

FAQ: Argus American GulfCoast Select



Argus launched its AGS (American GulfCoast Select) and AGS Marker indexes on Friday, June 26, 2020 at the start of the US August trading month. Both indexes are available in Argus Crude and Argus Americas Crude.

As increasing volumes of physical trade and exports occur at the US Gulf coast, many in the industry are looking to base the trade of their barrels on a benchmark price set at the coast, rather than inland.

Developed in close consultation with market participants, the Argus AGS index and the AGS Marker represent both waterborne and pipeline trades of Midland-quality WTI at the US Gulf coast. The Argus AGS Marker (PA0030327) is an outright price, whereas the Argus AGS index is published as a differen-

tial to the Nymex light sweet crude oil contract (PA0030325). The Argus AGS Marker provides the market with an alternative basis price, while the differential to the Nymex Cushing contract represents how the US pipeline market currently trades.

The full methodology is available in the [Argus Americas Crude methodology](#) document. If you have further questions, would like to report trades or discuss our assessments further, email us at houstoncrude@argusmedia.com.

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Why did Argus launch a new index for Midland-quality WTI crude at Houston?

In response to market feedback, Argus launched this new index to:

1. Represent the trade of increasing volumes of WTI directly piped from the Permian basin and traded at the US Gulf coast – This will become increasingly important as pipelines continue to be built and brought on-line; this assessment will initially cover the Houston area, but is expected to expand to cover Corpus Christi, Louisiana and new sources of Midland-quality WTI in the Houston area.
2. Respond to requests from sections of the industry for an alternative outright price set at the US Gulf coast that reflects local fundamentals.

How can cargoes and pipeline trades be included in the same index?

Most pipeline trades are done in terms of barrels per day (b/d), to be delivered throughout the month of delivery. To give these trades proper weight compared to a cargo trade in a volume-weighted average price index, Argus takes into account the full volume of the pipeline trade delivered in the month, ie a 1,000 b/d trade will be entered as 30,000 bls. Since most cargo trades are for about 500,000 bl, it would take about 17 pipeline trades of 1,000 b/d to equal one cargo trade. In other words, 17 pipeline trades at a weighted average of \$40.00/bl and one 500,000 bl cargo trade at \$41.00/bl equates to the day's index price of \$40.50/bl.

Which trade locations are included?

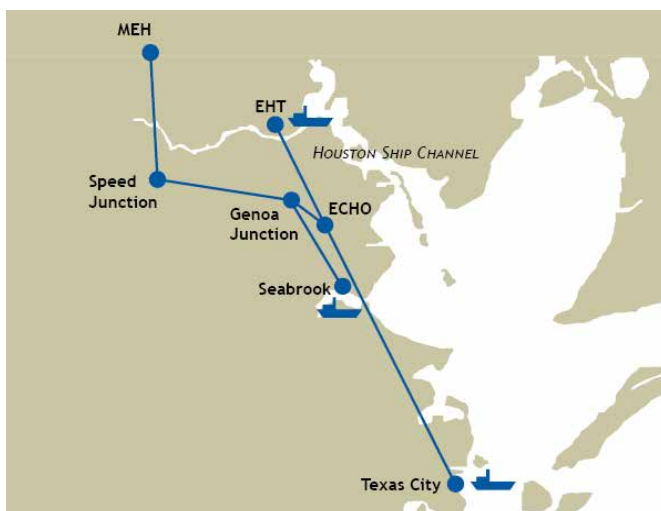
Pipeline locations:

Enterprise Echo Terminal (ECHO) | Magellan East Houston (MEH) | Genoa Junction | Speed Junction

Waterborne locations:

Enterprise Hydrocarbons Terminal (EHT) | Seabrook | Texas City

AGS index pricing locations



Why include waterborne (cargo) trades and pipeline trades in the same index?

Midland-quality WTI traded at Houston can be delivered into the 4.4mn b/d local refinery market or become part of the roughly 3mn b/d of crude leaving the US Gulf coast by water. An index that reflects both of these alternative markets best reflects the value of Midland-quality WTI at the US Gulf coast.

Could additional locations be added?

Yes, Argus intends to expand the index to other robust, liquid trading hubs of Midland-quality WTI at Corpus Christi, Nederland, Louisiana and new sources in the Houston area.

How are price spreads among trading locations in Houston accounted for?

Due to factors such as different infrastructure connections, the various locations where crude is traded in Houston have fairly constant price differentials relative to each other. AGS incorporates these spreads by normalizing all trades to Enterprise's ECHO terminal. Historical spreads between locations over the prior three months guide our conversion factors to normalize trades to ECHO.

For example, if trades at MEH have typically been done at a 25¢/bl premium to ECHO, a \$41.00 trade at MEH would be entered into the index as \$40.75. Additionally, if there has been a 50¢/bl spread between ECHO and the EHT docks over the prior three months, a \$41.00 trade at the docks equates to a \$40.50 trade, when normalized to ECHO.

Don't spreads between locations change?

Yes, but a review of trade data finds that these spreads don't tend to change dramatically or rapidly, and using the most recent three-month trade history provides a reasonable normalization factor. If an infrastructure problem or other fundamental factor occurs that may cause the price relationship to change, Argus reserves the right to change the normalization factor outside of the standard three-month update cycle, upon consultation with the industry.

How is the quality of the assessed crude defined?

Argus understands trade reported into Argus AGS to be standard Midland-quality WTI.

How are cargoes priced on a different benchmark included?

Cargoes can trade at a differential to ICE Brent, Nymex Calendar Month Average, Argus WTI Houston or other benchmarks. Companies and brokers reporting to Argus are asked to provide timestamps so that the deal can be converted from the differential price to an outright price. This is done by looking at the value of the benchmark at the time the trade was done. Once an outright price is derived, it will be normalized to an ECHO basis and included in the index. Deals reported without timestamps will be calculated using the settlement price on that day.

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How can companies use the Argus AGS Marker?

Companies seeking an independent US Gulf coast price basis for their trades can adopt the Argus AGS Marker in their contracts.

Why has Argus also launched a parallel index published as a differential to Cushing?

Argus AGS is also published as a differential to Cushing to accommodate those entities that hedge using Nymex futures.

Which of these indexes is the real combined waterborne and pipeline index for Midland-quality WTI at Houston?

It is up to market participants to determine which index to adopt in their contracts. Argus simply provides choices.

Will the WTI Houston price assessment continue being published?

Yes. The launch of the AGS indexes does not affect the WTI Houston price assessment in any way.

Since the trade of Midland-quality WTI at MEH began to be assessed in 2015, Argus WTI Houston has established itself as one of the leading US crude oil indexes, backed by exceptionally transparent and liquid trade. Today, WTI Houston is embedded in many physical contracts, and the financial swaps on CME and ICE that settle on the month average of the Argus WTI Houston differential have among the highest open interest and daily volume of trade of any financial crude contracts in the world. As such, WTI Houston is precisely hedge-able and reflects a coastal pipeline price for Midland-quality WTI. MEH operator Magellan guarantees the quality of WTI at MEH by segregating that stream in dedicated tanks and by

accepting only WTI barrels arriving directly from the Permian basin on the Longhorn and Bridgetex pipelines. Because of this, Mexico uses WTI Houston as the basis for its official selling prices for Maya and Isthmus crude, and many Asian buyers use WTI Houston for planning, negotiating, internal accounting and other functions.

To reassure their customers, both Magellan and Enterprise have committed to guaranteeing the quality of Midland-quality WTI being loaded at their Seabrook and EHT docks, respectively. Thanks to these efforts and transparency, the industry now broadly accepts Midland-quality WTI as a fungible barrel at Houston.

It is important to note that trades at MEH will make up a significant part of the trade volume informing the Argus AGS index. As the spot trade of Midland-quality WTI increases at other Houston-area locations, these increased volumes will augment the continued liquid and transparent trade of Midland-quality WTI at MEH in the Argus AGS index.

How does the inclusion of cargoes in AGS differ from the WTI fob Houston assessment?

For the Argus AGS Marker and Argus AGS index, cargoes are included if they are to load during the month of delivery that matches the current pipeline trade month. For example, during the August pipeline trade month, all cargoes that are to load during the calendar month of August will be included in the Argus AGS assessments. In contrast, the WTI fob Houston assessment takes into account only cargoes that will load 15 to 45 days ahead.

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