ARTICLE FOR PUBLICATION

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Permian Basin Environmental Success Story: Revenue Sharing with Vent Gas

BELOIT, Wis. May 14, 2018 — Regal Beloit Corporation, a leading manufacturer of electric motors, electrical motion controls, power generation and power transmission components, will discuss revenue sharing with vent gas. An industry leader since 1952 specializing in the identification, quantification and capture of low pressure gas streams. We have successful projects currently operating in over 30 countries ranging from desert to offshore to cold weather service improving profits and reducing major greenhouse gas emissions. The HY-BON/EDI™ VRU's focus is to increase end users' revenue and reduce environmental and safety liabilities, while assisting our customers in making their operations as efficient as possible.

Executive Summary

Revenue Sharing with the HY-BON/EDI™ Vent Gas Management systems can help eliminate air pollution from oil and gas (O&G) operations without capital outlay. Several major stakeholders in the Permian Basin are taking a much more aggressive approach to reduce vent gas from upstream O&G properties using this approach. At a federal level, accurate emission inventories are proving problematic for many parts of our industry, as ever-changing requirements for equipment and site registrations seem to be arriving monthly. Regulatory agencies are scrutinizing facilities against existing VOC emission requirements, while tightening emission limits and reporting at both a state and federal level. As ongoing air quality issues continue, HY-BON/EDI™ VRU solutions and equipment capture the waste gas emissions in a "closed system" to a gas sales line, thus preventing pollution, reducing regulatory risk, improving safety and providing a financial payback.

Introduction

Lower crude oil and natural gas prices have made it more challenging for O&G operations to justify spending capital on the capture and reselling of vent gas. This has lead companies to flare or release to the atmosphere a valuable resource that could easily pay for the expense of the capture equipment. The current practice of non-capture exposes companies to environmental liability, risk and safety concerns.

The HY-BON/EDI™ **Vent Gas Management (VGM) program is an economically proven method to give operators a way to capture vent gas using a Revenue Sharing option. With Revenue Sharing, captured gas proceeds are shared by the company and Regal until the vent gas recovery equipment is paid off.** Regal has partnered with multiple Permian Basin companies with a VGM Revenue Sharing program, resulting in equipment payback in some cases less than 4 months. These partnership/agreements benefit the companies without capital outlay for VGM capture equipment, while making revenue from vent gas being sold with assurance of compliance and performance by the service provider.

Background/Problem Statement

The low commodity prices over the past three years (2015-2017) have resulted in restructuring, bankruptcies and layoffs. Capturing vent gas emission has not been a high priority within the industry. Vent gas emissions are not a core process within operation and production. The focus is to stay in business utilizing ongoing production of oil and natural gas. Currently, there are signs of improvement and turnaround within the industry, but companies are still risk averse, with large outlays of capital. Many companies do not want to spend money for environmental projects that are over and above what is required to comply with the state and federal regulations.

This can stem from a lack of understanding that the vent gas is a product that has value and not just a compliance issue. The validity of the value of capturing vent gas instead of venting/flaring has been documented many times in field operations that use Vapor Recovery Units (VRUs) during the last 60 years. The proper operation and maintenance of these units is key to ensure an economic payback that reduces emissions, liability and risk.

Finally, some companies recognize the value of the gas but have a shortage of service personal and they are concerned about adding additional ongoing maintenance costs for vapor recovery equipment added to their sites.

Solution

A unique revenue sharing program has been developed for O&G companies to address compliance, while reducing risk and generating revenue with minimal or no capital outlay. This program is intended to allow O&G companies to install and operate regulatory required emission control equipment at the lowest possible initial cost. This is accomplished by partnering with HY-BON/EDI™ VRU's using a per production location/lease agreement to supply and maintain Vent Gas Management equipment. Revenue from recovered gas is used to recover costs for the VGM equipment.

The cost of program-related testing, equipment and maintenance and repair, is to be paid by the additional revenue generated by the sale of the gas that is currently being vented or burned. A HY-BON/EDI™ IQR Team will perform tests to determine the amount and quality of gas that is available to be captured by our equipment. The cost of the testing and the equipment will be paid to Regal based on an agreed upon percentage of the new revenue stream related to the gas being captured. The participating company takes title of the equipment when it is picked up at the Regal location and is responsible for any taxes or insurance. **This is not a rental agreement.** The O&G company is also responsible for the cost of the freight to the applicable facility location and the cost of installation.

As a part of the Revenue Sharing agreement, Regal will provide commissioning services once the equipment is installed. Regal will provide maintenance of the equipment during the payoff period. The cost of monthly maintenance will be deducted from Regal portion of the monthly gas revenue from gas recovered by the VGM equipment. Once the equipment is paid in full, Regal will recondition the equipment to "zero-hour" status and will offer an optional maintenance ongoing agreement for an agreed upon monthly fee.

This method has been 100% successful with all participating companies in the Permian Basin. An example of one success story with a 4-month payback is provided below:

Gas Valuation	With MMBtu Contract
Gas Volume (mcfd)	1000
Gas BTU Content (BTU/ cu ft)	1680.20
Spot Gas Price (6/10/16)	$2.56
Daily Gas Sales	$4,301.31
Monthly Gas Sales	$129,039.36
Time to recover VRU Price	2.641
Round up to Month	3
Additional Cost of Service	$7,275.00
Time to pay off Service costs	1
Total Term	4

INCREMENTAL REVENUE ESTIMATE ($/MONTH)

Gas volumes measured (mcfd)	estimated = 211-1,260 MSCFD
Gas volumes used for calculation revenue (mscfd)	1000
Gas specific gravity	1680.20
Gas BTU value	1680.20
NYMEX pricing - June 10, 2016 ($/mscf)	$2.56
TOTAL ESTIMATED MONTHLY REVENUE (mmBTU contract pricing)	$129,039.36
TOTAL ESTIMATED ANNUAL REVENUE (mmBTU contract pricing)	$1,548,472.32
TOTAL ESTIMATED MONTHLY REVENUE (NO mmBTU contract pricing)	$76,800.00
TOTAL ESTIMATED ANNUAL REVENUE (NO mmBTU contract pricing)	$921,600.00

PROJECT COST ESTIMATE

Total Upfront Cost	$340,760.00
Total Monthly/Service Costs	$2,425.00
Zero Hour equipment - at term end	$46,000.00
monthly interest rate (cost of capital deployed)	1.00%

PAYOUT CALCULATIONS (based on mmBTU contract revenue estimate)

Term Length (months)	$ VALUE	% OF INCREMENTAL REVENUE
4	$101,084.28	78.34%
5	$81,652.95	63.28%
6	$68,699.81	53.24%

HY-BON/EDI™ designs meet the all federal and state requirements and recommended practices for VRUs. This gives the user the ability to claim up to 100% efficiency in reducing the VOC emissions. This includes "Best Management Practices" developed by the EPA Natural Gas STAR program, One Future Coalition, and other industry groups.

Variable frequency drives and satellite monitoring of run times are available on all VRU models. Vapor Recovery Units (VRUs), Vapor Recovery Towers (VRT) and Vapor Combustor Unit (VCU) meet all the requirements for full compliance of the final EPA Quad O/Oa requirements for these applications. Capture of the vent gas with a HY-BON/EDI™ VRU eliminates much of the annual reporting requirements related to control equipment under Quad O, since our systems are considered "process equipment", and can be used to keep tank battery emissions from reaching the "6 ton per year" reporting threshold. Economic and Environmental Benefits: VRUs can provide significant environmental and economic benefits for oil and gas producers. The gases flashed from crude oil or condensate and captured by VRUs can be sold at a profit or used in facility operations. VRU's are also an effective method to capture hazardous air pollutants (HAPs) such as benzene and can reduce operator emissions below actionable levels specified in Title V of the Clean Air Act. By capturing methane, VRUs also reduce the emissions of a potent greenhouse gas.

About Regal Beloit Corporation

Regal Beloit Corporation (NYSE: RBC) is a leading manufacturer of electric motors, electrical motion controls, power generation and power transmission products serving markets throughout the world. The company is comprised of three business segments: Commercial and Industrial Systems, Climate Solutions and Power Transmission Solutions. Regal is headquartered in Beloit, Wisconsin, and has manufacturing, sales and service facilities throughout the United States, Canada, Latin America, Europe and Asia. For more information, visit RegalBeloit.com

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Release No. MCWR18015E

NOTE TO EDITORS: The photo on the following page accompanying this release is available as a high-resolution jpg file. For a backup copy, contact Jackie Catalano.