



**DAKOTA  
GASIFICATION  
COMPANY**

*A BASIN ELECTRIC POWER  
COOPERATIVE SUBSIDIARY*

# **Dakota Gasification**

## **Fertilizer Sales Update**

Ken Rutter

# First 6 Months Driven by Spring Sales

**2/1/2018**

	Prepay	28,500.00
	Cash	18,398.80
	<b>Total</b>	<b>46,898.80</b>
	SAP Inventory	3,636.16
	<b>Total</b>	<b>3,636.16</b>
	<b>Current Net Position</b>	<b>(43,262.64)</b>



As plant was beginning production in early February of Urea, staff had already gotten a strong spring sales position established.

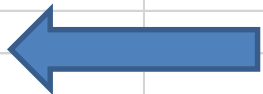
Spring is the premium priced market.

Internal risk management limits control how much product we can sell without having physical purchases or inventory to back the position.

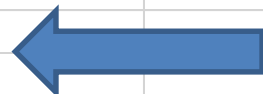
Our maximum allowed short position is 70,000 tons.

# Sales Increased 40% by March 1

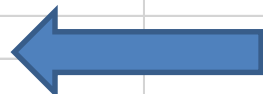
<b>3/2/2018</b>			
Prepay	41,800.00		
Cash	23,672.35		
<b>Total</b>	<b>65,472.35</b>		
SAP Inventory	20,015.40		
<b>Total</b>	<b>20,015.40</b>		
<b>Current Net Position</b>	<b>(45,456.95)</b>		
Remaining Potential Spring Off-take Agreement Tons	<b>20,550.00</b>		
**(Both parties have to agree on price before they are contracts)			



Sales for Spring up 40%



Inventory building



Still sold beyond available product

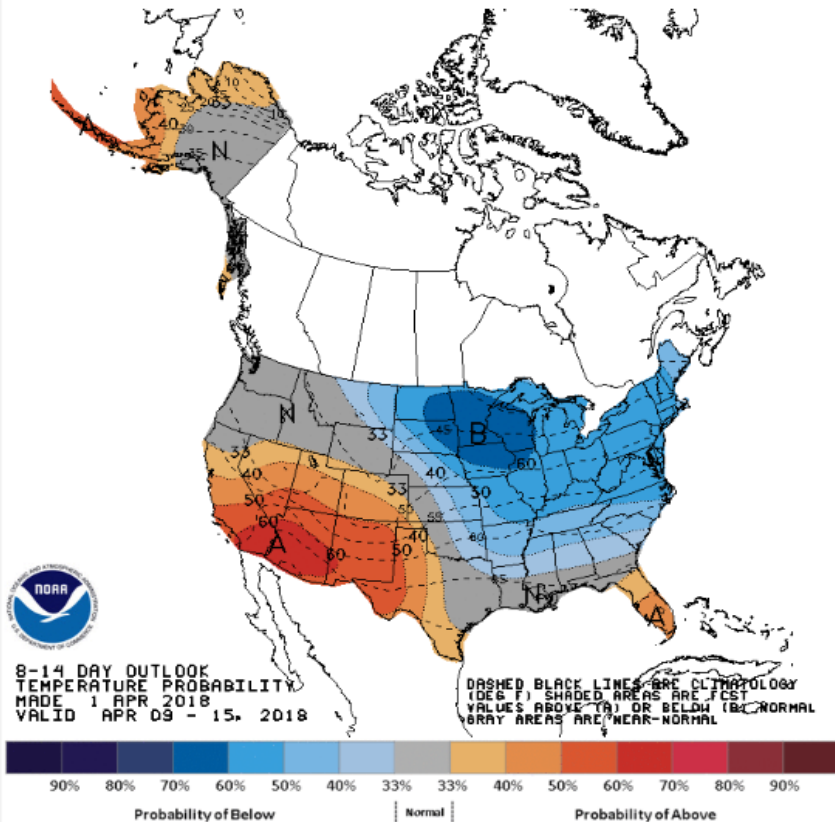


If we had product, we have established master sales agreements that could potentially produce more sales.

# Fertilizer Sales Are Weather Dependent

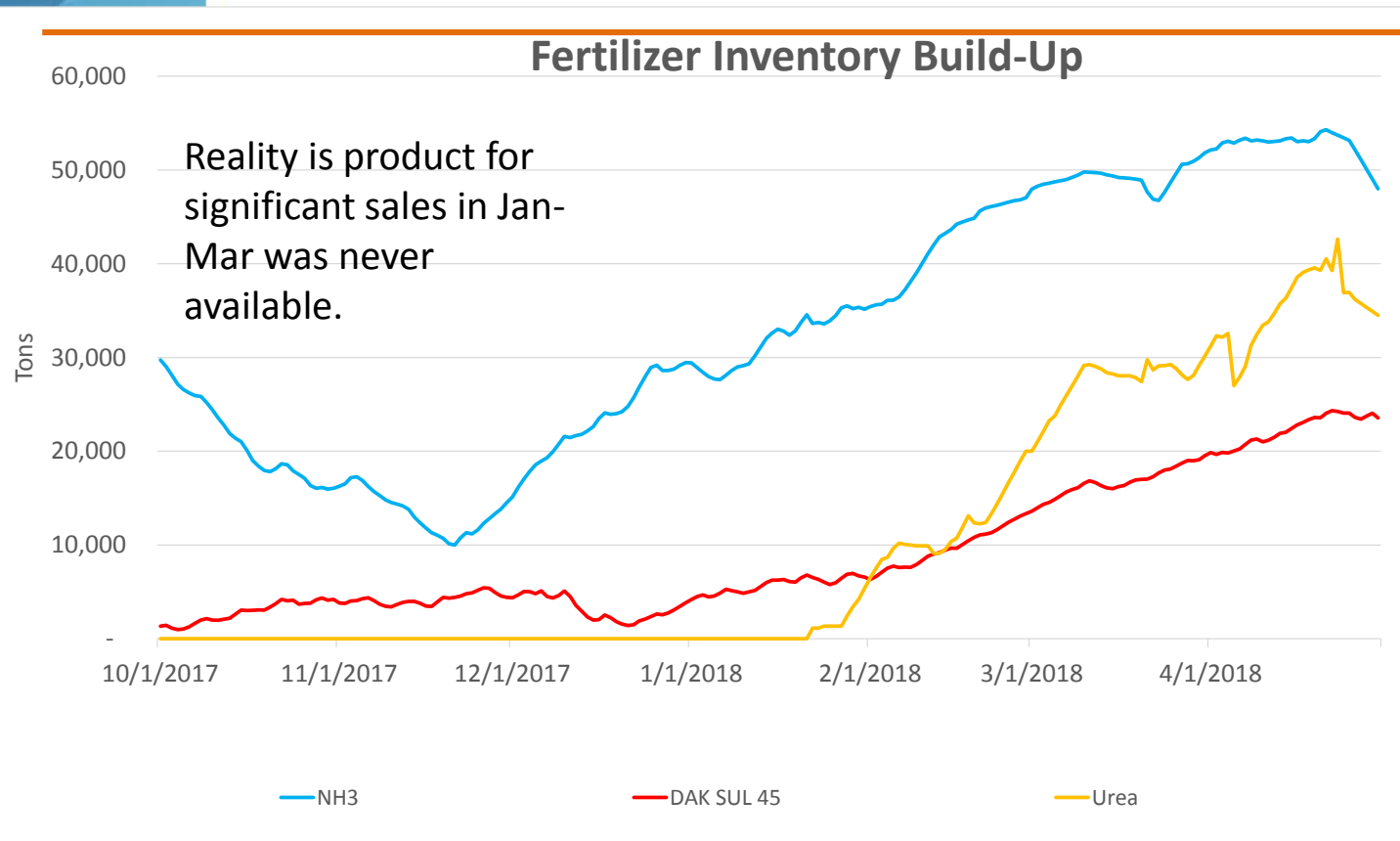
14 Day Outlook as of 4/1

Temperature



- Spring season was budgeted to begin the first week of April 2018.
- Temps well below normal (as indicated by large Basin Demand variance)
- At this point, we must now figure out how to manage inventory to keep plant running at full rates

# Inventory Build



Urea sales level

Inventory of products setup very well for start of Spring in late April. We were still short Urea, but had planned purchases to assist with Spring season.

# Position Prior to Start of Spring

## Urea

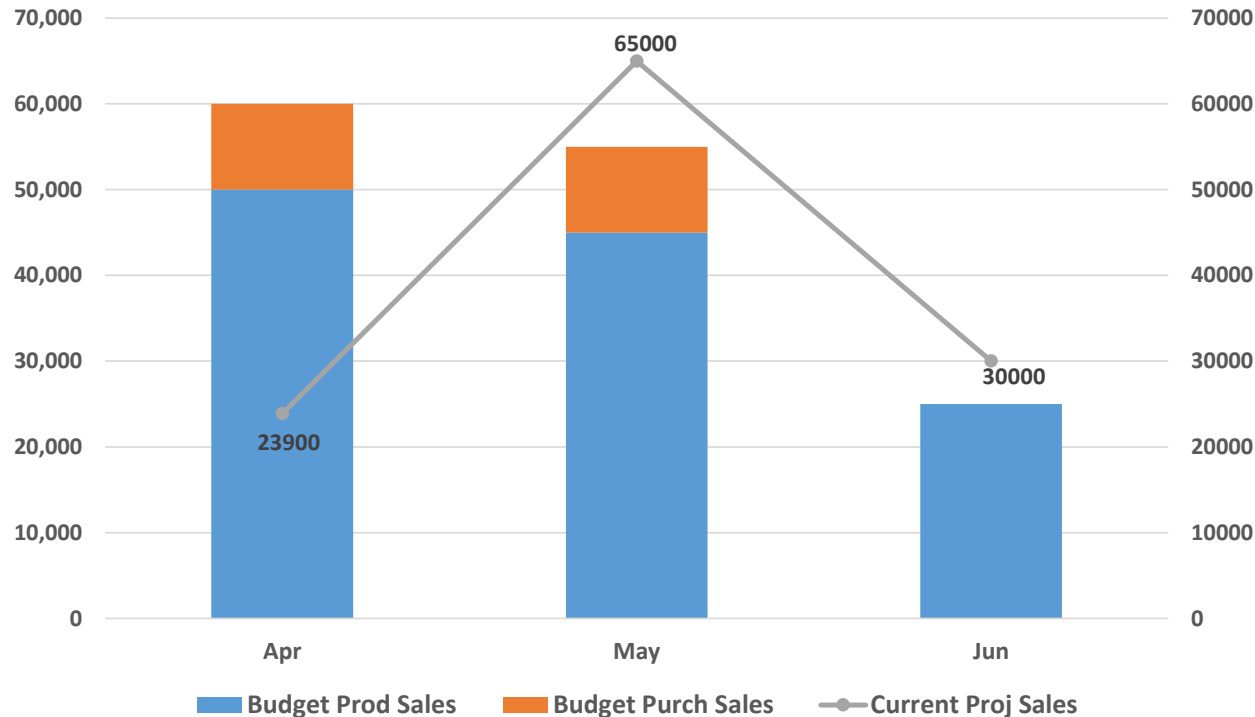
<b>4/24/2018</b>			
	Prepay	36,795.04	
	Cash	25,391.65	
	<b>Total</b>	<b>62,186.69</b>	
	SAP Inventory	43,701.86	
	Purchases	8,000.00	
	<b>Total</b>	<b>51,701.86</b>	
	<b>Current Net Position</b>	<b>(10,484.83)</b>	
	Remaining Potential Spring Off-take Agreement Tons	<b>21,300.00</b>	*April-June
	**(Both parties have to agree on price before they are contracts)		

## NH3

<b>4/24/2018</b>		
	Prepay	63,155.31
	Cash	2,992.18
	<b>Total</b>	<b>66,147.49</b>
	SAP Inventory	54,789.08
	Unusable Inventory	(4,500.00)
	<b>Total</b>	<b>50,289.08</b>
	<b>Current Net Position</b>	<b>(15,858.41)</b>

# Fertilizer Sales

Urea Budget Vs. Production & Actual Sales



Delayed Spring will result in significant April revenue variances which will be offset with higher revenues in May and June.

Sales for June not yet committed.

Lost sales for Spring may be 20k tons, of which 12k tons were going to be low margin buy for resale.

# Sales Pricing

	Sales Price	Market	Budget*
Urea	\$313	\$285	\$341
NH3	\$391	\$430	\$464
Sulfate	\$279	\$285	\$263

\* Source: IHS Cera, Blue Johnson

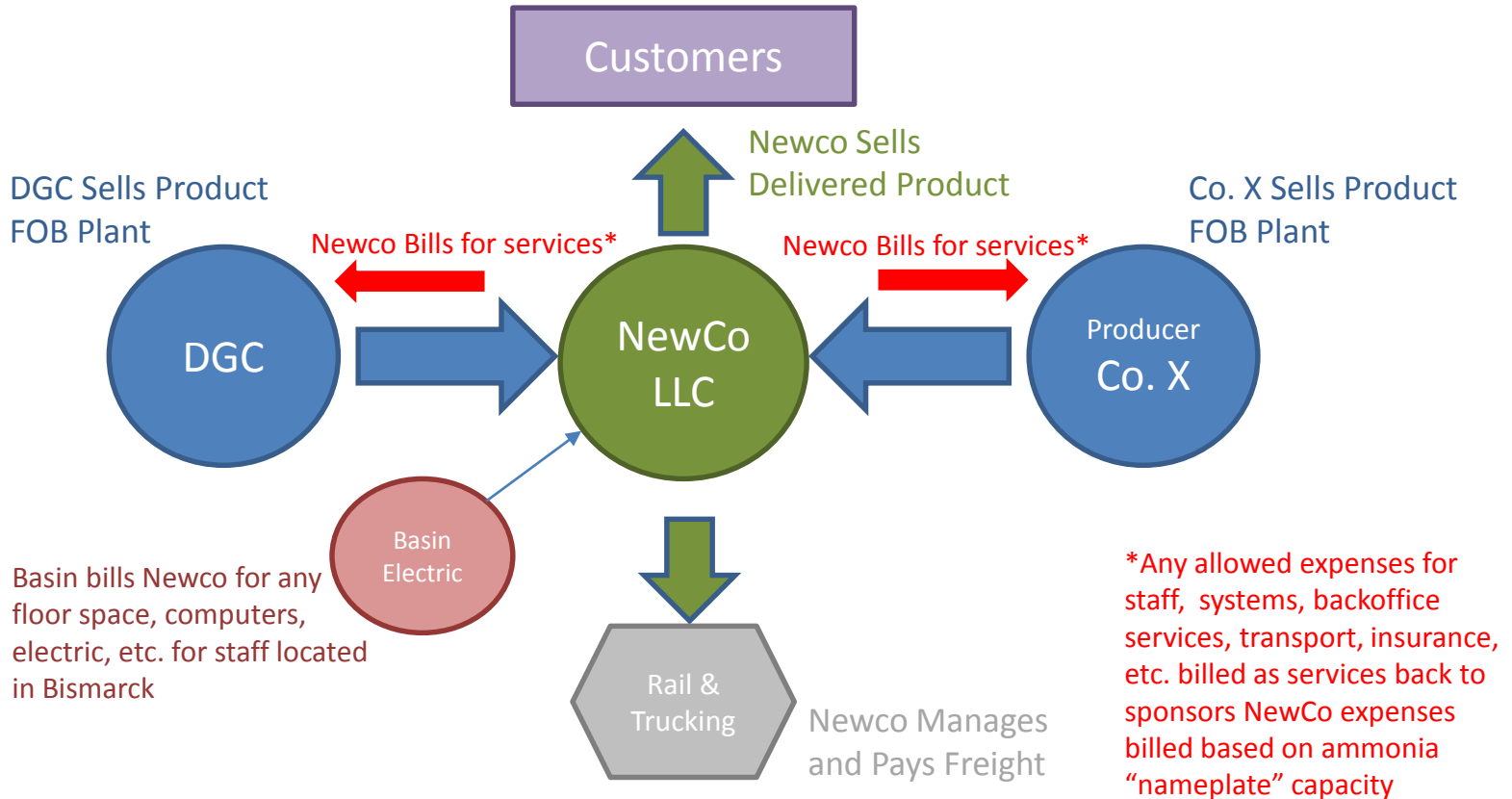


# Philosophy on Production & Forward Look

- If product produces an incremental margin, DGC will produce and sell
- Incremental and other cost information is highly confidential
  - Highly competitive market for fertilizers
  - Very efficient markets for natural gas and tar oil
  - Sharing cost information can result in competitors adjusting weighting on freight information etc.
  - We cannot afford to have any transparency to our customer base
- Forecast maximum production that is economic, with case by case consideration for market depth
- Weather can be a huge driver for changes in revenues for DGC

# DGC Joint Marketing

# The Deal



# Why?

- Fertilizer and DEF markets are highly competitive and driven by a small number of players
- DGC represents 2% of the fertilizer market
- We want larger market share in our core area
- DEF margins shrinking, customers do not want single plant risk, we are late on being able to deliver DEF which impacts our customer relationship and planned offtake

# Governance

## Five Board Seats



- Board decisions will be specified in the membership agreement
- Major Board decisions will require unanimous approval
- Other Smaller Board decisions will require Board majority approval
- The President of Newco is expected to be a legacy Co. X employee

# Financial Benefits

<u>Benefit / New Expense</u>	<u>2020 (000s)</u>
• Increased DEF sales	\$
• Higher netback in DEF sales through freight	\$
• Enhanced NH3 netback	\$
• Urea netback	\$()
• Potential other rail fleet savings	\$
• Less financial impact due to outages	\$
• Potential new customer base locations (UAN, DEF, imports)	\$
• <b>Cost allocations from Newco</b>	\$()
• Internal back office savings	\$
• Internal allocations to NewCo	\$
• <b>Taxes</b>	\$()
• <b>Credit support</b>	\$()
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Estimated Annual Benefit	\$
• One time legal and setup fees	\$()

*Business Case Going to Board for Approval in May*

**Estimate is \$3-7 million annual benefit**

# Questions?