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100 YEARS



Crude benchmarks: A global market, but not one global number

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Platts...an overview

- Celebrated 100 years in business in 2009
- Owned by McGraw-Hill since 1953
- World's largest source of energy pricing information: oil, natural gas, electricity, petchems, coal, metals
- Price assessments: thousands daily, distributed through many channels
- Platts Global Alert: real-time news and pricing, distributed on many channels
- Global reach
- Price assessments are the basis for billions in global trade each day

Why a benchmark is like software

- It's viral
- Its value grows exponentially
- Two users of a benchmark are not half as valuable as four users of the benchmark
- It is tremendously difficult to dislodge
- Traders are incredibly adaptable to bridging quality and geography gaps
- Oil is particularly rich for strong benchmarks because it floats on boats
- And...it's all priced in dollars

Benchmarks are not unique to oil

- Benchmark plus or minus a premium.
- The premium can be described in a variety of ways. (The “adder.”)
- LIBOR – Treasuries
- And now...German debt
- London Metal Exchange: aluminum/tin/lead/zinc/nickel as the basis for sales of that throughout the United States
- CBOT soybeans and corn, basis Chicago
- Not just prices...”degree days” is a benchmark
- USUALLY: Basis is transparent and easily hedged (e.g., Treasuries)

Major oil benchmarks: Dated Brent/BFOE

BASIS: Platts, Argus second

Pros

- BFOE basis means lots of supply
- Markets no longer subject to squeezes
- Not under any one company's control
- Waterborne basis means it readily takes in global market fundamentals (Recent example: NWS condensate)

Cons

- Maintenance on flows can impact quality
- Dated levels not quite as transparent as paper Brent – differences can arise. But Dated is hardly opaque.
- Relatively sweet in a sour world

Dubai/Oman

BASIS: Platts, Argus second; DME small role so far

Pros

- Well-tested...takes a licking and keeps on ticking
- Closest to the world's major sources...and the basis for fastest-growing consumption area
- Sour grade in a sour world
- The Oman deliverability eliminated squeezes

Cons

- Dubai down to about 5 cargoes per month
- Oman controlled by two entities

To be determined

- What will be the role of the Dubai Mercantile Exchange's Oman contract?

Minor benchmarks

Mostly in the past

- APPI
- Tapis
- Mars as a stand-alone

Up and coming

- East Siberian Pipeline (ESPO)

New benchmark in the US: ASCI

Basis: Argus. Platts corollary is ACM

Pros

- Saudis switched to it from WTI late last year, other Middle Eastern nations followed
- Saudis preferred contribution of four grades: Mars, Poseidon, Thunder Horse, Southern Green Canyon
- Preferred for volume-weighted approach
- Doesn't have the WTI-Cushing "issues"

Cons

- As of yet, difficult to hedge the basis; ASCI instruments on CME yet to trade
- In spot market, you could trade WTI solely; now would need to trade four instruments

But for now, still champion: WTI

Source: Deals on WTI based on Platts; grade-related trades on Argus

Pros

- Extremely visible, highly liquid...easy in and out. So hedging the basis in a grade trade – like Bakken – is easy.
- Delivery point stock information is available
- Shape of the curve tells a story on stocks
- Trades now virtually 24 hours per day
- Cushing basis point will – pending regulatory OK -- eventually be hooked directly to USG via Keystone XL
- Increasingly reflecting the world's marginal-cost barrel: oil sands

Sort of a Pro/Con

- Isn't attached directly to the Gulf, but it's attached many other places
- Lots of storage...but is that good or bad?
- Does that mean it's a better reflection of world oil economics?
- Isn't true WTI. This is an issue, but not deal-breaker.

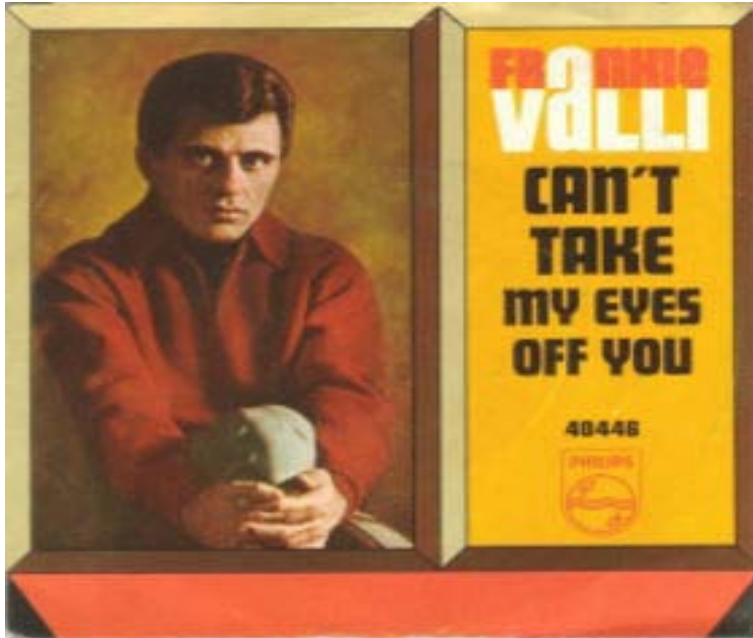
WTI – Cushing...Cons

- Isn't attached directly to the Gulf..it's water that knits the world oil market together
- Couldn't export anyway..but would still have to compete with foreign grades coming there, which smooths out disparities
- Quality issues have been a source of controversy
- Sweet grade in a sour world
- Does it suck up too much of North America's inventory to be representative?

Cushing stocks as % of US Total



As Frankie Valli said:



CONCLUSION BY AN ANONYMOUS TRADER:

“Even if you priced on something else, the first thing you’d do is compare that price to WTI.”

- That’s what being viral means

Platts' Bakken assessments

- Two assessments launched yesterday
- Like other grades, trades against WTI
- Bakken Blend ex-Guernsey (WY): API gravity of 38-40 degrees and 0.2% sulfur; same stream sometimes associated with the name North Dakota Light Sweet. Delivered into Platte line
- Bakken Blend ex-Clearbrook (MN): API gravity ranging from 38-40 degrees and 0.5% sulfur, the same stream sometimes associated with the name North Dakota Sweet. Into Enbridge line
- Trades with minimum 1,000 b/d quantity taken into account for assessment, smaller volumes will be normalized.
- Both assessments will reflect injection in the first forward month
- Roll over on the 20th of each month to the next forward month.
- Will be published as differential to calendar-month average WTI for month of injection, and as a fixed price.
- Available through multiple Platts' services

Contact us anytime....

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