

The Propane Industries Goal: Ensure Propane Consumers are Served

The winter of 2013-2014 proved a challenge for propane consumers in acquiring adequate supply at affordable prices. Crop drying demand of 500% of last year's demand combined with heating demand of 20% above the last two years average created a situation of unprecedented supply shortages in the Midwest which had a ripple effect on the rest of the country. The National Propane Gas Association has convened a task force to examine what circumstances led to this winter's difficulties and to determine what steps can be taken to forestall a recurrence. The task force has reached several preliminary conclusions as to steps that might be taken. I will focus on specific impacts for New England and the greater Northeast. These include:

The critical need for additional primary storage in the Northeast

New England sells 7% of the nation's propane but has only 1% of the primary storage. I have been working with Sea-3 in New Hampshire on permitting additional equipment to offload American propane from railcars, chill it and put it into the 24 million gallons of storage that they have in place. This storage was dormant for two years prior to February when they imported emergency supply for New England. The new equipment will utilize American propane rather than having to import propane from Europe and Northern Africa. While this does not add storage, it will reactive this facility which historically provided 25% of New England's propane and will provide American propane at American prices rather than the significantly more expensive imported propane. In addition the task force identified as a priority for the nation to get the Finger Lakes project in NY approved. This project would provide 88 million gallons of storage for the entire northeast region of the country. Mr. Ronald will be discussing this critical project in greater detail.

Another significant concern about adding storage is the ability to get permits to store propane. Many of these projects take months and even years to permit. Last year a project in Searsport, Maine that was in the works for over 5 years was finally withdrawn after robust opposition. The need for storage is recognized but NIMBY often overrules common sense.

Improved Rail Service

Five years ago rail was an ancillary transportation mode in New England accounting for less than 15% of propane delivered. That number has swelled to 75% for the region as a whole and to closer to 95% for the state of Maine, and for northern NH and northern VT. Pan Am railroad stated last fall that their volume of shipments had increased 500% in the past three years and frankly, they have struggled to perform along with the other short line railroads in New England. The addition of several new rail projects like Sea-3 and others will only put more stress on the rail system and the propane industry continues to work with the Federal Railroad Administration on improved rail service. When the weather turns really cold and snowy, the rail slows way down so when our customers need propane the most, the railroad has historically not been able to keep up with deliveries jeopardizing customers. This lackluster performance combined with lack of storage places a significant strain on northeast propane marketers who are committed to ensuring stable supply for their customers.

Pipeline pump and terminal load capacity

There is only one 8" pipe carrying propane into the northeast from the production areas and that pipeline ends just south of Albany, NY. This pipeline is connected to the Finger Lakes project in Western, NY and that storage could be used to boost pipeline capability during winter months. It is incumbent that pipeline operators continue to enhance pumping and loading capacity at the various terminals on the pipeline to reduce wait time for trucks. Without storage along the way and maximum load and pump capacity, the winter output on this pipeline is undependable and limited. It is of note that it takes 28 days for a batch of propane leaving the gulf coast to arrive in NY! Even with enhanced pumping capabilities the likely batch time will be 21 days!

Export Data Critical for the Northeast

The export of propane produced in the Marcellus region from Marcus Hook, NJ will have a significant impact on winter supply in the Northeast. Visibility of PADD 1 inventory and real time export data and storage as it relates to Marcus Hook, and northeast terminal activity by the Energy Information Administration would allow the industry to model supply forecasts under varying assumptions of demand and allow a determination if other measures to ensure stable supply and prices for northeast consumers would be warranted. As market circumstances became more critical this winter, market participants realized they often had woefully insufficient information.

More transparent data will allow the propane industry to better forecast long range supply needs. The NPGA continues to work with FERC, DOC, DOE, FRA, EIA, and Congress on nationwide strategies and procedures that could be put into action if the model we plan to develop indicates a similar occurrence in the future. Taking proactive steps instead of reacting after the fact will ensure the safety, stability, and reliability of energy supply for all Americans.

Recap

Even though the US production is increasing at record rates, we still ran short of propane in certain regions of the country where it was needed most. We have plenty of propane in the US, we just need an infrastructure and transportation system that can move propane into storage consistently in the areas of the US where it is needed.