

# Missouri PROPANE GAS ASSOCIATION

January 22, 2014

**To the Members of the Missouri General Assembly:**

The Missouri Propane Gas Association is acutely aware of the current supply and pricing difficulties being experienced by our customers and their suppliers. We have supported efforts to free up trucks and transportation to enable deliveries of propane that had been impacted due to infrastructure and logistic challenges. Up until this week, many companies were able to serve customers on only a slightly-delayed basis.

Yesterday, however, the industry was been stunned with an unprecedented increase in wholesale pricing. In less than 24 hours, the price of propane climbed an additional \$1.255 to nearly \$3.55 per gallon. That is a WHOLESALE cost, before transportation, assessments, expenses or other fees are included. The increases may not be done yet.

At the current level, this will push the average residential price well above \$4.00. For your reference, the average Missouri residential propane price on January 7 was \$2.18. The annualized impact of this two-week spike would calculate to half a billion dollars for Missouri families. Clearly, we are in a crisis involving pricing and supply. Your constituents will be calling and have every right to be alarmed.

The supply situation is particularly frustrating as there is more propane being produced today in the United States than ever before. The unlimited export of domestic propane supply, and subsequent profiteering trading of this commodity at the expense of the nation's families, farms and businesses, has created this untenable situation.

MPGA is joining with other state associations to demand that the U. S. Department of Justice investigate this disturbing aspect of predatory pricing. There are no fundamentals which support these levels. This apparent price gouging—hitting families and businesses in the midst of a brutal winter with unreasonable increases to their heating costs—will cause untold economic damage to our propane customers and the companies that serve them.

We are also asking our Congressional delegation to review the oil industry's campaign to repeal the Jones Act, which would allow unlimited exports of crude oil. Based on our experience with unlimited propane exports, that would be a disaster of even greater proportions for even more Americans.

I am available to answer any questions you may have at MPGA at 573-893-7655 extension 301; Cell 573-690-6501; or by email at [Steve@MissouriPropane.com](mailto:Steve@MissouriPropane.com).

## BACKGROUND

The challenges in delivering propane for consumers during this prolonged period of cold weather started with a confluence of events beginning in October.

Abundant grain crops were being harvested throughout the Upper Midwest almost simultaneously this fall. Ordinarily, the harvest progresses in stages through the region but in late 2013, the harvests happened at the same time over a wide area. This was a large, wet crop which required massive amounts of propane in order to be dried prior to storage. That demand reduced propane inventories throughout the area.

At the same time, infrastructure realignments inhibited the transportation of propane. The Cochin pipeline, which provided 40% of the product used by Minnesota suppliers, was shut down for repairs as the line prepares to eliminate propane liftings by this spring. This pushed those suppliers further out to load their supply. Canadian imports to the Northeast were also impaired by rail re-routing and other infrastructure impediments. In the Midwest, a new pipeline began moving propane from the central part of the country to new export terminals on the Gulf Coast where propane cargoes started shipping U.S. propane supplies at an accelerating pace to Europe, South America and other destinations where the market is higher. <http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MPREXUS2&f=M>

As the harvest season ended, a massive winter storm known as the “polar vortex” rolled across much of the country. Demand for residential, commercial and agricultural heat has soared. The forecast continues for cold weather for much of the state.

The run-up in prices has been unprecedented and there is no guidance on when the increases may end. Propane customers will not have the resources to pay for fuel. In fact, propane suppliers are hitting their credit limits which allow them to pick up a load at the terminal.