

Weathering the Storm...

Propane Industry Faces Unprecedented Challenges

Challenging. Untimely. Unprecedented. These words have become all too familiar to those working in the propane industry as bitterly cold temperatures, high demand, dwindling supplies and high prices combined to create the “perfect storm” – a propane shortage that left wholesale suppliers and marketers scrambling and prompted more than 30 states and the federal government to take steps to help ease the crisis.

Propane Supply & Distribution

As demand for Midwest propane spiked during periods of extreme cold, several factors hurt the industry’s ability to supply and distribute propane to our region:

- Agriculture used five times more propane to dry the record corn crop in 2013 compared to 2012. This unexpected high demand for propane for grain drying late last fall depleted local inventories in the upper Midwest heading into winter.
- Kinder Morgan Inc.’s Cochin Pipeline in the upper Midwest shut down for much of December for maintenance work, which meant the 70,000 barrels of propane per day of supply into the north central tier of states was not available causing these states to look south and to other areas for supply.
- The sharp increase in oil and natural gas production in the central and northern US created unnecessary and unprecedented competition for access to pipelines and rail cars limiting the amount of propane carried.
- Extreme winter weather increased demand for propane in the new England area, the northern tier of states, and into the eastern US as far south as Alabama and Georgia where inadequate propane storage capacity strained and surpassed capabilities of the transportation infrastructure sucking propane north and away from the central US. Pipelines in operation and propane transporters have been pressed to their limits.
- Market dynamics started months ago when the higher global price of propane, offered from overseas for exports of propane from the Gulf Coast, relative to the low Conway market, created an imbalance. This promoted the priority movement of product to the Gulf Coast storage and export terminals and away from the major mid US supply point of Conway, Kansas. Less product at Conway had a ripple effect across the entire central US leaving the sole major supply point of Mont Belvieu, Texas (near Houston, Texas) as the only viable alternative and drastically increasing round trip transport run times, driver fatigue and costs of laid in product.

Statewide and Federal Support

Propane transports from surrounding states affected by supply issues inundated the propane terminals located in the natural areas of supply for Arkansas such as the Light, Arkansas, the West Memphis, Arkansas and Hattiesburg, Mississippi terminals to the east and

the Tulsa, Oklahoma, Conway, Kansas and Carthage, Missouri terminals to the west and north. This much higher than normal traffic resulted in extreme demand at these terminals, causing long truck lines and eventual allocation of product. As demand increased even more from the more northern states and with all of the pipelines in Iowa, Michigan, Minnesota, the Dakotas and others on allocation, transporters from these states were traveling to Conway, Kansas to get propane. The problem just moved south. Drivers sat in line for 8 to 10 hours at Conway along with trucks from as far away as California, Ohio and Pennsylvania waiting to be filled. When they are lined up in Conway from 1,600 miles away, there is definitely a problem. Eventually, trucks would begin to look at going to Mont Belvieu, Texas to fill but this created its own problems since very few out of state trucks were licensed in Texas and could not operate there.

On January 3, 2014, Arkansas Governor Mike Beebe declared a proclamation of disaster and a propane emergency due to the record high demand for propane throughout Arkansas and the central US. Without this proclamation, the options for shipping propane to Arkansas would be limited.

In addition, Governor Beebe was one of several Governors who successfully asked Texas Governor Rick Perry to waive licensing, permitting and certification requirements on trucks and operators hauling liquefied petroleum from Texas to help ease the shortage of propane and help propane suppliers keep up with demand. When the door opened in Texas due to the waiving of the licensing requirements, the rush from across the nation was on. There were so many propane transports in the Mont Belvieu area they would have to sit for up to 48 hours to wait for one load. The congestion got so bad that drivers would check in at the terminal and give their cell phone number then go to a staging yard or a truck stop to wait their turn, for days.

To allow for expedited delivery of propane due to the tremendous mileages involved for every transport load, your Association also sought relief along with transporters and others from the federal Hours of Service restrictions, which limit the transportation of fuel cargoes. Arkansas Governor Mike Beebe early on recognized this problem and authorized statewide "Hours of Service" waivers for truck drivers transporting propane and in January the U.S. Department of Transportation Midwestern, Eastern and Southern offices followed suit and issued regional orders which allow transporters to move product even more freely. The regional orders, unprecedented in recent experience, impact 10 Midwestern states, 14 Eastern states and 9 Southern states. To date, 38 states have issued Hours of Service relief this winter allowing transports to stay on the road.

As propane dealers, transporters and ultimate users, we appreciate the collaboration of the federal government, State Governors, and Texas officials trying to resolve the propane situation here. This propane emergency allowed productive conversations with the U.S. Secretary of Energy, U.S. Secretary of the Department of Transportation, Governor Beebe, other state governors, and members of the propane industry to do everything possible to resolve this propane issue.

Arkansas propane dealers continue to urge the federal government to reduce the regulatory burden so propane can be transported to the affected states, and have driven

collaboration across state lines from Texas to Washington, D.C. to make sure Arkansans have the propane they need to heat their homes and businesses, are able to fuel their operations, and livestock producers can warm their animals.

Arkansas Senator Mark Pryor, at the urging of the APGA, along with 30 other senators requested by letter to President Barack Obama that the federal government take all available actions to alleviate the price spikes and to increase the availability of propane for delivery by cutting through any artificial barriers that might stand in the way. As a result of this request, he personally approved of the actions of the Federal Energy Regulatory Commission (FERC) to prioritize propane shipments via interstate pipelines and noted that this was the first time that FERC had used its emergency authority under the Interstate Commerce Act to address a national emergency. In addition, and as a further result of the Senator's requests for action, other pipelines reversed their flow to carry propane northward rather than other products south.

This combination of efforts by federal officials, regulatory agencies, state offices and local companies is paying off. "Propane dealers in Arkansas continue to work hard to serve our customers who rely on propane," said Larry Snodgrass, Arkansas Propane Gas Association (APGA) executive director. "Together with Ms. Sharon Coates, Director of the Arkansas LP Gas Board, we are aggressively pursuing solutions to give Arkansans relief in the short-term, and identifying potential long term solutions. Our shared goal is to insure customers have the fuel they need to stay warm as the colder temperatures continue."

In addition to these efforts, the APGA continues to work with the National Propane Gas Association (NPGA) and Propane Education & Research Council (PERC) to ensure expedited shipments of propane by all modes: pipeline, rail and transport. Several additional members of Congress also wrote to President Obama, urging him to take swift and decisive action to bring an end to the current propane supply, demand and distribution situation.

The letter calls on the President to take five specific actions:

1. expand the U.S. DOT Regional Hours of Service Waiver;
2. address the regulatory barriers at the Department of Energy that are delaying propane shipments;
3. examine propane market forces and ensure sufficient domestic supply;
4. alleviate the financial barriers of increased demand for physical propane deliveries; and
5. increase LIHEAP funding.

Energy Assistance Response

In Arkansas, where a considerable percent of residents use propane as their primary source of heat, the heavy demand has led to higher prices. As a result, APGA joined NPGA to ask Congress to support an emergency supplemental appropriation for the federal Low Income Heating Energy Assistance Program (LIHEAP). We encourage actions requesting emergency bill to provide an additional funding for LIHEAP.

It goes without saying that families can't budget for double, triple the cost. We in the industry have been kept busy keeping the appropriate officials and office of the Governor in the loop to help expedite support for their customers.

What Can Customers Do?

To ensure that suppliers are able to provide service in a timely manner, propane customers are asked to arrange for deliveries when their tanks read 35 percent. "Allowing a tank to fall below that level increases the chance of running out," Director Coates said. "Arkansas rules require safety inspections on all tanks that run out of gas during normal service, which can result in an extra cost and delay."

Propane dealers should also encourage their propane customers to take these important steps:

- Turn their thermostat down a few degrees.
- Reduce hot water usage (for those with a propane hot water heater).
- Do not heat any rooms or buildings that do not need to be heated.
- Conserve gas range use (for those with a propane range).
- Never use grill cylinders inside the home for any reason.
- Do not try to hook a grill cylinder to the home heating tank, since this will expose the home to an extremely unsafe and illegal situation.
- Keep a path clear to the propane tank. This will help delivery drivers get to the tank easily, refill quickly, and get to the next home.
- Stay safe. Stay smart.

Looking Ahead...

How can the propane industry prevent a "storm" like this from happening again? Most agree that while it is hard to meet a demand that you cannot foresee coming, there are some things that can be done to help ease the pain.

We and our customers have become accustomed to an 'on-demand' propane supply where one can place a call and get a load delivered whenever it is needed. Keep fill agreements and increasing onsite storage can be key steps toward customer satisfaction and guarding against outages.

Pipelines can carry only so much. Transporters can only haul what's there and only a limited number of gallons per load. Plan ahead.

It is increasingly important that dealers need to work together. Sharing with your neighboring dealer, as was done by several dealers here in Arkansas, is an easy fix in times of crisis. If we don't, we'll get caught again since this issue is not going away.

Agriculture and industrial and commercial users must be involved in the discussion together with transporters and pipeline terminal operators who need to be proactive and work together to see if there is a better way of scheduling deliveries. It's imperative that we *all* look for ways we can help address these challenges.

“Addressing energy infrastructure challenges will take time and dedication from many. We are committed to doing our part,” stated Roy Willis, CEO of the Propane Education & Research Council in his blog, “Energy Gumbo.” “Together we will weather this storm and continue to do what the propane industry has done so well for more than 100 years – keep American homes running.”

Our thanks to the agencies and industry officials who provided information and content for this article including the Propane Education & Resource Council, the National Propane Gas Association, the Office of the Governor of the State of Arkansas, the Arkansas LP Gas Board, and the Iowa Propane Gas Association. Much of the information is identical in the various states across the nation and while problems persist, much has been done to assist dealers in meeting the demands of their customers. Our gratitude goes especially to the efforts of the many dealers and transporters of propane, and their drivers for their long hours of service and dedication to the needs of the public.