

August 2020

Platts American GulfCoast Select FAQ

THE NEW BENCHMARK FOR US CRUDE OIL

What is Platts American GulfCoast Select (AGS)?

Platts AGS (Platts symbol: AGSAA00) is a new benchmark assessment for high-quality light sweet US crude loading at ports across the Gulf Coast. It reflects the value of that crude at the intersection of the domestic and global market free of any domestic logistics-driven price distortions.

Why now for Platts AGS?

The industry has called out for an alternative to the legacy US crude-pricing mechanism of pairing the NYMEX WTI contract with volume-weighted average physical assessments. As trade flows have changed, Cushing has become an unsuitable location for a physical crude oil benchmark given its finite storage and lack of access to the water. The negative pricing event of April 20 exposed how Cushing's vulnerability to local infrastructure economics can lead to sharp divergence from the Gulf Coast market. That day also demonstrated how the volume-weighted average approach to physical crude assessments outside of Cushing fails to reflect tradable outright value when the NYMEX WTI pricing basis has outsized intraday price moves.

Why an FOB-basis waterborne benchmark for the US market?

As shown by widespread participation in the Platts Dated Brent and Platts Dubai ecosystems, bids, offers and trades for partial or full cargoes provide the most robust price information to underpin a physical assessment and ultimately derivatives for a globally consumed crude stream.

Can US export volumes sustain a benchmark?

Even in the current challenging global economic environment, Platts Analytics forecasts US crude exports to maintain a level of 1.5 MMb/d in 2021 with about 500 Mb/d going to Canada. This equates to about two Aframax cargoes per day departing the US Gulf Coast—more than adequate volume to sustain a benchmark.

PLATTS AGS METHODOLOGY

What crude does Platts AGS assessment reflect now?

Platts AGS reflects the Platts WTI Midland grade transported to the Gulf Coast from the Permian Basin via the BridgeTex, Longhorn, Midland-to-ECHO I/II, Permian Express, Cactus I/II, EPIC and Gray Oak pipelines. The Platts WTI Midland grade specifications are:

Bringing the US market a Brent of its own.



- Sulfur: 0.2% or less by weight as determined by ASTM Standard D-4294;
- Gravity: Not less than 40 degrees American Petroleum Institute (API), nor more than 44 degrees API as determined by ASTM Standard D5002;
- Vanadium: 2 ppm or less as determined by ASTM Standard D5708 Method B;
- Nickel: 2 ppm or less as determined by ASTM Standard D5708 Method B;
- Reid vapor pressure: Less than 9.5 pounds per square inch at 100 degrees Fahrenheit as determined by ASTM Standard D6377;
- Basic Sediment, water and other impurities: Less than 1% as determined by ASTM Standard D4007.

Platts believes this set of specifications captures a significant proportion of direct-from-Permian supply while accommodating the technical needs of most global refiners.

What crude could Platts AGS reflect in the future?

Platts will continue to review the specifications reflected in this assessment. We welcome any feedback regarding changes that would make the benchmark more market-representative, including specifications for metals and distillation points. Platts may also add other crude grades including Bakken in a Platts AGS basket, in the same way multiple streams underpin the Dated Brent and Dubai global benchmarks.

Why does Platts AGS reflect cargo and not pipeline market information?

US waterborne cargoes have come to define the core economics of the US crude market. Cargo markets typically trade with a greater degree of time and logistical specificity compared with pipeline markets. One cargo trade may reflect loading over a particular period at a particular size and have other pricing factors. Pipeline trades typically represent smaller volumes and lack this specificity. Assessments that attempt to include both approaches will typically have more volatility as liquidity and information across these markets varies.

What cargo size does Platts AGS reflect?

Platts AGS reflects the typical cargo size for FOB USGC trading of 700,000 barrels as dictated by the draft restrictions for Aframax-size vessels at a majority of docks used for crude exports. Draft restrictions vary from dock to dock, so cargo sizes between 550,000 and 800,000 barrels may be used in the assessment.

How would Platts assess cargoes that are bigger or smaller than the 700,000 barrel typical?

Normalization of cargoes that deviate from the typical cargo size is critical for this broadly representative benchmark. Platts understands that FOB value is sensitive to cargo size as buyers look to optimize their per barrel freight cost. Bids, offers and trades that deviate from the 700,000 barrel typical would be normalized to reflect the freight economics of the typical cargo size using that day's USGC to UK Aframax assessment (Platts symbol: TDUCF00). For example, a 600,000 barrel cargo traded at \$40/b when the freight assessment was \$15/mt (\$1,050,000 lump sum) would be applied for assessment purposes at \$40.25/b to account for the per barrel freight disadvantage of the smaller cargo.

What ports does Platts AGS reflect?

Platts AGS currently reflects USGC ports including Houston, Texas City, Nederland, Beaumont, Port Arthur, and Corpus Christi. The most competitive port on a cargo-size adjusted basis sets the assessment. Platts is reviewing additional locations for inclusion including ports in Louisiana.

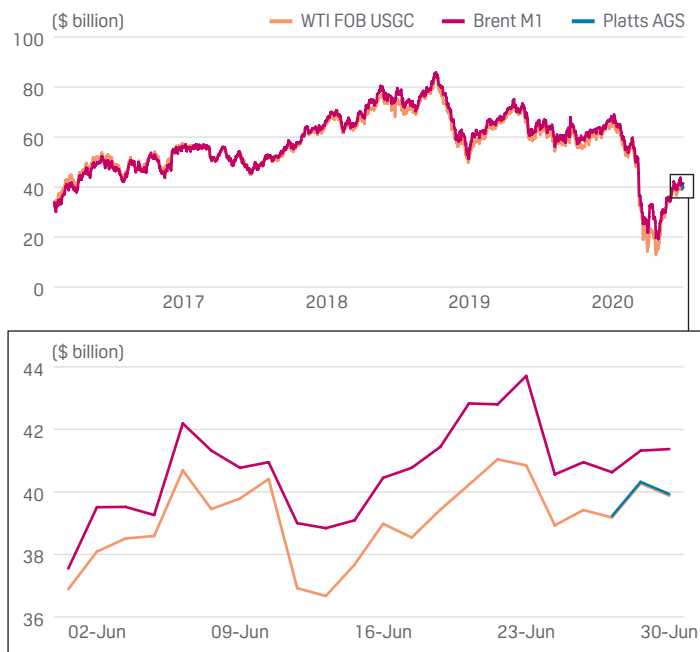
What is the loading window for Platts AGS?

Platts AGS reflects cargoes loading 15-45 calendar days forward of the publication date. Platts eWindow instruments offer additional flexibility of a 15-55 day range for publishing bids and offers. Bids, offers and trades outside of the assessment window may be normalized based on market structure for use in the Platts AGS assessment.

Is there a Platts AGS price history available?

There is not a price history for Platts AGS before June 26, but Platts WTI FOB USGC (Platts symbol: AAYBA00) provides an approximation of what the Platts AGS assessment would have been under the current methodology since February 8, 2016.

US CRUDE EXPORT ASSESSMENTS vs BRENT



Source: S&P Global Platts

THE MARKET ON CLOSE AND PLATTS EWINDOW

What is the Platts Market On Close assessment process?

Platts assesses global crude markets under the premise that price is a function of time. Assessments are based on determining outright tradable value at the Market on Close, which is 1:30 Central Time in the US. Platts gathers market information throughout the day which helps to inform the end-of-day assessment process.

What is the Platts eWindow?

Platts eWindow is a real-time communication tool developed in collaboration with ICE that allows reviewed market participants to publish bids, offers, and expressions of interest used in Platts' Market on Close assessment process. For US waterborne crude, the eWindow instruments—the mechanism by which bids and offers are input—offer flexibility to accommodate the varied structure of deals in this market.

Is there a Platts eWindow instrument for Platts AGS?

Platts eWindow tool currently includes instruments for WTI FOB USGC, WTI FOB Houston, WTI FOB Corpus Christi and WTI FOB Nederland, among others. Bids, offers and expressions of interest to trade consistent with Platts AGS' volume, loading window and quality parameters published using the tool would be reflected in the Platts AGS assessment, subject to cargo size normalization. Some bids and offers published in the MOC using these eWindow instruments may fall outside the Platts AGS methodology and may be normalized or excluded from the assessment process.

Can I include additional parameters with a bid or offer?

A market participant publishing a bid or offer on eWindow can provide additional parameters using the Terms, Quality,

and Conditions (TQC) box in the eWindow instrument. Bids and offers with additional parameters are subject to editorial review for fungibility and clarity and may be normalized or excluded from the assessment process. Platts may remove bids or offers with overly restrictive additional terms from the process. For instance, a bid that specifies a reasonable metals limit might be acceptable. However, a bid calling for delivery off a single pipeline might be deemed too restrictive.

Why do companies participate in the Platts Market on Close assessment process?

The MOC process provides a mechanism for market participants to transparently demonstrate value to Platts using firm market information. A firm bid, open to the market, demonstrates that value is above the bid level, just as an offer demonstrates that value is below the offer level, as long as the bid or offer remains standing. This market information would be used in determining the assessment, and in some cases that assessment is used in the settlement of derivatives.

MOC PARTICIPATION AND PHYSICAL PERFORMANCE

How do laycans work for Platts AGS in eWindow and then loading the oil?

Market participants can submit bids and offers through the FOB USGC eWindow tool with a laycan window as narrow as five days and as wide as 10 days. If a trade occurs in the Market on Close assessment process, once a terminal has been nominated, counterparties would communicate bilaterally to narrow the laycan to two days within the established window, as per current industry practices.

What General, Terms and Conditions are used for US waterborne crude market trades in the Platts Market on Close assessment process?

Platts expects any counterparties that report a trade in the Market on Close assessment process to employ previously-

established credit and operational terms. A market maker can specify GTCs in the TQC box in the Platts eWindow instruments but existing bilateral GTC arrangements would take precedence.

What is the standard for operational tolerance for trades concluded in the Platts Market on Close assessment process?

Platts expects that trades concluded in the Market on Close assessment process would follow the established market standard of operational tolerance +/-5% at the buyer's option subject to physical limitations of the vessel and dock.

How would Platts handle bids and offers that are inconsistent with physical infrastructure capabilities?

Platts will not publish bids or offers that cannot be logistically performed upon. For instance, a bid for an 800,000 barrel cargo loading FOB Nederland may be removed from the publishing process given the 600,000-barrel draft restriction for cargoes loading from that location. Participants that submit a bid or offer in the MOC process must be contactable as long as the bid or offer remains live.

PARTICIPATION

How do I participate in the Platts AGS Market on Close assessment process?

Submit the [Market on Close participation request](#), contact [Platts eWindow team](#) to make sure your ICE eWindow is set up correctly, and contact the [Americas Crude team](#) with any further questions. If an entity does not have access to the Platts eWindow communication tool, bids and offers may be published by the Platts editor on behalf of the entity if the company has been reviewed and approved for participation. Any active market participant can request review and MOC participation does not require a Platts subscription.

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