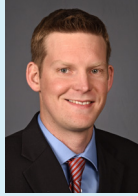


Propane Market Pulse



Tools for adapting to a changing world

by Adam DeLawyer,
vice president, CHS
Propane



As the world around us continues to evolve, the one thing that seems constant is change. The world of propane is no exception. As you will read in this issue's feature article, changes are literally reshaping the industry. Although current propane production is not at the record levels it was pre-Covid, it is rising and moving closer to those levels again.

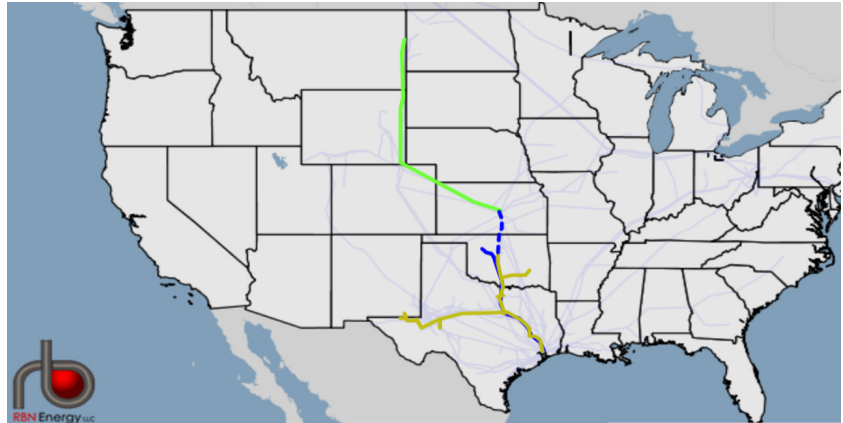
However, exports are also on the rise, thanks to increased capacity. Roughly two-thirds of U.S. propane production is now being exported. This could mean less product sitting in storage without a supply commitment, which will make supply even tighter in the future and could lead to allocations or logistical challenges more quickly than in the past.

So how do we better perform in this new world? We believe it all comes down to planning. Retailers and wholesalers that have the best supply plan in place will be the most successful. This plan is no longer just a one-time discussion, but an ongoing one that includes making monthly nominations in an effort to best meet your changing needs. Lack of planning can lead to financial consequences and lost volume at supply points in the future, since the producer has other places to send that product.

This is why we have designed the Propane Control Room with a best-in-class Supply Planning tool we think will be crucial in this new world. In this issue you will read how one marketer is addressing supply planning and nominations by teaming up with their account manager.

Later this month you will have an opportunity to attend our Propane session at the CHS Energy Roadshow and hear from a team of experts how these changes will continue to affect all of us. I encourage you to take advantage of these opportunities to help prepare your business for success as we navigate this changing world.

The impact of changing LPG infrastructure



If 2019 was the year of domestic propane production growth, 2020 was the year of increasing propane origination for exports.

Changing U.S. infrastructure has enabled previous landlocked propane supply to find a way to the Gulf Coast and beyond. Several dynamic changes in U.S. production in the past two years, have led to a recent production milestone. In late December 2019, the U.S. achieved a record 2.46 million barrels per day (bpd) of propane production. In Feb 2021, after a COVID pandemic impacted 2020, we are now back at over 2.40 million bpd of production.

Key infrastructure changes include:

Export capacity increases.

Only three months after setting that propane production record, the U.S. logged an all-time high weekly LPG export reading of 1.74 million bpd. We are now in a market that can quite easily export over 70% of the propane produced daily. This reduces reliance on domestic demand, and created a new marketing opportunity for U.S. producers. Suppliers based in the Midwest were left out initially but now the inter-regional pipeline growth projects have provided a solution

through access to the export channels.

Midwest builds out.

Suppliers stepped in to make significant investments and build two new pipelines with a combined unfractionated natural gas capacity of 620,000 bpd. The Arbuckle II pipeline in operation since Q1 2020, will see capacity expand from 400,000-bpd – to 500,000 bpd by Q2 2021. This will take supply from North Dakota, Montana, Wyoming, Colorado, and Kansas producers and re-route what was once Conway fractionation focused supply into the greater Mt. Belvieu region. The Bluestem Pipeline, which came online in Q1 2021 with a capacity of 120,000 bpd, will originate in Kansas and connect into the Grand Prix Pipeline in Oklahoma to move additional Conway barrels south to Mt. Belvieu.

The impact of this growth is an increased price correlation between the two hubs. As of the end of February, Conway propane has traded at an average premium of 2.56 cents to Mt. Belvieu this winter. The 2020 average discount was 2.0 cents. For a quick comparison, Conway's discount in 2019 averaged six cents and was as much as a 20-cent discount in the second half of 2018.

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The impact of changing LPG infrastructure (continue)

There are still many unknowns as we navigate this new era of inter-regional pipeline infrastructure, but Conway's hub price will likely more closely follow that of Mt. Belvieu and global markets.

Waiting for depressed prices at Midwest pipeline terminals due to unseasonably warm weather could be a thing of the past, as this winter illustrated. We are already seeing this play out today, with the narrow discount in Conway most of

the winter and now trading at a large premium to Mt. Belvieu with the arrival of cold weather in February. Warmer conditions have helped keep Midwest demand in check, with plenty of supply for most of the season. We have experienced the shift to wet premiums as inventories declined in January and February due to the large export program and a shift in this overall demand profile for 2021 and beyond.

Learn More at Upcoming Propane Session

Click [HERE](#) to register for the Virtual Roadshow and hear from a panel of

industry experts on how the impact of propane becoming a global commodity may be changing domestic industry behavior. Discover how to prepare for the uncertainty of next year's heating season and what is driving the changing fundamentals. Panelists include Ben Lyden, director of trading and risk; Tyler Kelly, director of supply; Alan Groene, senior account manager; and moderator Dennis St. Aubin, director of sales West Region.

To register for the CHS Virtual Roadshow visit: <https://www.chspropaneinsights.com/2021-spring-roadshow/>

Keys to reducing risk in propane supply planning

A good propane supply plan is an indispensable tool for Steve Haines, who's in charge of southern region petroleum and propane purchasing and supply for Sunrise Cooperative in Ohio. It



has helped him confidently supply cooperative customers as their business has grown from covering just two counties when he started there 25 years ago to the current 30-county trade area.

"We've gotten here by putting emphasis on delivering value," he says. "If a customer is just looking to save a few pennies, we don't chase after the business. Our core customers understand they get more than just propane from us. They get reliability, service when they need it through our auto-fill program, a

choice of buying mechanisms to help control price, and dependability, with regular tank safety inspections."

Eric Brandt, CHS Propane account manager who has worked with him for more than 15 years, attributes the cooperative's success in propane to Haines' management approach. "Two of Steve's strengths are that he regularly communicates with me and he really uses his supply plan," says Brandt. "The original plan that he develops every April is a baseline to work from, but it's a living document that he routinely updates. We communicate frequently to do that.

"Steve also understands that supply commitments need to be a two-way street, and our buying is based on what our customers say they need," he adds. "Suppliers are better able to perform for their customers when there is regular communication between the two."

Haines says there are several keys to reducing propane supply risk:

Work with dependable suppliers.

For Haines, this tops the list. He says he regularly works with three to four suppliers, but views his relationship with

Brandt as a partnership. "We've worked together a long time and there's transparency between us. I understand the narrow margins he often works with, and the risk he takes if he's not able to move product he's committed to buying."

Haines also depends on Brandt for market intelligence and industry insights. "That helps me maintain a big-picture view of broader events that could be shaping our industry."

One example he points to is infrastructure changes within the United States that will more easily allow for the export of propane, which could put more pressure on suppliers. "That's why when it comes to making changes to our supply plan, I try to treat our suppliers with the same consideration I'd like our customers to show us."



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Keys to reducing risk in propane supply planning (continue)

Use dependable terminals.

Your suppliers are a good source of information here and can help you determine which terminals are moving greater volumes and are generally more reliable, he says. "It shouldn't be just about price."

Consider adding storage.

One of the best ways to reduce supply risk is to have more on-site storage. Haines says Sunrise Cooperative has more than doubled its propane storage since 2014.

Invest in consumer tank monitors.

Having no major supplies issues in recent years is something Haines attributes, in large part, to the cooperative investing in consumer tank monitors. "They take a lot of the guesswork out of managing supply."

Include transportation.

There can be plenty of gas at a terminal but it won't do you any good if you can't get it transported to the plant, he notes. "For that reason we sometimes buy higher-priced gas in the winter because it's closer." Maintaining good relationships with carriers is important, and so is including that factor in your supply planning process.

Stick to your plan.

At times it takes discipline to follow the plan and not chase after lower prices in the summer, or from a less reliable source, adds Haines. "It's not always about getting the absolute lowest price but having a reliable supply for your customers. That's how you deliver value."

Propane marketers should work with their CHS account managers to discuss how supply planning may help you be more prepared for next winter. Marketers not currently partnering with CHS propane can learn more by visiting CHS Propane Insights or by calling 1-800-852-8184.

Register Now for the 2021 CHS Energy Virtual Roadshow



Registration is now open for the virtual, CHS Energy Roadshow. The roadshow will be taking place Monday, March 15th - March 18th. Topics include Hedging, Propane, Propane Powered, Transportation, Lubricants, AquaFighter,

GPI, Refined Fuels, Propane Safety and Energy Equipment. Each 45-minute sessions will include a presentation as well as a live Q&A.

To register for the CHS Virtual Roadshow visit: <https://www.chspropaneinsights.com/2021-spring-roadshow/>



Consumers see value in the Cenex Propane Brand

Throughout the year, CHS is working to educate consumers on the value of propane and the Cenex brand through our Cenexpert blogs. Content for the blog is often based on analytics that identify propane topics of most interest to consumers.

These efforts are producing success. Each month an average of 10,000 readers click on the residential propane page on Cenex.com. Consumers come to

the page seeking a Cenex Propane dealer or information on propane. They find stories about propane-powered homes, RVs, school buses and lawnmowers, backyard uses and important safety tips.

To view the latest Cenexpert blog <https://www.cenex.com/about/cenex-information/cenexperts-blog-page/propane>

