



Growing through change

by Adam DeLawyer,
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The COVID-19 pandemic has changed the way we do business and how our country operates. As I write this, almost every state is under stay-at-home orders, social distancing is now part of our everyday language and the spread of COVID-19 is still growing in our country.



CHS Propane has dealt with market challenges before, like the unprecedented demand during harvest 2019, but this situation is also unprecedented, significantly affecting the price per propane gallon and forcing us to do business in different ways.

In this issue of *Market Pulse Special Edition*, we highlight how CHS is working with marketers to plan for the next year's propane season. We also highlight how U.S. propane infrastructure continues to be reshaped. Both of these are important factors as you grow your business and work to meet your customer's demands.

The good news? Some things aren't changing. Crops are going in the ground this spring and they'll need drying in the fall. Homes and barns still need heat as cold spring mornings make us turn up our thermometers.

As you go about your business, please refer to industry resources regarding COVID-19 to keep yourself, your families and your customers safe. Visit propane.com/covid-19-message for a complete list of resources from the Propane Education & Research Council.

At CHS, we strive to be a strategic partner and industry resource to help your business succeed even in challenging environments. As you navigate today's market, please contact your CHS Propane account manager to make sure you have a diverse supply plan to meet your customers' needs.

Thank you for your continued business.

Has your greatest competitor become the export market?

Across the country, a number of infrastructure developments are expected to become operational in 2020, bringing a wave of change to the propane market.

While a more robust supply chain benefits the industry, it also brings shifting market conditions, according to Tyler Kelly, director of natural gas liquids supply and analytics at CHS. Kelly says it's important for marketers to understand how these infrastructure updates will impact supply and demand.



Opening the playing field

"As supply points become more connected, every gallon becomes more mobile," Kelly says. The completion of pipeline and rail infrastructure in 2020 increases access to export terminals by nearly 450,000 barrels per day. "This will expand accessibility around the globe as there is more connectivity to new demand outlets."

Kelly says the effects of these updates may be most noticeable in more isolated areas, such as Western Canadian and Bakken production. This is because some of these areas have gained new and more robust pipeline access to transport their production to hub storage and export outlets. In Canada, for example, increasing export capacity in the Pacific Northwest means increased competition for propane supply that has traditionally served the Midwest.

Regions are disappearing where propane producers lack pipeline connectivity and often became insulated from external demand, which previously lead to favorable pricing and availability for local marketers. "Without pipeline access, a fractionator is highly dependent on local truck and/or rail demand to move the plants daily output," Kelly says. "But through the coming infrastructure improvements, more producers are gaining access to domestic and international markets that used to be out of reach."

For marketers, increased infrastructure will mean a new dynamic when it comes to supply-sourcing, Kelly says. As propane producers gain access to new customers outside their region, local marketers will find themselves facing more competitive buying environments.

Waiting can be costly

With more marketers vying for each fractionator's propane production, the gallons will go quicker than in the past, Kelly explains. If marketers aren't proactive, it's possible that they may encounter difficulties obtaining sufficient supply to meet end-user demand. "Taking a more proactive approach to planning and securing propane supply will be critical to navigating through the 2020-21 season," says Kelly.

Another factor facing the propane marketplace is stressed production margins resulting from the recent sell-off across the energy complex which may have near-term impacts on availability of supply. Already the energy market is reacting by decreasing production at refineries and capping wells across the country. In this environment of depressed economics for propane and the supply volatility, the importance of supply planning becomes essential.

Preparing is essential

To ensure marketers are prepared for new market dynamics in the wake of upgraded infrastructure, Kelly says it's more important than ever for marketers to secure their supply in advance. "Supply planning should never be an afterthought," Kelly says. "Partner closely and proactively with a wholesaler that can help prepare your business — not only against infrastructure changes, but also against a variety of shifting market conditions."



Why 2019 proved you need a good supply plan



Last fall's unprecedented propane demand caused major logistical challenges for most suppliers and retailers in the Upper Midwest. During the busiest weeks of October and November, many retailers were forced to allocate gallons to customers or temporarily cut them off due to overwhelming demand.

One exception was Eau Claire Co-op Oil Company (doing business as Chippewa Valley Energy), based in Eau Claire, Wis. Thanks to a recently developed strategic supply plan and an excellent relationship with their CHS Propane account manager, the cooperative didn't have to turn away one customer or allocate gallons. In fact, they moved nearly double the propane volume last November that they had the same month in any previous year.

Take a broader view

"In the past, we would buy as many gallons as we could in the summer and hope it was enough to get us through the winter months," recalls Hines. "Last year Alan helped us be more strategic by analyzing propane volumes on a monthly and even weekly basis throughout the year, and tracking it at each of our different propane terminals."

Contact your CHS Propane account manager now to develop your supply plan.

Looking at the cooperative's average winter demand, they calculated how many gallons they needed to pull in the summer, based on a 2:1 ratio – for every two winter loads they needed to pull one summer load.

"We used to chase pennies in the summer, trying to get the lowest price, but you have to consider more than just price," he says. "In a year like this past year, it's all about having product when your customers need it, and we accomplished that."

Consider all terminal options

Having reliable supply was due, in part, to looking at more terminal options. "Alan recommended that we consider pulling from other terminals, looking at volumes moved and reliability, not just price," says Kaiser.

"It's important for customers to understand that terminal capabilities differ. I can provide them with insights on that," says Groene. "With 21 years of experience in the business, I know where the pinch-points are in our regional supply system."

Communication is key

Initial planning and frequent plan updating is made easier with tools built into the CHS Propane Control Room, notes Groene. "Once I've worked with the customer to develop their year-long supply plan, which starts in April, we communicate regularly to tweak things, based on weather or other factors impacting their demand.

Monthly changes can be made using the Nominations tab in the Control Room website."

Instituting the use of a daily position report was another important tool for the cooperative, says Hines. "It shows us exactly where we are, in terms of product sales and inventories, and ensures that we're all on the same page. We use it in our regular communications with Alan."

That often-daily communication is another important part of the cooperative's recent supply management success, Hines says. "The essential communication we have with Alan and the service he provides is really unmatched."

Ready to meet your partner? Become a CHS Propane customer today

Only CHS customers can take advantage of CHS Propane supply planning tools and rebate programs. **Call 800-852-8184 to learn how you can become a CHS customer** and gain a strategic partner in your propane supply.

Helping retailers create awareness and grow gallons

Learning from her peers and gaining broader market insights were the main reasons Amber Backen joined the CHS Propane Advisory Committee. In her fourth year of service, the CFO of Creative Energy Inc., a cooperative in Jamestown, N.D., says one insight she's started to act on is to promote propane-powered technologies.

She sees big potential for propane sales growth in the school bus market. "The improvements made in propane-powered engines in recent years is impressive, allowing them to start in cold conditions as low as minus 40 degrees," notes Backen. "The buses are remarkably quiet, and are cheaper to operate than those powered by diesel fuel, plus they have a 96 percent reduction in Nitrogen Oxide (NOx) emissions and the propane tanks are designed to prevent an explosion in case of an accident.

Help with initial costs

CHS launched its CHS Propane-Powered™ Rebate Program in 2019, a first-of-its-kind program to encourage retailers to make the investment in autogas infrastructure. "By developing more propane infrastructure around our trade territory, we help retailers grow their propane gallons," says Andy Ernst, CHS propane marketing manager.

Rebates are based on the number of wholesale propane gallons purchased from CHS since January 1, 2018, with retailers logging one cent per gallon in their rebate account. For example, a million-gallon marketer would be eligible for

\$10,000 in rebate dollars, explains Ernst.

"Those dollars can be used to help offset the costs of autogas conversion kits for cars or trucks, autogas dispensers, school bus or fleet conversions, or for generator or irrigation engines," he says. "They can also be used to pay for on-site autogas training or even the services of a third-party grant writer.

"This type of rebate program is unique in the industry, and it's a great opportunity for propane retailers to connect with autogas experts throughout the industry," he adds.

Industry leading propane resource

"CHS has been a great resource for us to learn about propane-powered vehicles and autogas dispensers," says Hank Weniger, certified energy specialist at CHS Prairie Lakes, based in Starbuck, Minn. "Plus, CHS connects us with other industry experts and manufacturers."

Last summer, CHS Prairie Lakes hosted an event with propane-powered vehicles and a nearby autogas dispenser to demonstrate how



everything works, he says. "We had reps from at least eight bus companies there, and many were potential customers. The opportunity for us to grow in this segment of the propane market is significant."

Weniger expects to see a notable increase in propane sales after installing two autogas dispensers with a central Minnesota customer this summer, one with public access and one for private use. He says there's potential to help that customer expand autogas availability at up to five other locations.

"There's definitely a lot of interest, especially in the school bus market, due to all the benefits of propane power. The CHS rebate program is an important part of how we're attracting and converting customers," he says.

To learn more about the CHS Propane Powered™ Rebate Program email CHSPropane@chsinc.com or call (800) 852-8184.

From the CHS Propane traders' desk: Propane prices notch 20-year lows



CHS Propane experts are here for you with market insights and actionable steps you can take to benefit your business and your customers.

You're invited to watch an update from our experts in trading as they highlight the recent, historical decline in propane price and what opportunities lie ahead.

As global energy demand destruction occurs from the spread of Covid-19 and OPEC signals an end to

production cuts, depressed prices (across petroleum products) have created a contracting opportunity.

Watch the video from CHS Propane trading experts at youtu.be/mCbaleTjcKk

Servicing a seasonal property

Regular checks are key to operating systems in cabins, rentals, and recreational structures



When your customers are opening a cabin or rental property, they are most likely excited about the activities ahead. They may not always remember to do some basic maintenance and safety inspections around the structure. Plus, if you supply rental properties that use propane for heating, cooking or drying clothes, you can't assume that these customers are familiar with how to use a propane system.

Reviewing the tank and systems as properties open is a key way to keep your customers and their property safe.

There are several culprits that can cause problems with propane systems, especially

those left unused or shut off for part of the year:

- Air can get into the system when service is interrupted. When the tank runs out of fuel or the gas gets shut off, the fuel line needs to be bled to ensure proper, safe operation before a pilot light is lit. This should be done by the propane supplier or a heating and cooling system component and technician.
- Moisture can get into piping system components and can cause corrosion. That can lead to system leaks. Propane suppliers can perform a leak check and replace any damaged or faulty parts.

Tank maintenance tips

Annual maintenance of propane tanks is important. As you visit customers, here are a few things you should look for:

- Check the tank for any signs of damage
- Make sure it is free of brush, leaves or other debris that could have accumulated over time.
- Look for any sign of wear or corrosion around pipe fittings or connections.
- Dust, animal hair or even spider webs can cause problems in systems that have been turned off for the season. Clearing these items is important for proper gas flow.

It's best to have a qualified technician check the propane system and fill the tank to provide your customers safe, reliable operation for the season ahead.

Help your customers right-size their propane storage needs



Now is not only the time to encourage customers to look at their operation and assess how much propane they should have for drying and home heat season, but it's also time to look at your operation's storage.

CHS Energy Equipment is now ordering 18,000 and 30,000 gallon tanks for 2020. Tanks are being offered on a first-come, first-served basis. Your tank expert can help manage your next spike in demand. Pre-order now to be

prepared for fall demand.

Watch a webinar to find out how the CHS Storage for Pennies program can help you right-size your business. Visit bit.ly/39AnRPF to learn more.

Contact CHS Energy Equipment at 800-852-8186, press 1