25 million, with the total investment in gathering for full development of Tenaska's Potter County acreage estimated to be in the range of $65 million over 10 years.

Tenaska remains headquartered in Omaha, but has offices in the North American energy capitals of Dallas, Houston, Denver, Pittsburgh, Calgary and Vancouver. As North America has increasingly become an energy powerhouse on the global stage, exports of LNG, LPG, ethane, refined products and possibly crude oil have become a growing market. Though it has yet to enter the export market, Lonergan said that it is something the company is keeping an eye on.

"Tenaska is focused on meeting customer needs through innovative solutions, which has led to this diversified basket of assets and skills focused on the energy marketplace. Our growth has been a result of our longevity with a lot of customer contact that provided insights into the marketplace," Lonergan said.

While the company has largely been focused on greenfield opportunities, it will not shy away from the mergers and acquisition market. However, this space is very competitive with MLPs being extremely active in the midstream sector as they look for acquisitions that will help them increase their distributions.

"As a private equity shop, TCM's cost of capital has to compete with other sources of capital in the marketplace. The acquisitions market has very low cost of capital, driven by market liquidity and the financial health of MLPs. Consequently, we've generally found that our better opportunity is to be consistent with our history to develop an asset and then find an appropriate

exit for it. That said, the idea of purchasing an asset and repurposing it either in the midstream or power space is very consistent with the types of options we'd consider," Lonergan said.

Azure Midstream Holdings

Perhaps TCM's largest move in the space in 2013 was managing the acquisition of an ownership stake in Azure Midstream Holdings through the integration of the East Texas Gathering System into Azure. This gave Azure ownership of more than 1,300 miles of gas gathering lines in north Louisiana and East Texas.

These systems connect to more than 20 existing intrastate and interstate pipelines, which should provide Azure further expansion opportunities in this growing region.

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Tenaska's many interests help identify industry needs and opportunities, but most operations run independent of each other. Hunzeker said if the opportunity is right the company may connect a pipeline it owns to one of its power plants, but it isn't a focal point as only about 5% of TMV's customers are Tenaska-owned power plants.

"Where the businesses complement each other is the broad service provision for our customers, either through investment and development, or through a more service-oriented product along with the breadth of knowledge that creates through the number of touch points in the industry," Lonergan said.

This past winter provided Tenaska affiliates with synergistic opportunities between its gas marketing operations and its gas-fired power plants. "We helped them acquire fuel in some very difficult situations," Hunzeker said.

The sustained cold period did present extra challenges for the company and its customers, but Lonergan said that it helped to highlight why the breadth of Tenaska services are valuable. "We helped a lot of customers weather the storm better than they normally would have."

TMV is a large storage customer with about 100 Bcf of storage under lease at any given time, which allows for greater flexibility. The company's gas marketing division performed well this winter because of its supply-chain management model that focuses on being long in the market, according to Hunzeker. In many ways this pragmatic method used to alleviate a bottleneck is indicative of Tenaska's widespread approach to its investments. "We were in a position to provide gas supplies to a lot of different locations. We worked long and hard and helped a lot of companies get around bottlenecks by getting volumes where they needed to go, including taking multiple paths to get there," he said. ■

Tenaska Inc. Profile

Comprised of co-holding companies Tenaska Energy Inc. and Tenaska Energy Holdings LLC

Founded: 1987

Headquarters: Omaha, Neb.

Employees: 688

Leadership:
- Howard Hawks, co-founder, chairman
- Thomas Hendricks, co-founder, executive vice president
- Jerry Crouse, vice chairman, Tenaska Energy Inc., CEO, Tenaska Inc.
- Paul Smith, vice chairman, Tenaska Energy Inc., senior managing director, Tenaska Capital Management LLC
- Fred Hunzeker, CEO, president, Tenaska Marketing Group
- Dan Lonergan, CEO, senior managing director, Tenaska Capital Management LLC
- Gregory Van Dyke, CFO

Finance:
Total assets: $3.1 billion

Gross operating revenue: $9.5 billion

Total balance sheet equity: $1.4 billion

Aggregate financing: $18.7 billion

Private equity investments acquired and invested in since 2003: $6.5 billion

Term debt and credit facilities raised supporting private equity investments in 2013: More than $800 million

New private equity managed investments in 2013: $1.9 billion

Key Assets:
- Managed investments in 1,420 miles of pipeline
- 12 Bcf of storage developed, constructed and fully realized
- 10,899 MW of managed plant capacity
- 5,000 MW of plant capacity in pre-financing development
- 9.5% of total U.S. natural gas consumption sold or managed in 2013
- 20,000 MW of third-party assets under management
- Average of 3.7 Bcf/d of natural gas pipeline capacity releases traded daily
- 2.5 Tcf of natural gas sold or managed in 2013
- 128 Bcf of natural gas storage inventory in 2013
- Transported natural gas on 125 pipelines
- 35,000 acres leased for natural gas E&P operations
- 25 producing wells with more than 90 promising undeveloped locations
- 18 MMcf/d of productive capacity

Source: Tenaska Inc.

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