

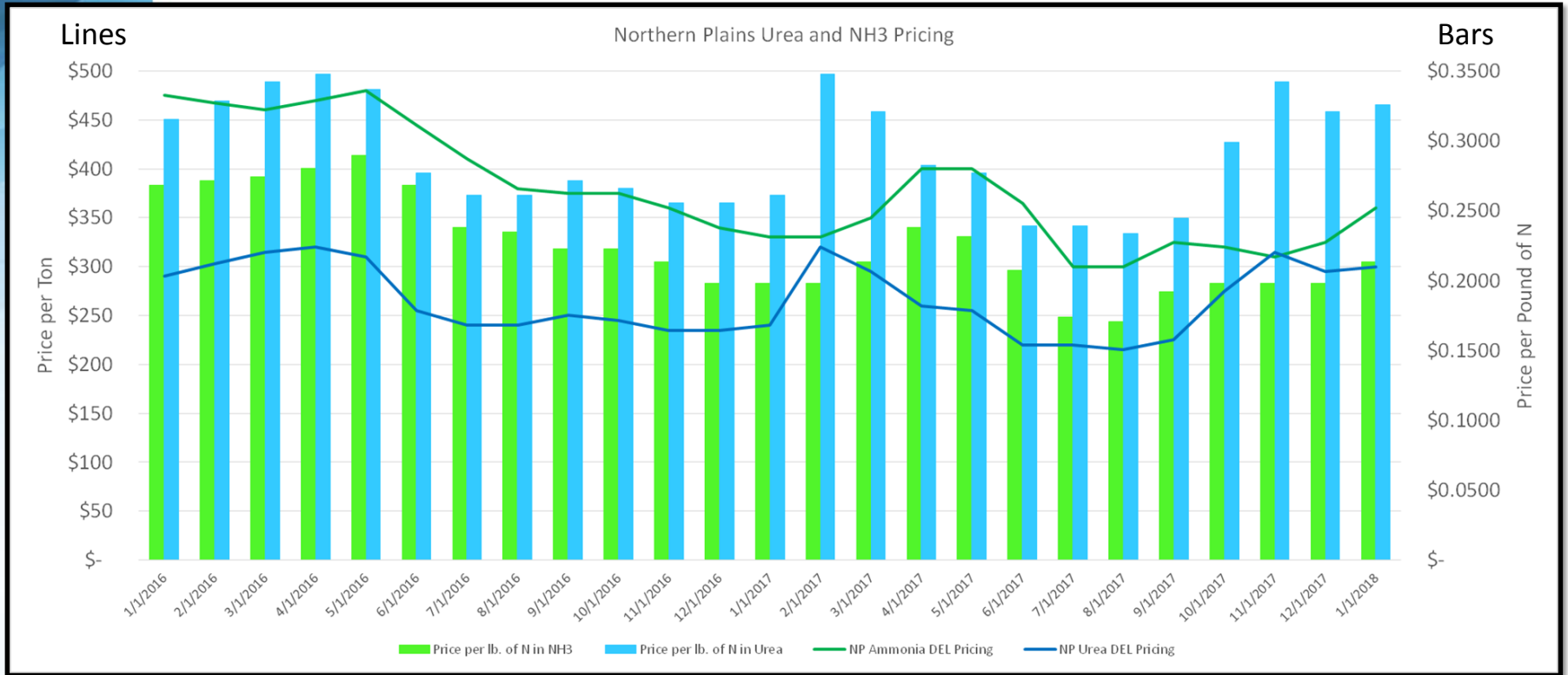


**DAKOTA
GASIFICATION
COMPANY**
*A BASIN ELECTRIC POWER
COOPERATIVE SUBSIDIARY*

Fertilizer Marketing Marketing & Asset Management January MAC 2018

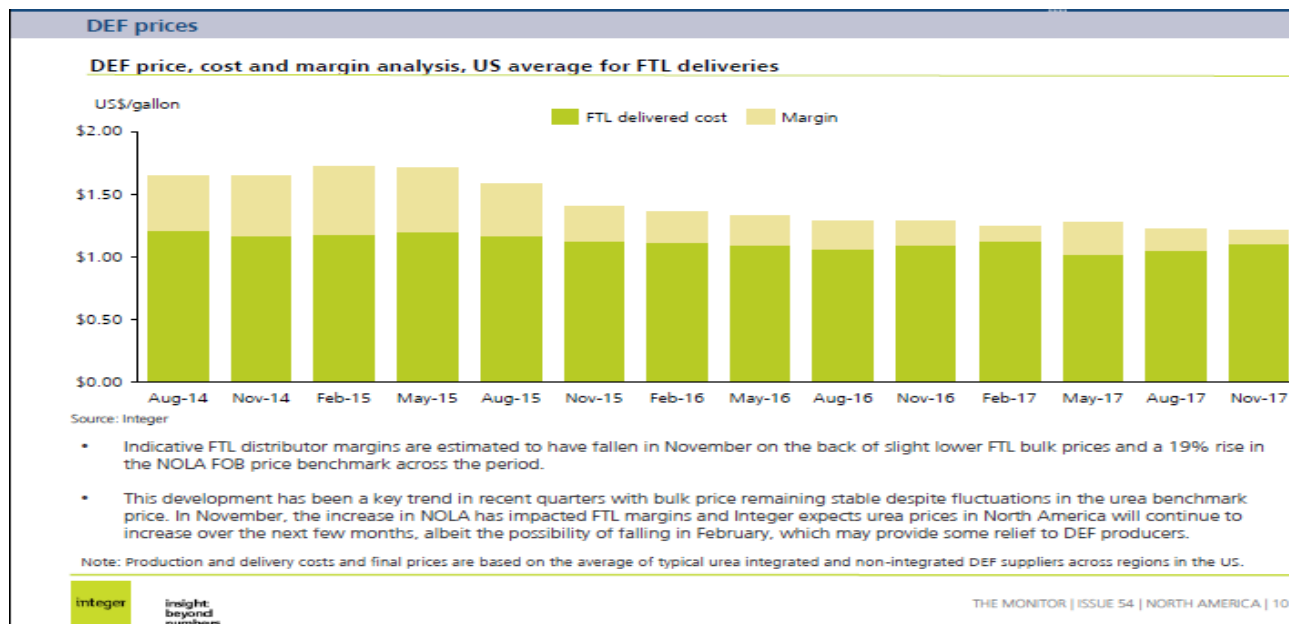
Ken Rutter

Product Unit Pricing



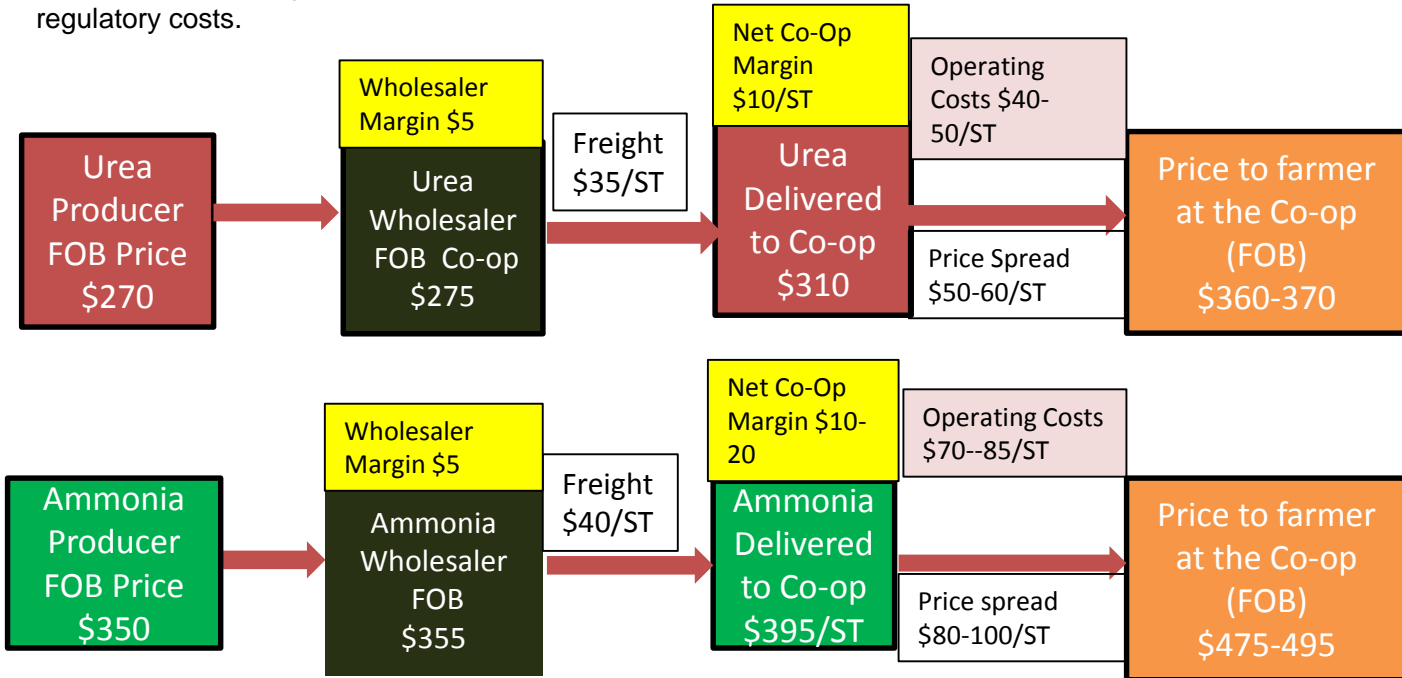
DEF Price Trend

DEF pricing represents DEF distributor sales.
Spread from producer to distributor is approximately \$.35.

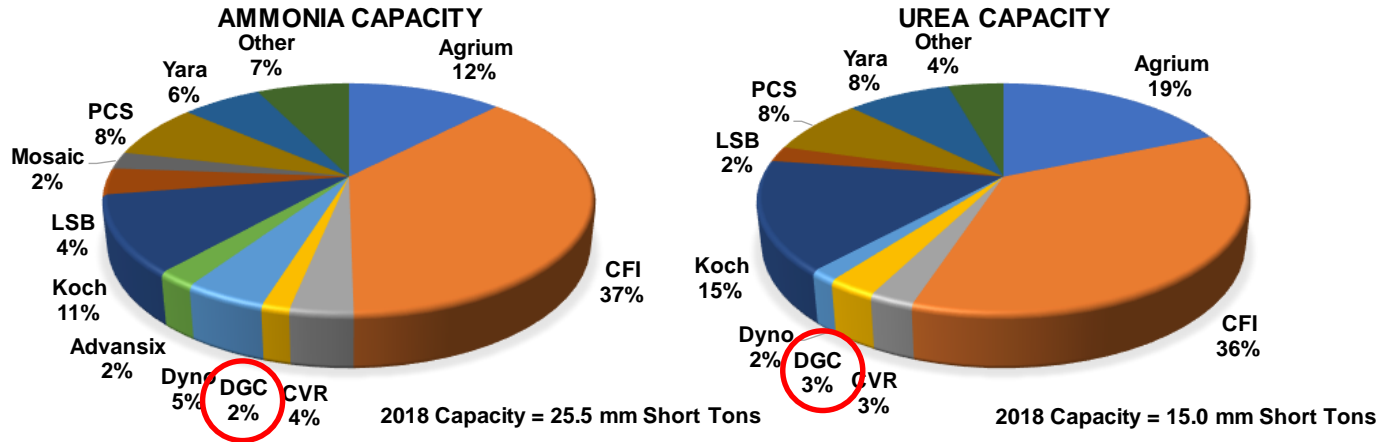


Wholesalers gain \$5/ST for back to back transactions – when purchase from producers and resell to co-ops. Margin at the co-ops are estimated at \$10/ST for urea and \$10-20/ST for ammonia due to high operating costs

- Wholesalers – Several wholesalers indicated that when wholesalers purchase from producers and resell ammonia, urea, and even UAN to co-op/retailers – the spread is \$5/ST for back to back transactions
- Co-ops incur operating costs for both ammonia and urea (storage, maintenance, regulatory). Operating costs are typically higher for ammonia than for urea due to associated maintenance of ammonia tanks, and regulatory costs.



U.S./Canada Nitrogen Producers: CFI, Agrium/PCS are the leading players followed by Koch, Yara



- Potash (PCS) to merge with Agrium in 2017
- 2015 – 2018 Ammonia capacity addition – 5.6 mm ST ammonia or mm 4.6 ST of N
- 2015 – 2018 Urea capacity addition – 5.3 mm ST of urea of mm 2.5 ST of N
- CF Industries acquired Terra Industries in 2010 for \$ 4.7 Billion
- Further consolidation down the value chain is also occurring

CF Industries, Koch and the Agrium/PCS combination will account for 68% of the domestic supply on an ammonia basis and 78% on a urea basis

Questions

- How can DGC most effectively compete?
- How can DGC set itself up for long-term options?
- How can we get larger market share closer to our plant?

Joint Marketing With Other Producers May Be Good Fit

- Better rationalize our core markets
- Better logistics
- Backstop during DGC plant outages
- New opportunities during partner plant outages
- Better inventory management
- Access to UAN
- Facilitates product swaps / exchanges
- Provides better partnership opportunities into the future

DGC Signed Letter of Intent to Pursue Negotiation of a New Joint Marketing Entity

- Signed LOI on Jan 3, 2018
- 75-day negotiation period
- Negotiations on formation of JME begins on Jan 11
- Intent is to Joint Market Urea, Ammonia, DEF, Dak Sul
- Currently negotiating with one partner, exploring potential for other partners

Questions?

