

2014/2015 MGA Chair's Initiative: Strengthening the Propane Supply Chain



Governor Scott Walker

MGA Chair's Initiative Summary Report

March 2014 - February 2015

2/20/2015

SITUATION SUMMARY: *In late 2013, a crisis was emerging within the propane industry. Some would call it a perfect storm: a late, wet, bumper crop harvest, where 25 percent of the nation's crop was harvested in one week; the Cochin pipeline down for routine maintenance for several weeks; and an early and record-cold winter with plenty of snow impeding the ability of trucks and rail to make their deliveries. This resulted in lower than average supply and higher than average demand. Propane prices skyrocketed for customers, causing some to let their home tanks run dangerously low while they waited for prices to fall, and propane companies struggled to replenish their own supplies, let alone their customers. Turkey growers could not heat their barns. Wait-times at terminals were long. Waivers for an hours-of-service exemption, allowing drivers to work longer days, were requested and ultimately granted by Governors across the Midwest, and eventually a regional waiver was issued by the federal government. Federal propane legislation was drafted, and in some cases, later approved and signed into law. One thing was made clear: few were prepared for such a situation and new steps needed to be taken to ensure such a situation would not repeat in the future.*

In March of 2014, Wisconsin Governor Scott Walker became Chair of the Midwestern Governors Association (MGA) and declared his sole focus area would be “*Strengthening the Propane Supply Chain,*” given the struggles the Midwest had encountered with propane for the previous five months. Upon researching the topic and preparing the initiative, a 2001 report was discovered from a Midwest Propane Meeting sponsored by the National Association of State Energy Officials and the U.S. Department of Energy. Some of the actions, recommendations and/or findings from that 2001 meeting included:

- lack of secondary storage;
- a need to encourage summer fills and possibly use LIHEAP (low income home energy assistance program) funds;
- fix driver hours-of-service waivers;
- reduce terminal lines;
- rail is unreliable;
- customers need to be educated; and
- EIA and data collection.

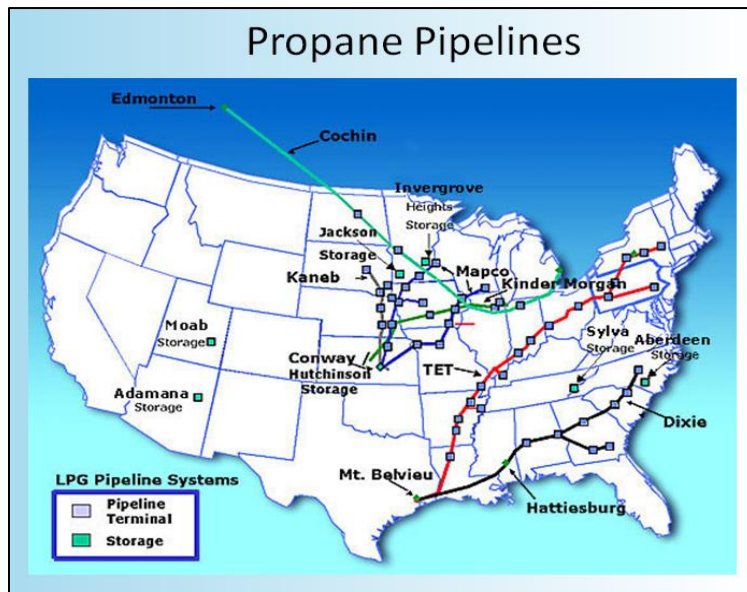
Given what the Midwest had just experienced, that report could have easily been dated in the present, not nearly 13 years earlier. During the first meetings to launch the MGA Chair's Initiative, ALL of those exact issues were still defined as problem areas and it was realized that little progress had been made on these issues since the last time propane had presented a wide-spread problem more than a decade earlier. Furthermore, additional concerns had developed, such as the full utilization of the propane industry's education organization, PERC (Propane Education and Research Council), money.

As part of the MGA Chair's Initiative, we set forth to find solutions to some of these problems and continue work on the other issues that might require more long-term efforts. We did not want another list identifying the same problems, but we wanted to help enhance consumer awareness and increase industry preparedness by 1) engaging states, propane associations, the federal government and industry in conversations with one another earlier so that should a situation develop, people would know who to turn to sooner and help prevent it from becoming more severe; 2) creating awareness around the hours-of-service waivers and working to reduce the number issued each year; 3) focusing more on the preparedness message and changing behavior; and 4) sharing best practices and lessons learned openly and honestly.

Enacting federal legislation was never a primary focal point, given a Chair’s term is only one year; however, bipartisan policy makers at every level of government were eager to take action. Federal legislation was signed into law regarding PERC funding becoming accessible again to help educate consumers. In addition, the Reliable Home Heating Act was signed into law in June of 2014 mandating the Federal Motor Carrier Safety Administration accept the hours-of-service extensions declared by governors during emergencies for up to two additional 30-day periods. The former is another tool to help with education and the latter is, while hopefully never needed again, helpful to have just in case.

PROPANE BACKGROUND

Propane is used across the United States, with approximately 5.5 million homes being heated with propane, including 250,000 in Wisconsin. The Midwest has the highest proportion of residential users, at around 36 percent, with the average home using 700-900 gallons of propane each winter. The Midwest’s reliance on propane underscored the importance of the MGA tackling the challenging issues that created the winter of 2013/2014, and identifying long-term solutions.

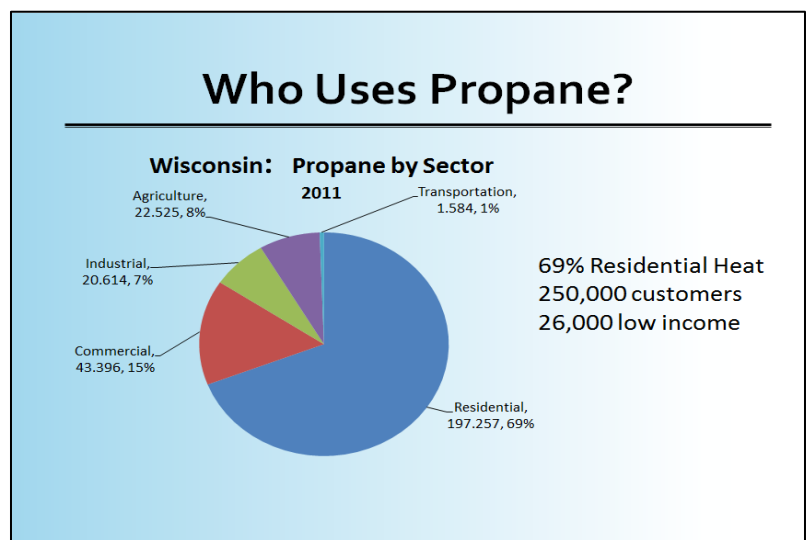


To better understand the flow of propane, review the map of the propane pipelines. Most propane travels via pipeline, but it can also be transported via truck and rail in much smaller loads. It is stored primarily in one of three ways: *primary* (refinery, pipeline or bulk terminal stocks), *secondary* (large above ground tanks located through the U.S.) or *tertiary* (small above ground tanks, often at someone’s home).

As an example, a breakdown of who uses propane in Wisconsin is included. This is similar to many other Midwestern states.

WORKING GROUP

The MGA Propane Supply Chain Working Group consisted of representatives from each MGA state government, including representatives from the governor’s office and/or someone from a respective state agency (or agencies) handling propane; state propane associations; the National Propane Gas Association (NPGA) and other impacted associations; industry



and the federal government. During the course of the initiative, the group expanded to include other interested parties, such as the trucking industry. The addition of non-governmental members gave the working group a unique insight on the issues and were a great asset in working toward our goals.

In addition to dozens of organizational calls, the working group held more than one dozen specific topic calls between April of 2014 and January of 2015 to discuss a wide-range of issues, including:

- general state overviews and updates;
- NPGA comprehensive industry updates;
- LIHEAP;
- hours-of-service waivers;
- broader transportation issues;
- state propane gas association discussions;
- metric sharing;
- communications/PSAs as it relates to early fills; and others.

The group also met in person twice – once in Madison in June of 2014 with the state and federal partners – and then in Milwaukee in October of 2014 with the states, associations, businesses, federal partners and others.

At the Madison meeting, the agenda included discussions on strategic planning and communications; pipeline fundamentals; rail; the Cochin reversal; and various other topics. Presenters, such as Gary France, a propane business owner, spoke about his perspective from the front line and the NPGA provided its own overview.

The Milwaukee meeting stemmed from the Madison meeting agenda, offering more time for in-depth discussion, sharing of best practices and panel discussions. This was a well-attended meeting that also included a winter fuels and forecast outlook and breakout sessions to discuss LIHEAP, energy assurance planning and the industry supply chain perspective. (Full agendas from both meetings are available at the end of this report).

The Chair's executive team also spoke with the White House and relevant federal agencies in May about the severity of the propane issue and the needs surrounding it. This was a necessary meeting to further engage the Administration and ensure they realized how many federal agencies touch various propane issues.

A few examples of the agencies and their propane issues include:

- U.S. Department of Health and Human Services(HHS) – LIHEAP funding;
- U.S. Department of Transportation (DOT) – hours-of-service waivers, truck weight limits, and the 34-hour restart rule;
- U.S. Department of Energy (DOE) – EIA data, home heating options and inventory;
- U.S. Department of Commerce (DOC) – PERC and export/import trends;
- National Oceanic and Atmospheric Administration (NOAA) – weather forecasts; and
- U.S. Department of Agriculture (USDA) – crop forecasts.

WORKING GROUP OUTCOMES

Aside from putting faces with names and knowing contacts within the propane world (which was deemed invaluable from the participant meeting surveys), three key outcomes stemmed directly from the working group.

First, the MGA developed an ongoing propane toolkit document available on the MGA website for states to highlight state propane activity.

Second, the MGA developed a propane “triggers” document for each of the four seasons that states can use to ask appropriate questions to ensure they are prepared – as good propane preparedness is year-round. This document was provided to working group members in various forms and is also available on the MGA website.

Third, in the event of an emergency or potential developing problem, there is a standing working group available with direct connections to governors to convene quickly. As further proof of this, as the MGA Chair’s Initiative began drawing to a close, the working group asked for the check-in calls to continue occasionally, so MGA and NGPA have teamed up to host two propane calls later in 2015 as the next winter season gets underway.

Propane Preparedness is Year-Round
A discussion document for states. The following are triggers and sub-issues that governors and their offices may want to ask of the operators and industries leading propane-related programs and supply throughout the year. For more information, visit www.midwesterngovernors.org/.

Spring

WEATHER AND CROP FORECASTS

- Is it a long winter or early spring?
- Is it a late planting, meaning a later harvest?
- What's the home heating demand – 60, 30, 15 day forecasts?

DEMAND

- Where are current Midwest propane levels in comparison to the 5-year average? How does that compare to last year?
- Is there a propane “shortage” or is it a normal season?
- What are wholesale spot prices?
- Where do exports/imports stand? Compared to last year?
- Have LIHEAP funds been exhausted? Emergency funds used?
- Are frost laws/delivery lanes going into effect?
- Are tanks being refilled/topped off in a timely manner?

TRANSPORTATION

- Are HDS waivers currently in place? Until when?
- Are there wait-times at terminals? How long?
- Is rail service/delivery meeting expectations?
- Any propane-related transport incidents via rail or truck?
- What levels are the pipelines operating at?

OTHER CONSIDERATIONS

- Has propane been in the headlines? Have success stories been shared?
- Have solutions been developed for problem areas in the news?
- Are residential customers facing credit problems for propane purchases?
- Are dealers facing credit problems securing supply from wholesalers?
- Has the State or Congress made any new laws impacting propane either directly or indirectly (i.e. tax credits, loans available, regulations, etc.)?
- Has the state surveyed the market to get their reaction on the season and see what went well or needs work?
- Are regular stakeholder meetings or calls happening? Should they be scheduled?

Summer

WEATHER AND CROP FORECASTS

- Is harvest early or late? What is the corn moisture level of the harvested crop?
- Is any crop drying occurring for soybeans or wheat?
- What are the crop progress reports for other states?
- Is there an early cold spell or is it a wet fall?
- Was there recent extreme weather? Is extreme weather forecasted?

DEMAND

- What are the propane inventory levels at PAGO 2 and Conway?
- How does the allocation data look from summer fill?
- What percentage of customers are “keep full” vs. “will call”? How has that changed from last year? Five years ago?
- Has the state contracted propane for LIHEAP customers? How successful was the early application period?
- Are tanks full? Are tanks being refilled/topped off in a timely manner?
- Has any storage capacity been added? Is it full?

TRANSPORTATION

- Are there any breakdowns in the supply chain? Expected maintenance work?
- Has there been movement in the transportation infrastructure away from propane and into other fuels? To what extent?
- Has an HDS request been drafted or requested?
- Is there movement in the transportation infrastructure away from propane and into other fuels? To what extent?

OTHER CONSIDERATIONS

- Any major news stories or issues with other energy sources that will impact the upcoming propane season? Reversible? Coal shortages?
- Is contact information updated for customers? Can the state or dealers reach customers in an emergency?
- Was a survey conducted of propane vendors to gauge status?
- Have propane associations gathered data sets?
- Has an emergency declaration been declared anywhere in the region?

Fall

WEATHER AND CROP FORECASTS

- Is harvest early or late? What is the corn moisture level of the harvested crop?
- Is any crop drying occurring for soybeans or wheat?
- What are the crop progress reports for other states?
- Is there an early cold spell or is it a wet fall?
- Was there recent extreme weather? Is extreme weather forecasted?

DEMAND

- What are the propane inventory levels at PAGO 2 and Conway?
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- Are tanks full? Are tanks being refilled/topped off in a timely manner?
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TRANSPORTATION

- Are there any breakdowns in the supply chain? Expected maintenance work?
- Has there been movement in the transportation infrastructure away from propane and into other fuels? To what extent?
- Has an HDS request been drafted or requested?
- How was the pipeline working during the off-season?

OTHER CONSIDERATIONS

- Any major news stories or issues with other energy sources that will impact the upcoming propane season? Reversible? Coal shortages?
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- Has an emergency declaration been declared anywhere in the region?

Winter

WEATHER AND CROP FORECASTS

- What is the winter forecast?
- Are home heating demands being met now and under future forecasts?

DEMAND

- Have concerns been expressed about the propane inventory levels?
- What are the wholesale spot prices at Conway, Mt. Belvieu and Hattiesburg?
- What are the current wait times at terminals?
- What is the support level compared to last year? Five years ago?
- What level are the pipelines running at? MB FERIC step in?
- Are tanks being refilled/topped off in a timely manner?

TRANSPORTATION

- Is propane being delivered by rail? Is it timely?
- How many terminals are running on allocation?
- Are there major wait-times at terminals? Are drivers going to Texas/Conway or other locations for propane?
- Has an HDS waiver been requested? Granted? Extended? Across how many states?

OTHER CONSIDERATIONS

- Has an emergency declaration been made? Will it be?
- Is a call center needed? Are systems in place if it becomes needed?
- Any breakdowns in the supply chain? Details? Reversible? Shutdowns?
- Are states communicating regularly with each other on experiences? Status?
- Has the state reached out to propane associations and dealers with updates and let them know they are available for assistance or if a need arises?
- Are residential customers facing credit problems for propane purchases?
- Are dealers facing credit problems securing supply from wholesalers?
- Have any LIHEAP “crisis funds” been used?
- Are PSA’s being used? Are people receiving reminders to keep their snow shovels and to check that their neighbors have a path shovelled to their propane tanks?

BEST PRACTICES

Bringing states, industry, associations and others together also helped develop best practices. A full list of what states were doing is available on the MGA website, however a few examples include:

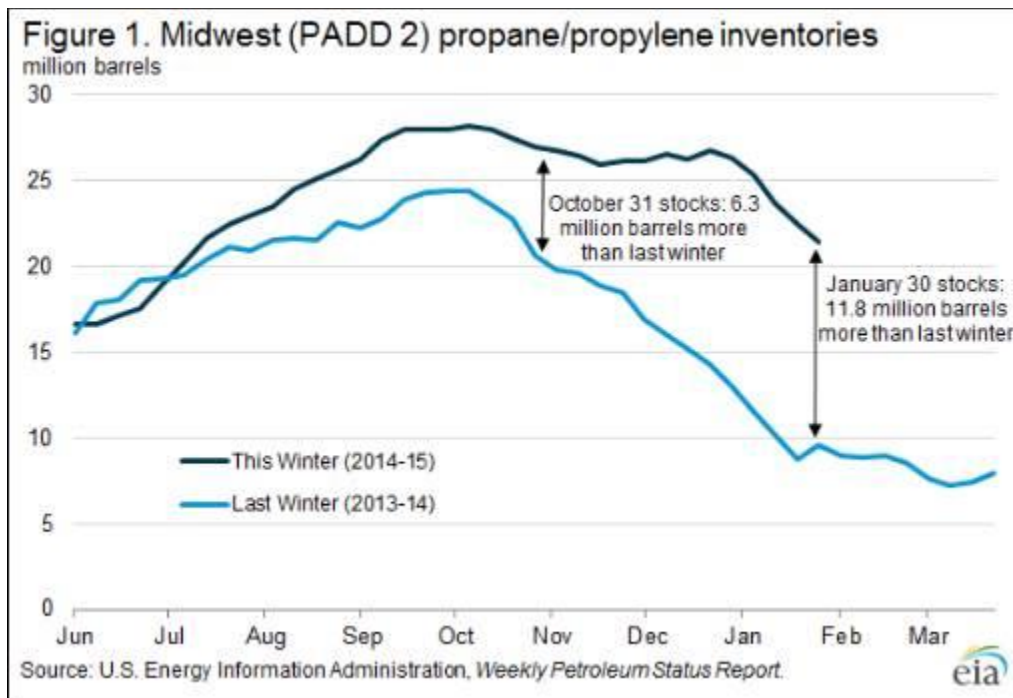
- 1) Wisconsin, followed by Minnesota, opened call centers during the emergency. In Wisconsin, the toll-free number was open 24/7 during the worst of the crisis and fielded more than 15,000 propane-related calls.
- 2) Governors teamed up to reach out to HHS and advocate for LIHEAP dollars to be released ahead of schedule.
- 3) Iowa led the charge in asking Texas to relax some of their restrictions to allow easier access for Midwestern truck drivers to fill their trucks with propane. They also developed an Iowa Propane Supply Chain Optimization Study.
- 4) Numerous states worked on PSA campaigns to advocate for consistent and early-filling of propane tanks by customers.
- 5) Establishing forums for more regular communication between state propane associations and state governments.

This list is not all-inclusive, but does demonstrate some of the better practices states adopted.

CURRENT PROPANE STATUS

According to the EIA, as of January 30, 2015:

- Higher inventories, milder weather, and falling crude oil and natural gas prices have resulted in a Midwest propane market that has not experienced the challenges faced last winter.
- As of January 30, Petroleum Administration for Defense District (PADD) 2 (Midwest) propane inventories are 11.8 million barrels above the same time last year and 6.3 million barrels more than the five-year average.
- By October 31, 2014, propane inventories in the Midwest were 6.3 million barrels higher than the same time in 2013 and 0.7 million barrels higher than the five-year average.
- Inventories have remained high this winter (October 2014–January 2015) because of lower demand during a less-severe winter, with Midwest heating degree days 8.5 percent below the same period last year.



LIHEAP ACTIONS

Federal LIHEAP funds distributed to states are a crucial part of keeping people warm in winter. The winter of 2013/14 found governors asking HHS to provide the federal funds to their states as quickly as possible to get the money out to those in need. During the summer of 2014, Wisconsin asked the President for assistance in granting an advance of \$8 million of expected LIHEAP money to get propane into the tanks of LIHEAP recipients before fall – to ensure the most vulnerable were taken care of long before any potential supply/demand issues could hit. Furthermore, Wisconsin calculated this would save about \$1 million, because summer propane prices are often less expensive than winter, allowing that money to assist more people in need.

While the White House denied this request, Wisconsin still managed to move their application date earlier and do more contracting for propane on behalf of LIHEAP recipients in the summer, even if they could not physically put propane in the tanks until after October 1. This allowed Wisconsin to save some money and provide more security for the most vulnerable.

Continuing to push for LIHEAP dollars to be released as quickly as possible from HHS will remain important.

WISCONSIN SPECIFICS

Each year the LIHEAP program provides assistance to more than 26,000 propane customers in Wisconsin. The average annual Wisconsin household bill for propane for the low income sector served by the LIHEAP program is \$1560, and the current average benefit is \$438 for propane households – that benefit is about 75 percent higher than households using natural gas. Propane is predominately used in rural areas where natural gas lines are not available.

For the low income propane households that apply for energy assistance, 69 percent are home owners while 31 percent rent. The majority, 74 percent, live in conventional single family homes while 23 percent reside in mobile homes, and the remaining 3 percent in multi-units. The average poverty level for low income propane households is 114 percent of the Federal Poverty Level, which in 2014 dollars equates to an annual income of \$27,189 or less for a family of four.

*Summary of Benefit Payments to Propane Households for Heating Years 2013, 2014 and to date for year 2015 (*2015 year payments may continue until October 1st 2015)*

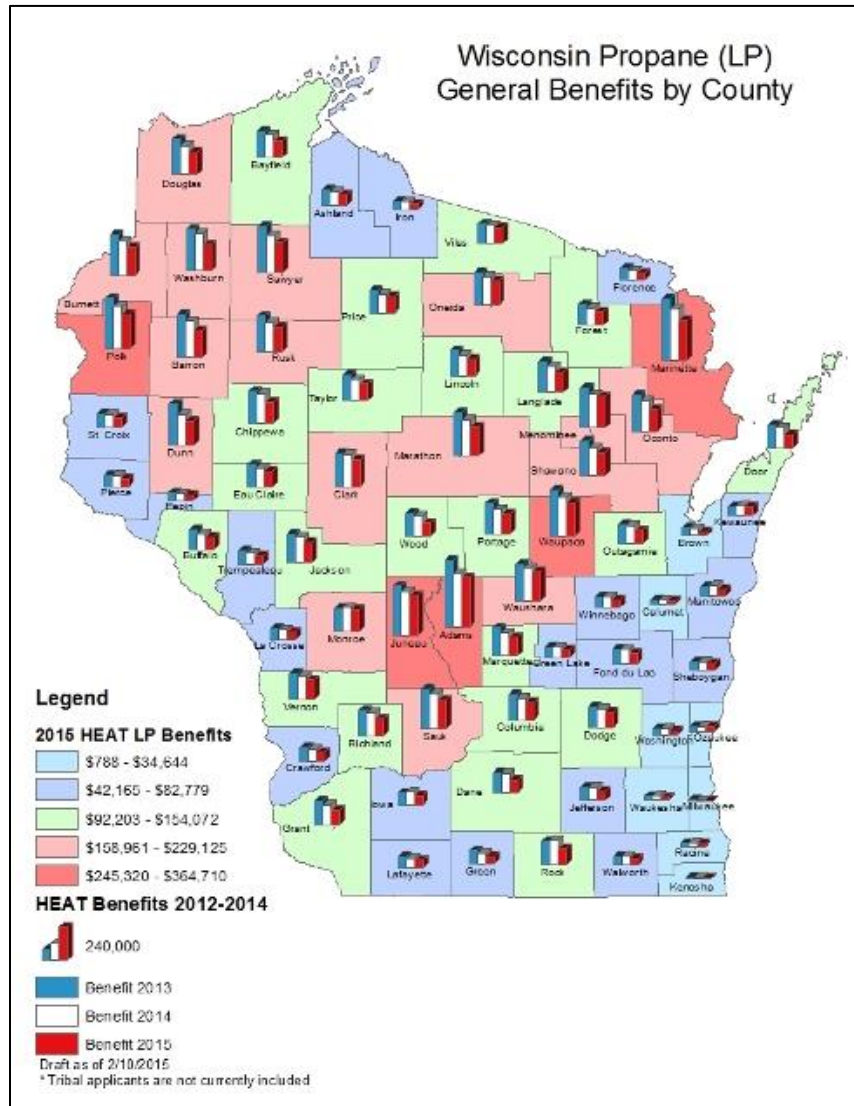
HEAT Year	LP Households Served	Regular HEAT Benefits	Crisis and Proactive Payments	Total Payments
2013	22,596	\$ 12,476,521.00	\$ 837,109.00	\$ 13,313,630
2014	26,398	\$ 10,731,361.00	\$ 8,561,661.00	\$ 19,293,022
*2015	20,084	\$ 8,805,635.00	\$ 474,377.00	\$ 9,280,012

Given the unusually brutal 2013-2014 winter in Wisconsin, the Department of Administration, Division of Energy Services, provided an unprecedented \$8.5 million in additional benefits during the winter and another \$1.5 million in the summer of 2014, when prices retreated, to refill empty tanks. The crisis and pro-active assistance to low income propane households made sure no one was mortally affected by these unusual circumstances.

Additionally, many households that were not below the poverty level, but were struggling to pay the high prices of propane, were seeking help. Wisconsin has the “Keep Wisconsin Warm Fund” (KWWF), a statewide, non-profit charitable organization that provides energy-related crisis assistance to low-income households. KWWF raised public funds and matching private fund to address the propane emergency and was able to increase the income eligibility to serve households that heated with propane from 60 percent to 80 percent of the State’s Median Income.

In short, throughout the difficult 2013/2014 winter, Wisconsin took numerous actions to protect its citizens, starting with the governor immediately meeting with the industry to examine the problem and look toward solutions. The governor’s team worked with utilities to find extra supplies of propane for the emergency. It met with the railroads to stress the importance of timely deliveries in winter. It

commended CHS for starting construction of a new propane terminal in Wisconsin. The governor's office also worked with other states to encourage a regional approach to hours-of-service, instead of state-by-state, since it was a regional problem.



Furthermore, after the crisis point was over, the state took numerous steps to better prepare for the upcoming winter and ensure necessary tools were in place.

To start, the state joined with industry partners to urge consumers to fill propane tanks in the summer when prices are lower. In fact, the state managed its money to implement a summer-fill program where it targeted 5,500 fixed income households and contracted to purchase \$400 of propane per household. The state also sent mailings to nearly 26,000 WHEAP (Wisconsin Home Energy Assistance Program) propane customers encouraging the early-fill option and encouraged grain producers to consider energy efficient grain drying equipment. The state also improved its forecast model

for predicting usage, and offered the industry assistance in expediting the permitting process for companies wishing to add more storage space, among other innovative steps.

WISCONSIN PROPANE SURVEY

The State of Wisconsin also surveyed all 193 WHEAP vendors after the 2013/14 winter via email. There was a 97 percent participation rate, with 27 percent of participants completing every question.

*Some of the more interesting findings were vendors found that the three largest factors having the biggest impact on the 2013/2014 season were:

- 1) not enough product in the pipeline delivered;
- 2) inability for dealers to obtain enough credit to buy product; and
- 3) too many customers relying on will-call.

*Of the respondents, 67 percent said they didn't have a good email list for their customers, but would use it if they had one to reach out during an emergency and/or for better billing options.

*Marketers believe the biggest reason why customers do not fill their first tank in summer when it is less expensive is because they believe customers do not have the money available (69 percent).

*90 percent of marketers offer customers a budget payment plan, but many would like to see a billing system more like a monthly cell-phone bill.

*63 percent of responders said the HOS waivers offered either a lot of assistance or some ease this past season.

SYSTEM LIMITATIONS

During the course of the year discussing propane, several supply-chain limitations were presented that are more difficult and will require more time to resolve. Some of the largest ones include:

- 1) There is a truck driver shortage, especially for a more seasonal product, such as propane.
- 2) There are various limitations to the pipelines, and not enough demand for them to be running at full capacity, or for companies to spend on costly upgrades, given it is a somewhat shrinking industry.
- 3) Rail is almost all privately owned and is not very reliable. Add in frigid temperatures and/or snow, and the number of train cars must be reduced, limiting the amount of product that can be transported.
- 4) The Finger Lakes underground storage facility for propane is unlikely to be an option anytime soon.

LINGERING ISSUES

Furthermore, three large issues remain unsettled as the MGA Chair's Initiative concludes, but may need further action in the near future.

- 1) The U.S. Department of Transportation's 34-hour restart rule is suspended until the end of fiscal year 2015 (October 1). Whether it is modified or put back in place remains to be seen.
- 2) States and state propane associations need to work with marketers to continue the consistent/early-fill promotions and encouragement. They also need to increase the focus on helping consumers budget for propane. For example, instead of consumers being hit with one large bill each time they fill their tank, it may be better for many propane consumers to work out a deal with their marketer to make monthly payments for propane, similar to a cable or cell phone bill, so that customers become more familiar with making regular propane payments.
- 3) States, associations, industry and the federal government must continue talking with one another, even when there is not an emergency. Procedural change in government can sometimes be hard; however, after one change, such as the LIHEAP applications being accepted earlier in some states, a "new normal" is simply developed in government. Personnel change can be more difficult, and far more common in governors' offices, so it remains critical that

semi-regular calls or meetings are held and contacts are passed along as people come and go in a position.

CONCLUSION

This summary is not intended to be a comprehensive report on the propane industry or the crisis of 2013/2014. It does however highlight some of the findings, challenges, changes and talking points of the MGA initiative, *“Strengthening the Propane Supply Chain.”*

For many, as this initiative began, propane was simply the product we used to cook brats and burgers on the outdoor grill. Now, it is a much more significant issue to a larger number of people. The findings, discussions and meetings of the past year have brought solutions, new ideas to be explored, and connected the industry, government and associations with one another in a stronger way.

The steps, action-items, and new laws stemming from the past year will hopefully better enable everyone to manage any future propane supply situations, with consumers being more aware and the industry being better prepared.

****Presented at the MGA Winter Meeting on February 20, 2015*

ADDITIONAL RESOURCES

For additional information on Governor Walker’s MGA Chair’s Initiative, please contact:

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Wendy Riemann
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Link to MGA Website: <http://www.midwesterngovernors.org/index.htm>

Link to Triggers Document: <http://www.midwesterngovernors.org/Publications/Triggers.pdf>

Link to Propane Toolkit: <http://www.midwesterngovernors.org/Publications/PropaneToolkit.pdf>

Governor Walker LIHEAP letter to the President:

<http://walker.wi.gov/sites/default/files/5.29.14%20LIHEAP%20Propane%20Letter%20to%20President%20Obama.pdf>

Press Releases

March 6, 2014 Governor Scott Walker Selected to Serve as Chair of the Midwestern Governors Association: <http://walker.wi.gov/newsroom/press-release/governor-scott-walker-serve-2014-chair-midwestern-governors-association>

June 4, 2014 Governor Scott Walker Kicks off Midwestern Governors Association Propane Working Group Meeting: <http://walker.wi.gov/newsroom/press-release/governor-scott-walker-kicks-midwestern-governors-association-propane-working>

August 22, 2014 Governor Scott Walker Announces Plan to Help Fill Propane Tanks Early for 25,000 Households through State Heating Program: <http://www.wisgov.state.wi.us/newsroom/press-release/governor-scott-walker-announces-plan-help-fill-propane-tanks-early-25000>

October 17, 2014 Governor Scott Walker Gathers States, Feds and Industry Together to Strengthen the Propane Supply Chain: <http://walker.wi.gov/newsroom/press-release/governor-scott-walker-gathers-states-feds-and-industry-together-strengthen>

Meeting Agendas

June MGA Working Group Meeting Agenda:
<http://www.midwesterngovernors.org/Propane/JuneMeeting/Agenda.pdf>

October MGA Working Group Meeting Agenda:
<http://www.midwesterngovernors.org/Propane/OctoberMeeting/Agenda.pdf>

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