

SPECIAL REPORT FROM LP GAS

The propane industry experienced one of the most challenging winter heating seasons on record in 2013-14. In preparation for future winters amid a changing energy environment, *LP Gas* is examining the issues that led to what some called a crisis supply situation. We are reaching out to all segments of the industry to explore our past and future, bringing attention to key subjects, initiating industry dialogue and providing necessary education to our readers.

PART 6 OF 6: HEATING SEASON PREVIEW

In this together

Officials, regulators offering cooperation as the industry prepares for winter with last year's supply challenges still fresh in its mind

BY JAMES E. GUYETTE | CONTRIBUTING EDITOR

Hoping to ease the trials and tribulations that beset last winter, propane providers are pulling out all of the stops to make a successful go at the coming cold weather.

"We're doing everything we can to ensure a smooth heating season, and we are working with governments and private sector partners to get industry members the most up-to-date supply information available," says Jeff Petrash, vice president and general counsel

at the National Propane Gas Association (NPGA).

A steady flow of reports and advice has been produced as briefings have consistently been conducted with federal regulators, state officials and other relevant stakeholders across the nation to follow up on the high levels of assistance the industry experienced last year.

"Throughout the whole winter it was fabulous how state and federal officials were interested in cooperating and

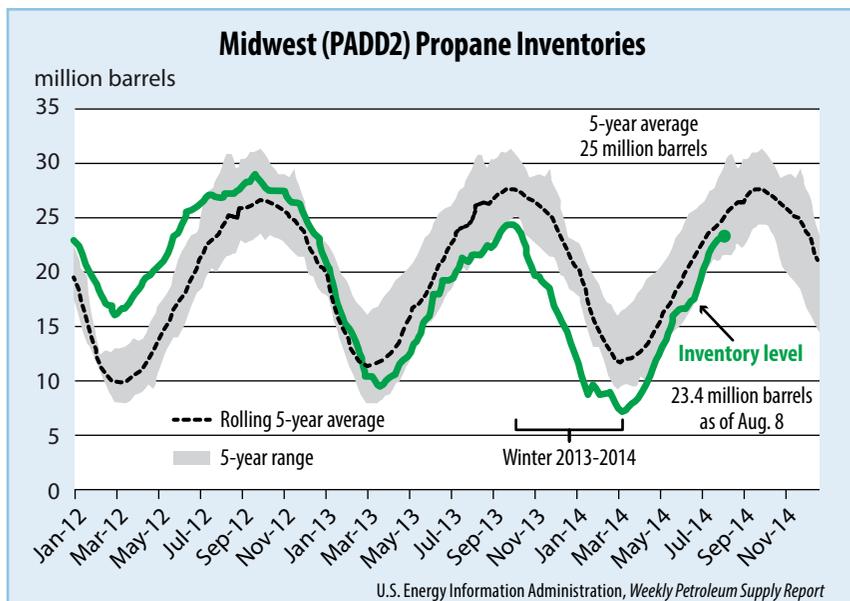
finding solutions," says Petrash, noting how an NPGA supply and infrastructure task force has made significant progress on several fronts.

A report amounting to some 250 pages is scheduled to make its debut in October following the May release of a 16-page white paper on supply issues aimed at propane marketers and state associations.

"That document has been distributed widely," says Petrash, and numerous propane dealers say they highly recommend the value of its contents.

In August, the Propane Education & Research Council (PERC) went live with a new website, propanecomfort.com, part of its \$6.1 million safety awareness program consisting of television, radio, print and online advertisements that propane marketers and state organizations can utilize. The campaign also features an assortment of literature, brochures and bill stuffers.

"You can use them to supplement your own marketing campaigns and urge your customers to plan ahead," says Gregg Walker, PERC communications director. "We want to encourage will-call customers not to put off buying their propane and to fill up sooner

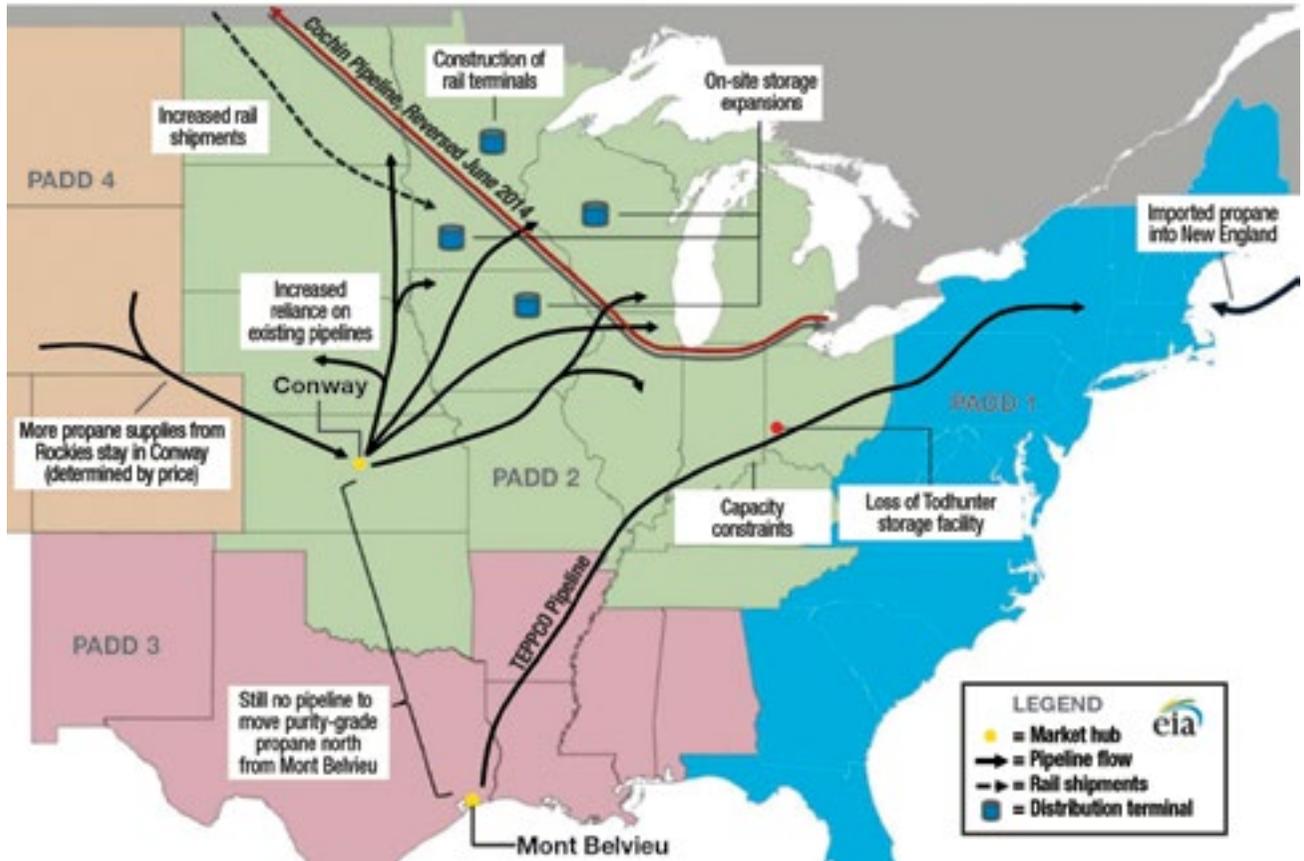


All eyes have been on Midwest propane stock levels after last winter's supply issues.



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U.S. Energy Information Administration

rather than later. Life is better and they are safer when they have a contract for propane. When will-call customers come across this campaign, we hope this will urge them to buy ahead of time.”

A \$5.5-million TV-ad-time buy is focused on selected rural media markets east of the Rocky Mountains, targeting last year’s especially hard-hit areas of negative publicity in the Midwest, Southeast and Northeast, Walker says.

ICF International also published a 91-page report for PERC on the impacts of the Cochin Pipeline being reversed and unavailable this year (see Data-points, page 24).

Discussions between NPGA and the Energy Information Administration (EIA) are centered on heightened data reports regarding stocks and pricing.

“We’re expanding the number of states in our weekly price program and expanding state propane inventories,”

says Tancred Lidderdale, an EIA senior economist. “Everyone in the agency realizes that more transparency is needed in the markets.”

Beginning Oct. 1, 13 states plus the District of Columbia are scheduled for inclusion in the end-user pricing tallies. The states are Alabama, Arkansas, Colorado, Florida, Georgia, Idaho, Mississippi, Montana, North Carolina, Oklahoma, Tennessee, Texas and Utah.

EIA was also considering a weekly state-specific propane inventory report for the Midwest. Details were still being finalized at press time.

“We’re already moving forward,” says Lidderdale, adding “the thing about forecasting is that Mother Nature seems to take unusual liberties in trying to prove us wrong.”

As of mid-August, nationwide propane stocks had risen to 72.8 million barrels, which is 17.7 percent higher than at the same time last year. Gulf Coast inventories were up by 1.2 mil-

lion barrels and Midwest inventories increased by 1.1 million barrels. Propane non-fuel-use inventories represented 5.5 percent of the total propane inventories.

Prepared and positioned

The Mid-Continent supply situation is much more positive this winter due to several factors, notes analyst Anne Keller, manager of NGL research at Wood Mackenzie.

She cites four key points:

- Although the U.S. Department of Agriculture is forecasting records for corn and soybeans, and crop drying is not insignificant in driving fall demand, the firm sees last winter’s challenge as more weather related.

“Usually there is a lull in the weather between the fall ag activity and true winter, which allows consumers to refill their tanks for Christmas,” Keller says. “Last year we went right from fall to winter with little space in between.”

■ Last winter the propane industry was adjusting to life without supply from Cochin and how to maintain the supply chain with trucks and rail, which are more flexible but can't deliver the large volumes that a pipeline can move.

■ Weather caused plants that are traditional sources of supply in remote locations to freeze, further complicating the logistics picture for retailers and consumers.

■ The startup of the Oneok Sterling III pipeline expands the capacity to move barrels between the Mid-Continent and the Gulf Coast. If the supply situation were to become dire again, it would be possible to move barrels north via the pipeline, which can rebuild inventory much faster than sending trucks across Texas, Keller says.

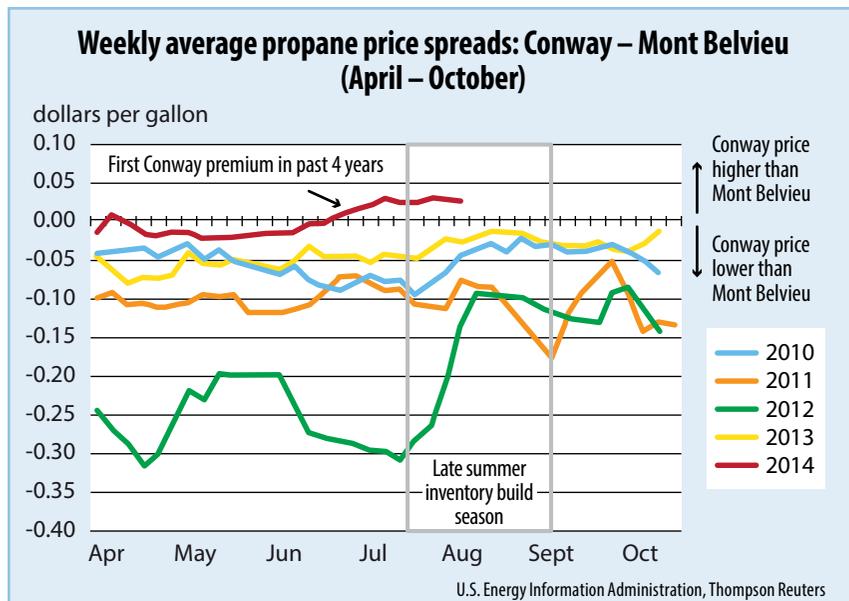
Suppliers and retailers have been proactive in pushing adequate stocks and storage capabilities by promoting summer fills and aggressively marketing budget plans to boost delivery route options while limiting mid-winter customer sticker shock.

"What will keep us from having a repeat of last year is how each individual retailer makes sure they are better prepared and positioned before the winter demand hits. Be better prepared for this winter than you were last year," says Mark Rachal, an industry consultant at Cost Management Solutions.

Propane from Europe is arriving by the boatload off the high seas as at least two ships – each containing up to 17 million gallons – have already been retained.

"One is in and unloaded, and the other will come in the beginning of January," says Mike Tracey, vice president of marketing for Sea-3. "We already have it committed to our customers; it's all sold."

Writing in *The Farm Journal*, busi-



Conway prices ahead of peak demand season were at a premium to Mont Belvieu.

ness editor Ed Clark reports that corn growers are plowing ahead with their propane buys to take advantage of more moderate pricing after last year's supply challenges and accompanying price spikes. According to at least one agricultural cooperative, 80 percent of its farmers had already booked their anticipated propane needs by early August, compared to less than 40 percent in 2013.

Diversified portfolios

In the Northeast, there's a heightened awareness of the supply and transportation constraints, notes Norm Guerette, general manager of the Dead River Co., based in Portland, Maine.

"I'd call it 'cautious optimism' that there will not be a repeat of the challenges of last winter," says Guerette, chairman-elect of the Propane Gas Association of New England, who takes office in October.

"There is no single solution to our supply logistics, but rail is definitely part of the answer – more companies

are expanding their rail facilities to handle more volumes."

Denis Gagne, vice president of wholesale at Eastern Propane, headquartered in Rochester, N.H., says his company contracts for almost all of its volume.

"We've changed the mix a little for our suppliers," Gagne says. "Years ago we used to pull a lot more gas off the pipeline; this year we're not using as much off the pipeline."

Eastern is utilizing propane via Sea-3, and it purchased and leased more storage than last year. Rail has been lined up as well, but Gagne cautions that "they're very thin and they're getting harder to lease; those cars are already lined up."

Sustained bad weather can also derail rail deliveries, and thus Eastern has increased its transport ownership stake on a just-in-case basis.

"If there's a bottleneck, we have some extra capacity," Gagne says. "Make sure you have a diversified portfolio for where your product comes



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from. The plan has to be flexible, and you need a mix of suppliers from different areas.”

Waiting to play the spot market can be risky business, according to Bob Troop, director of propane at Ameri-green Energy, based in Lancaster, Pa.

“The cheapest line of supply may not be available when you need it the most,” he says.

“If we have a strong, cold winter, I look for a repeat of some of the logistical conditions we had last year,” he adds. “Not much has changed from last year. I know quite a few retailers who have started to add storage, but that all takes time.”

Getting in gear with your transportation requirements should be an immediate priority, Troop advises.

“There’s plenty of gas,” he says. “The problem is that it might not be at the right spot at the right time. You don’t want to wait until December to call your common carrier – you need to be having these conversations now.”

Coping without Cochin

France Propane Service in Schofield, Wis., is concentrating on making sure customers have the right-size tank in their yard, allowing the company to stretch deliveries if there’s a crunch, says owner Gary France.

A large majority of the customer base is on automatic delivery, and this year the company has seen a near 10 percent increase in pre-buying over last year.

“We monitor their tanks, and if we’re in the neighborhood we fill them,” France says. “And we’re working with them on a budget plan to get them caught up with last year and get them prepared for this year.”

France’s predicted propane needs are already in place via refinery, pipeline and rail sources.

PROPANE SUPPLY NEWS BRIEFS

Propane supply bill introduced

The Senate introduced a bill to address the causes of last winter’s propane shortage and provide solutions to minimize the chance of future shortages.

According to a press release from the respective offices of Sens. Tammy Baldwin, D-Wis.; Al Franken, D-Minn.; and Rob Portman, R-Ohio, the Propane Supply and Security Act, which they introduced July 31, would prevent shortages in several ways. The legislation would improve propane supply and price information, coordinate responses to shortages, study the need for regional propane reserves, and help farmers purchase propane storage tanks.

The Propane Education & Research

“We want to diversify our supply,” he says. “Last year the rail let us down. They arrived, but they arrived late. The cars were stuck in Canada because of cold weather, and if the weather is bad the trains are shorter, too.”

Another drawback of this year’s propane draw is the fact that a neighboring state’s pipeline pitfalls, relating to the Cochin reversal, will likely impact others, according to France.

“All the people in Minnesota who used to rely on the Cochin will now be using the Enterprise [line],” he says.

Marketers are preparing better after last winter’s cold and the Cochin Pipeline reversal, says Roger Leider, executive director of the Minnesota Propane Association.

“They’re being proactive with their customers to better predict what their needs will be coming into the heating season, and they’re looking at multiple sources of supply,” Leider says. “A lot

Council’s consumer outreach activities, which have been restricted since 2009 by the U.S. Department of Commerce due to rising propane prices, are also addressed in the bill.

Quick hits

- New York’s Department of Environmental Conservation will hold a conference to determine if there are significant and substantive issues that require an adjudicatory hearing on a proposed underground propane storage facility.

- According to *Agweek*, the U.S. Army Corps of Engineers approved a 1-million-gallon propane storage facility at Dooley’s Petroleum Inc. in Benson, Minn., growing its total storage there to 2.5 million gallons.

of it will depend on rail, but that’s not always an option.”

In the West, Salt Lake City-based Turner Gas is communicating with its customers more this year about arranging contracts and pre-buys, says Justin Turner, head of corporate development.

Turner Gas has increased its railcar allocation for its own strategic supply needs, as well as contracted with some of its retailer customers for their dedicated railcar needs, Turner adds.

The company recently purchased a complete rail terminal in Shoshoni, Wyo., to further ensure deliveries remain on track. The trucking fleet has been augmented to now include 200-plus transports.

Turner Gas is also diversifying its own source of propane supply, and it obtained more than 2 million gallons of new storage, with much of it being held at the new Magnum salt cavern facility in Utah. **LPG**



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