Statement of
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Chairman of the National Propane Gas Association
Before the
Senate Energy and Natural Resources Committee
"Short on Gas: A look into the propane shortages this winter"
May 1, 2014

The National Propane Gas Association (NPGA) is pleased to submit this statement for today's hearing. Our nearly 3,000 members – predominantly small, family-owned businesses – make up an industry that provides propane to fuel homes, farms, businesses and vehicles in all fifty states. The industry employs approximately 40,000 industry individuals nationwide. Propane is a non-toxic gas produced from natural gas processing and crude oil refining. Over 70 percent of propane produced in the U.S. comes from natural gas.

Today's hearing is particularly timely for the propane industry. During the 2013/2014 winter heating season propane retailers in several regions of the country faced critical supply constraints of propane. The supply challenges in the Midwest have been of particular concern. Propane retailers filled customer tanks to less than maximum levels to stretch their limited supplies. Propane suppliers traveled long distances and waited in long lines at terminals where the availability of supply was unpredictable, and where they confronted historically high prices. These high costs have hurt businesses and, worse, threatened the ability of propane customers to purchase essential heating fuel.

NPGA's today provides examples of how America's energy future is changing, which in turn challenges existing energy flows and delivery infrastructures. We also present information on how laws affecting the propane industry were helpful, and also how we believe they could be strengthened. Our core principle in appearing before you today is that we must ensure that America's energy abundance continues to serve American citizens and consumers in a consistent, reliable, and affordable manner.

Causes and Contributing Factors of Tight Supplies in the Winter of 2013/2014

Pre-Season Inventory Levels

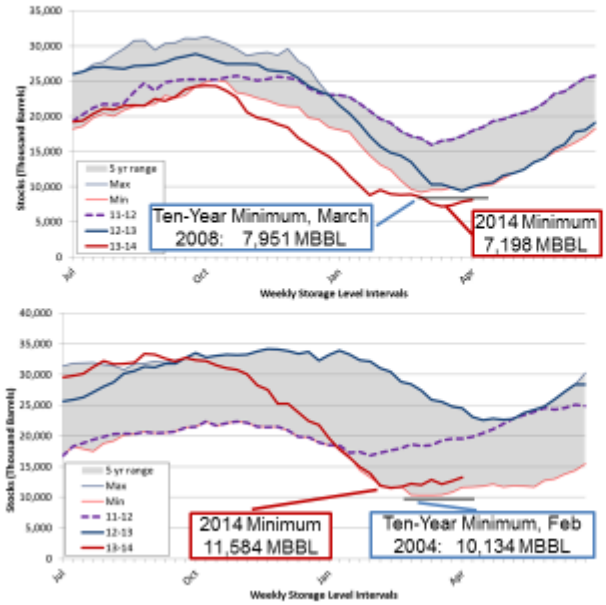
The 2013/2014 heating season began with national propane inventories at approximately 67 million barrels, eight million barrels less than at the same time in 2012. Traditionally, the winter heating season starts the first week in October when the U.S. Energy Information Administration (EIA) begins publishing its "Heating Oil and Propane Update," which is published weekly during the heating season each year. In 2013, national propane inventories were roughly in the middle of the 5-year average as reported by EIA.

While we entered the heating season with average inventory levels, between October 2013 and March 2014 we estimate that total U.S. propane consumption increased by an about 670 million gallons relative to the same period in the previous year. In the Midwest, propane consumption from October 2013 to March 2014 increased by 485 million gallons (11.5 million barrels) relative to the same period in the previous year. In the Northeast, propane consumption increased over the 2012/2013 winter levels by an estimated 91 million gallons (2.2 million barrels), while the South saw an estimated increase of 130 million gallons (3.1 million barrels). The only region of the country to see a drop in propane consumption is the West, where the dry, warm winter is estimated to have caused a decline in propane consumption of 36 million gallons (0.9 million barrels).

Inventories in PADD 2 first fell below the 5-year minimum range in the first week of October. By the last week of October, PADD 2 propane inventories fell below the 10-year minimum levels for the same week, and remained below the 10-year weekly minimums throughout the winter. In the first week of March, propane inventories in PADD 2 fell below the absolute lowest level in the preceding 10-years, and continued falling, setting a new record low the following week in the second week of March. Midwest propane inventories remain low; EIA's last reported

storage levels, for April 18th, show PADD 2 inventories still below the previous 5-year minimum range for this week of the year.

Inventories in PADD 2 and PADD 3



- **PADD 2 inventories started the heating season at the lowest level in the last five years.**
- **And ended the heating season 650 MBBL below the previous 10-year low.**
- **PADD 3 inventories started the heating season at near the five-year high.**
- **And ended the heating season slightly above the 10-year low.**

Throughout the winter, PADD 3 inventories also flirted with 5-year minimums. PADD 3, and particularly the Mont Belvieu storage complex, constitutes the largest propane storage capacity in the world. While PADD 3 storage entered the winter heating season at average levels, inventory levels fell to 5-year minimums, and remained so from the first week of January through to the last week of February, when net injections into storage finally began to overtake net withdrawals. Altogether, nationwide propane inventories ended the 2013/2014 winter 541 million gallons below the 2012/2013 winter levels, as reported by the EIA for the last week of March.

Crop Drying Demand

A primary factor leading to low inventories, particularly in the Midwest, was an unusually wet and large harvest that occurred late in the harvest season forcing farmers to use more propane than anticipated. During the 2013 corn harvest, about 13.9 billion bushels of corn were harvested, a historic record. During the same time, the "Corn Belt" region of the Midwest received above-average rainfall, with the first week of October recording 200 to 500 percent above normal precipitation. Industry analysts estimate total grain-drying demand for propane at more than 300 million gallons in 2013, 235 million gallons above 2012 levels. These factors led to an increased demand for propane late in the harvest season. Compounding this situation was the fact that the harvest was compressed into a much shorter period of time than usual. Suppliers in the Midwest did not have the chance to rebuild propane inventories before the onset of an early and cold winter.

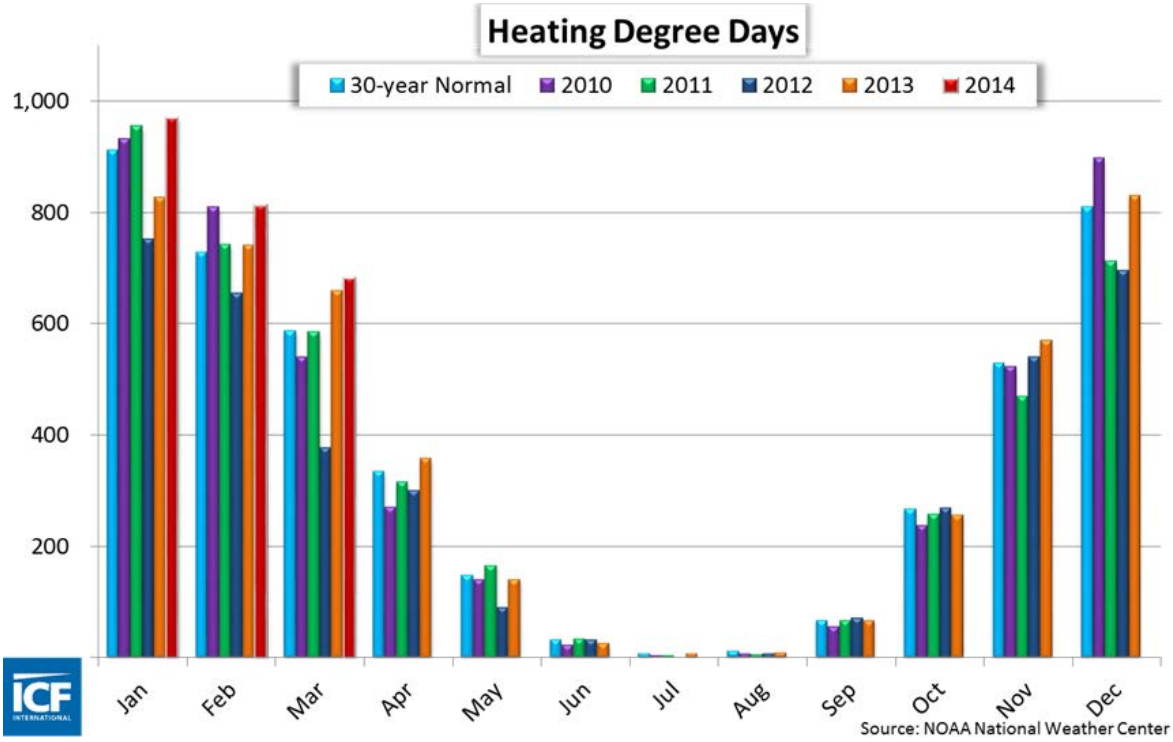
Colder Than Normal Weather

With propane supplies already low due to the dramatic increase in agricultural consumption, many propane retailers were undersupplied when the pace of winter home-heating demands rose quickly and significantly. Additionally, consumers in many instances were underprepared for the early, intense winter characterized most notably by the "Polar Vortex" weather phenomenon. The intensity level of winter was particularly unexpected, considering the unseasonably warm winters of the previous two years.

When comparing Heating Degree Days (HDD)[1] to the previous three years, this winter's U.S. total population weighted HDDs through March came in 7.5% above NOAA's 30-year average,

[1] According to the EIA, **Heating Degree Days (HDD)** provide **"**A measure of how cold a location is over a period of time relative to a base temperature, most commonly specified as 65 degrees Fahrenheit. The measure is computed for each day by subtracting the average of the day's high and low temperatures from the base temperature (65 degrees), with negative values set equal to zero. Each day's heating degree days are summed to create a heating degree day measure for a specified reference period. Heating degree days are used in energy analysis as an indicator of space heating energy requirements or use."

10.6% above the 2012/2013 season, and 27.9% above the 2011/2012 season. Not only was this winter above historical norms, but heating needs compared to last year's equated to an increased propane demand of 640 million gallons in calendar year 2013 relative to 2012, and an increase in propane demand of about 410 million gallons for the October 2013-March 2014 period relative to the previous winter.



State and federal authorities helped alleviate the situation

There are many people who contributed to resolving, and are still working to resolve, the issues posed by this year's heating season. On behalf of the industry and our customers, NPGA wishes to thank these individuals and organizations for their commitment to finding both short-term and long-term solutions.

Many states granted Hours of Service (HOS) waivers, which helped immensely. These waivers allow truck drivers to obtain needed propane from far-away places and deliver that propane to

customers. On the federal level, the Department of Transportation (DOT) granted four unprecedented regional waivers from HOS. As many as 35 states in the FMCSA's Eastern, Midwestern, Southern, and Western Service Centers were granted these exemptions, providing stability and uniformity throughout these regions. Exemptions in portions of the country remain in effect through May 31, 2014 per the Home Heating Emergency Assistance Through Transportation Act of 2014.

Some states granted exemptions from weight limits for trucks traveling over state roads. While this does not allow drivers to carry overweight loads on interstate highways, it does help trucks carry additional fuel volumes up to the maximum amount of propane allowed by law.

The State of Texas deserves specific recognition for its efforts, which were crucial in getting propane supplies out of the state to the rest of the country. Texas is host to the largest primary storage of propane in the world, and many truck drivers from out of state traveled to Texas to obtain the fuel directly from the storage facilities near Mont Belvieu. Specifically, the state waived its permitting requirements for out-of-state vehicles, a process that can otherwise take as much as 30 days to complete. This allowed drivers from other states to immediately operate in Texas so they could transport their loads back to their home state.

A number of states took advantage of the Low-Income Home Energy Assistance Program (LIHEAP) to help consumers. At a time when we've seen unusually high prices, this program provided much needed assistance to the customers who need it most.

Energy Secretary Ernie Moniz was personally active in asking pipeline companies to prioritize shipments of propane on their systems. He also reached out to several NPGA members to determine what further assistance DOE could provide. DOE's Office of Electric Delivery and Energy Reliability was helpful and supportive throughout the winter by holding conference calls, on a daily basis at times, with NPGA and other stakeholders to address the infrastructure and delivery concerns.

The Federal Energy Regulation Commission (FERC) invoked, for the first time in its history, emergency authority requiring the operator of the Enterprise TEPPCO pipeline to prioritize shipments of propane. This action ensured that an additional 500,000 barrels of propane would move from Texas up into the Midwest and Northeast earlier than regularly scheduled.

The Small Business Administration (SBA), through its individual state offices and loan partners, provided relief in the form of Express Loans and Micro Loans to propane retailers. These loans provided relief to the small propane marketers who, due to the increased cost of propane from their suppliers and the increased volume of propane required, had reached the limits on their existing lines of credit.

Finally, we are also grateful for the meetings with the Governors of the affected states, and the numerous teleconferences with states' energy, transportation, and agriculture officials that were held, which allowed the sharing of credible real-time information and increased coordination among all parties.

Recommendations to Improve Propane Reliability, Resilience, and Consumer Protection

Propane markets in the United States are not regulated except as to issues of safety. Neither the federal nor state governments exercise economic regulation (except as to pipeline transmission). The market is characterized by intense free market competition and low barriers to entry. Nevertheless, given the experiences of the winter of 2013/2014 it is evident that there are roles for government to play to ensure reliability, resilience, and consumer protection. NPGA has now launched a broad-based effort with its membership to assess the lessons learned from this winter to determine what action government might take to avoid a future recurrence. A few areas for government action are already clear, and they are outlined below.

Review Export Policies

During the winter of 2013/2014, as supply constraints emerged and as prices spiked, many consumers and members of the propane industry questioned whether these events were caused by growing exports of propane. Over the past four years, exports of propane from the Gulf Coast have increased dramatically as new export capacity has been developed and brought online. Based on the number of additional projects designed to increase export capacity that are currently under construction or have been announced, this growth trend is expected to continue. NPGA commissioned a study to examine the propane export question. Further in-depth analysis is, however, needed, and NPGA will request that the EIA conduct a study of propane supply, demand, and exports similar to the study it conducted with respect to Liquefied Natural Gas (LNG) exports.

Should policy action with regard to exports be deemed necessary, there are a variety of broad options to be considered. Some have suggested that Section 3 of the federal Natural Gas Act of 1938 would empower the federal government to require export licenses. Another avenue would be a provision of the Energy Policy and Conservation Act of 1975 found at 42 U.S.C. §6212. Arguably, this authorizes the President to control propane exports. Such control might include licensing turning upon a public interest finding, export restrictions tied to prices or demand, or outright prohibition of exports. (NPGA understands that the President's authority under this law has been delegated to the Secretary of Commerce.) This authority has not been invoked in the past, and a formal proceeding engaging all stakeholders would, by the terms of the statute, be necessary. Congress, of course, also has authority to enact a new law that addresses this issue in any fashion that it determines to be in the interest of the United States. Should the federal government move forward on this front, it would be necessary to ensure that any policy adopted is compliant with World Trade Organization principles and the various trade treaties to which the United States is a signatory.

Ensure Markets are Performing Properly

In January 2014, wholesale prices of propane at a key market hub in the Midwest tripled in the matter of a few days. This caused a temporary doubling of retail prices in large areas of the Midwest as reported by the Department of Energy (DOE). While price fluctuations in winter are common as supply and demand balances are achieved, these dramatic increases in propane prices were unprecedented.

On January 23, 2014, Senator Charles Grassley called on the Federal Trade Commission (FTC) to investigate the matter to ensure that these price spikes were not a result of anti-competitive behavior or illegal manipulation. NPGA fully supports Senator Grassley's request and urges the FTC to review the matter expeditiously and thoroughly.

NPGA believes it is an appropriate role of the federal government to assure citizens that markets are operating lawfully and to take appropriate action if they are not. While significant price volatility is common with respect to almost all energy commodities—and is in fact necessary to allow markets to function appropriately—it is important to ensure that unexpected volatility such as that observed this winter was in fact caused by the appropriate functioning of energy markets rather than anti-competitive behavior or market manipulation. Additionally, there may be roles for other federal agencies to play in ensuring that propane production, transmission, and marketing have occurred, and will occur, consistent with free-market principles.

Improve Inventory Data – Timeliness and Reliability

EIA maintains a number of data gathering programs in the energy area and publishes weekly inventory numbers and trends for propane, among other fuels. EIA data includes weekly residential and wholesale propane prices; propane stocks in barrels and days of supply; regional propane production and imports; and propane demand estimates. Unfortunately, EIA data has

not kept pace with changes in the energy sector, particularly with regard to the shale revolution and production of natural gas liquids, such as propane.

Such high levels of production have provided incentives for companies to export significant volumes of propane to such an extent that the U.S. is now the world's largest exporter of propane. Propane export data is available on a per-ship basis by subscription from costly private sources. It would be highly useful to the industry and the public for EIA to expand its data gathering activities to include regular publication of aggregated propane export data. This would provide industry and policymakers with clear knowledge of the trends in propane exports, making appropriate business decision-making more rational and timely.

Significant volumes of propane are owned and stored at proprietary terminals or locations around the United States. The location, size, contract status, and accessibility of these inventories are unknown, which puts the marketplace in a vulnerable position when supplies get tight. In previous years, the petrochemical sector sold propane back into the marketplace when prices rose in response to tight supplies, which performed a balancing role to bring prices back down. The shale revolution has changed this dynamic and greatly increased the complexity of the relationships among the various natural gas liquids uses and marketplaces.

The fact remains that significant volumes of propane are stored in proprietary storage facilities in amounts completely unknown to the marketplace. In addition, an unknown quantity of the propane in the available propane inventory reports is committed to exports, and would not be available to the domestic market without paying significant contractual penalties. As a result, the reported propane inventory data overstates inventories that are actually available to the domestic market, and no one knows how big this overstatement might be.

This winter, volumes at Conway, Kansas, approached critically low levels and NPGA was concerned this could lead to significant deliverability problems. NPGA had no way of knowing how low volumes were going to be in part because of the lack of knowledge about proprietary

storage levels. When the marketplace does not have good data about supply, prices are affected; this winter was no exception. In the future it would be very helpful to have a better handle on proprietary storage levels, as this would mitigate price spikes, like those seen this winter.

Beginning approximately ten years ago, EIA began collecting and publishing weekly natural gas storage data. There is no question that this data is a key information point that is reviewed and considered by many decision makers in the natural gas industry. The weekly storage report is a key piece of market data for both spot and futures natural gas markets. It also assists in ensuring market transparency and a well-functioning market. A similar data set by EIA would be of great assistance to propane market participants and would assist in ensuring transparency of markets.

Finally, data that EIA currently collects lumps both propane and propylene together. Disaggregating these two commodities would aid in market transparency. Similarly, additional geographical granularity in propane inventory data would be welcomed by markets.

Increase Transparency in Petroleum Products Pipelines

There has been significant consolidation in the interstate pipeline system regarding propane. Currently, the three largest interstate propane pipelines are owned or controlled by a single company. In a presentation to FERC in July 2013, NPGA presented data estimating the propane deliveries on the key multi-shipper propane pipelines. Of these, a single company shipped approximately 80 percent of propane, while all the others shipped approximately 20 percent. At the same time, there have been significant increases proposed on the federally regulated Dixie and TEPPCO pipelines, while the costs for other non-regulated terminalling services have increased as well.

From discussions with NPGA members over the past several months it is apparent that the operation this winter of the nation's petroleum products pipelines—the principal means by which propane is delivered to the market—is at best opaque, and the lack of transparency substantially increased the difficulty of dealing with the propane supply shortages. For example, propane shippers reported being unable to obtain capacity on pipelines to deliver product to markets with critical needs while the owner of the pipeline had product available for sale in those markets.

While this situation may have served some purpose in the past, at this point it may give an undue advantage to a pipeline that is also engaged in selling, marketing, and trading propane. Similarly, the manner in which pipelines operate without providing adequate information to the marketplace in a transparent and timely manner does not allow the market, including propane companies, to respond adequately and adapt to changes in pipeline operations. Rather, it gives an undue advantage to the pipelines, especially those with marketing and other business operations outside the transportation area.

The Federal Energy Regulatory Commission (FERC) should increase its oversight of infrastructure changes that have significant impacts on customers, especially when the pipeline industry is becoming more concentrated and when assets that have been dedicated to and paid for by historic shippers are spun off into unregulated ventures. There are several aspects to this issue. Remedies may require revisions to the Interstate Commerce Act or to policies of the FERC, which regulates interstate petroleum products pipelines under the Interstate Commerce Act.

<u>Enact Pipeline Affiliate Rules</u>

FERC has previously adopted rules that apply to natural gas pipelines and electric transmission systems that govern the relationship with their affiliates, referred to as "affiliate rules" or "codes of conduct". The fundamental purpose of these rules is to prevent the pipeline or

electric transmission provider from utilizing its transmission function—which is a regulated monopoly function—to benefit its affiliates that are market participants, usually energy marketers and traders.

These rules do not apply to petroleum products pipelines, including those that transport propane. Some of these pipeline operators are involved in selling propane, trading in propane, and exporting propane, among other things. NPGA is concerned, particularly after the challenging winter market conditions, that these intra-corporate relationships may have been utilized to the detriment of the interests of consumers. NPGA will be requesting that FERC adopt rules for petroleum product pipelines that are similar to those for natural gas pipelines and electric transmission providers.

In addition, pipelines have been removing certain terminal and storage assets from jurisdictional service and transferring these facilities to unregulated affiliates. The unregulated affiliates then are able to charge higher prices for the same services. The FERC has allowed these conversions to non-jurisdictional service based on an overly narrow definition of interstate transportation.

Review Pipeline Allocation and Information Rules

Throughout the Midwest, Northeast, and South during this winter petroleum products pipelines were severely constrained as to capacity. Market participants desired to transport propane to markets with critical needs, but the capacity was not available to do so. On many of the pipelines relied on by the propane industry, propane is only one of many products shipped by the pipelines. During pipeline capacity shortages, the pipelines allocate capacity based on summer pipeline usage. Currently, this capacity cannot be assigned to a different party.

According to Section 6 of the TEPPCO LPG pipeline tariff proration policy, which is similar to others in the industry:

> In no event will a capacity allocation to a LPG Shipper be used in such a manner that will enhance the allocated capacity of another LPG Shipper beyond the allocated capacity that such LPG Shipper would be entitled to under this Policy. Carrier may require written assurances from a responsible officer of LPG Shipper regarding its use of its allocated capacity stating that LPG Shipper has not violated this Policy. In the event any LPG Shipper shall, by any device, scheme or arrangement whatsoever, attempt to transfer all or any part of its allocated capacity to any other LPG Shipper in violation of this Policy, or in the event any LPG Shipper shall attempt to receive and use such portion of capacity, the portion of capacity allocated to each such LPG Shipper will be reduced in the next Allocation Period after the date that the violation is discovered by a volume equal to two times such attempted transfer.

In addition, under current rules, certain customer information, including shipper and volume information cannot be disclosed by the pipelines, making it impossible to determine who is shipping on the pipeline.

Such provisions prevent shippers of lower-value commodities or shippers with sufficient storage to meet near term requirements from releasing their pipeline capacity to shippers of high-value commodities, such as propane in the winter season, even though it might be to the economic advantage of both to do so. As a result, this winter propane shippers were unable to negotiate deals with shippers of other products such as diluents headed to the Canadian oil sands producers to increase propane shipments and reduce shipments of other products.

As this became apparent, FERC recognized the need to meet the essential needs of consumers and employed its emergency authority under the Interstate Commerce Act for the first time to ensure that an additional five hundred thousand barrels of propane were moved to Midwest and Northeast markets. NPGA commends FERC for its prompt action. Going forward, however,

there may be other mechanisms to avert a recurrence. Certainly, affiliate rules, mentioned above, will give market participants confidence that the market is functioning in an above-board manner. In addition, FERC may be able to adopt mechanisms from other areas of its regulatory portfolio, including natural gas pipelines in order to ensure that market mechanisms are available to resolve pipeline allocation issues, instead of relying on emergency orders from FERC.

Revise Thresholds for the Use of Federal Emergency Authority

NPGA has worked closely with a number of federal agencies that maintain oversight over the supply, transportation, and distribution segments of the propane industry to obtain relief from their applicable regulations. However, NPGA believes revisions to the thresholds for triggering an agency's emergency authority would permit greater flexibility in addressing supply and infrastructure issues in the future. NPGA has identified several areas where the limited authority of the Department of Transportation (DOT) and DOE hampered their efforts to facilitate a rapid response to the evolving supply, transportation, and distribution crisis. Congress should review and revise these impediments to prompt action.

1. The Robert T. Stafford Act (P.L. 93-288, as amended)

The Stafford Act establishes the criteria under which the federal government responds to significant emergencies. An emergency declaration can only be requested of the President by the governors of the affected states. When requested, the Federal Emergency Management Agency performs an analysis to determine if the declaration is needed. If an emergency is declared, states must share a portion of the costs. Despite the severity of the propane situation this winter, this "all or nothing" aspect of a Stafford Act determination proved too high a threshold for state governors to embrace, and it foreclosed needed assistance to propane retailers and their consumers.

Among the many actions taken by NPGA this winter, it sought a waiver of the federal weight limits for trucks hauling propane on interstate highways. These limits are established by the DOT's Federal Highway Administration (FHWA). The purpose of the NPGA request was to allow trucks to load propane to the maximum permitted filling capacity of the truck. Due to highway weight restrictions, these trucks could only fill to within about fifteen to twenty percent of the maximum permitted level, essentially leaving the filling terminals with about 1200 to 1400 gallons less than they could carry with a waiver in place.

The FHWA has no statutory authority to grant a waiver from the weight restriction regulations. Unfortunately, the only mechanism by which a waiver could be granted would be for the President to declare an emergency using the authority provided him under the Stafford Act. Yet, as mentioned above, governors were unwilling to invoke the Stafford Act to lift weight restrictions given the other costs of doing so. Given the nature of the fuel emergency that existed, NPGA strongly supports amending the Stafford Act to provide for more limited waiver authority. Specifically, the Secretary of Transportation, perhaps in consultation with the Secretary of Energy and Governors, should have the authority to grant a waiver from the weight restrictions, either under the Stafford Act or under other legislation. This narrow action would go a long way toward ameliorating a fuel emergency or disaster without all of the complications and costs of a full-fledged Presidential emergency declaration.

2. The Jones Act

The Jones Act requires that all maritime shipments of any kind between U.S. ports (in the "coastwise trade") be aboard U.S.-flagged vessels. In our case, a marine shipment of propane from a port on the Texas Gulf Coast (PADD 3) to ports in New England (PADD 1a), for example, would have to be aboard a U.S.-flagged vessel. The challenge in meeting this requirement is that there are currently no U.S.-flagged ships available to carry propane, leaving American consumers literally out in the cold.

Waterborne transport has the potential to be a critical component in addressing the overall supply and distribution challenges facing the propane industry in the Northeast. A shipment of American propane from Texas, where the world's largest underground propane storage is located, to New England would have made a significant impact on the supply issues in that region of the country, and also would have freed up transportation assets, including pipeline capacity and rail cars to deliver propane into the Midwest and other regions of the country. However, given propane production trends, a ship capable of transporting propane from the Gulf Coast to the Northeast likely would be utilized only a few times each year, and in some years, such as 2011/2012, would not be utilized at all.

Unfortunately, obtaining a waiver from the Jones Act is generally acknowledged to be nearly impossible. In order to obtain a waiver, the request must be made to the Department of Homeland Security's (DHS) Customs and Border Protection (CBP) agency. Once a waiver request is received, CBP consults with the DOT's Maritime Administration (MARAD) to determine if a U.S. ship is available. CBP also consults with DOE to assess the energy and fuels supply situation. This review and consultation is a time-consuming and arduous process.

During the last several months, NPGA has been engaged with DOE on propane supply and distribution matters at a frequency of at least three times a week, if not daily. DOE had the greatest knowledge of the state of the industry supply and would have been best positioned to grant a waiver from the Jones Act for a *de minimis* period of time. NPGA believes that in the context of fuel emergencies DOE should be given the authority to grant such waivers from the Jones Act.

3. Hours of Service

The DOT Federal Motor Carrier Safety Administration (FMCSA) establishes Hours of Service (HOS) regulations that specify the number of hours that truck drivers may drive a commercial

motor vehicle and that they may be on-duty. The HOS regulations were changed in 2013. The most significant change for long-haul drivers in the propane industry pertained to the "34-hour restart" provision. This provision permits drivers to "restart" their driving service if they have been off-duty and have not driven for 34 consecutive hours. Most importantly, FMCSA 2013 change required that the 34-hour period must also include two 1 a.m.-to-5 a.m. off-duty periods, in contrast to the previous requirement, which permitted 34 consecutive hours off duty. NPGA believes that the 2013 change resulted in a reduction of productivity of up to fifteen percent. During the 2013/2014 winter, this loss in productivity reduced the amount of fuel delivered. NPGA believes that the 2013 change resulted in no additional increment of safety, but this winter it resulted in a detriment to propane consumers.

During the height of the winter supply and distribution issues, FMCSA did issue regional waivers from HOS regulations for the Eastern, Midwestern, Southern and Western Service regions, which waived the 34-hour restart requirement and expedited propane shipments. Nevertheless, NPGA believes there is no evidence to suggest there is a reduction in safety by reverting to the previous requirement of 34 consecutive hours off duty (as opposed to requiring two 1 am to 5 am periods), and we would recommend the reinstatement of the previous regulatory requirement.

Expedite Increases in Storage Infrastructure

If there is one lesson learned from the 2013/2014 winter propane market conditions, it is that the infrastructure network was inadequate to meet consumer needs. There are a number of facets to this, and government can assist in ensuring that essential human needs are met.

Underground Storage

Since 2009 NPGA has argued that permitting and constructing expanded underground propane storage in the Finger Lakes area near Reading, NY is essential to meeting Northeast propane

needs. We have called on Governor Cuomo to approve the facility, which would add over 88 million gallons of propane storage in a region where demand far exceeds local supplies. New Yorkers, and the entire New England region in general, are highly dependent on propane shipments from outside the region. New York is at the tail end of the TEPPCO pipeline, which delivers propane from major primary storage facilities in Mt. Belvieu, Texas. As discussed above, TEPPCO recently reversed part of its line to deliver ethane south to the Gulf Coast from the Marcellus-Utica Shale regions. This has inhibited the pipeline's capacity to deliver propane supply to New York. In addition, the closest major storage field to the Finger Lakes storage facility, the Enterprise Todhunter storage facility on the TEPPCO Pipeline in Ohio, was recently shut down, further increasing the need for new storage capacity in this area of the country.

We have seen a number of challenges confronting the propane supply chain, ranging from pipeline shutdowns to rail strikes in Canada to ships not coming in on time from overseas. Supply lines can and do break during the winter, and they have caused shortages in the past. This winter, propane marketers found themselves needing to drive long distances to obtain supply. Drivers have obtained supply from destinations as far away as Apex, North Carolina, and Sarnia, Ontario. Having additional secure propane storage in New York would help ensure that fuel is available nearby. The propane industry is proposing to address these issues in a responsible way through initiatives like the Finger Lakes storage facility.

It is important to note that the mix of fuels used in New England is changing, and many fuel oil customers are shifting to cleaner-burning propane. It is cleaner in the house, and it is cleaner for the environment when it is consumed. As the propane industry expands in New England, we need to be able to store adequate supplies of propane reasonably close to serve these new customers.

Approval of the Finger Lakes facility will also improve the resilience of the propane infrastructure in the Southeast and Midwest regions of the United States. This winter, a major propane storage facility in Sarnia, Ontario, saw very high demand due to its close proximity to

both the New England and upper Midwest regions. Sarnia storage was drawn down to below the 5-year minimum levels in March, which compounded other low storage in Michigan and surrounding states. Similarly, the propane storage facility in Apex, North Carolina, supplied significant volumes into New York and New England. Were the Finger Lakes facility to be in operation, it would dramatically reduce New York's demand for propane stored in Sarnia and Apex. Approval of Finger Lakes would have cascading benefits far beyond New York and New England.

Agriculture Storage Incentives

Unexpected demand by the record-setting crop-drying season caused a significant draw-down of propane supplies, particularly in the upper Midwest. This caused propane inventories to be lower than nominal as a colder-than-normal winter swept in. Storage at agricultural facilities is not particularly significant, requiring marketers to make multiple trips to some facilities sometimes as often as daily in the event of a large harvest. This experience has highlighted the significant impact that minimal storage at agricultural sites can have on the overall propane infrastructure, so we support incentives for farmers and crop dryers to increase their on-site storage capability. Such increased storage would have multiple benefits, including resilience in the face of unexpected demand; reducing the frequency marketers need to fill the storage; and more closely matching the capabilities of the crop drying equipment itself.

Permitting and Siting

Adequate propane storage at the secondary (retailer) and tertiary (customer) levels is critical as we enter the crop drying and heating seasons. Unfortunately, it is sometimes difficult to expand the propane storage infrastructure in the face of local opposition. Propane storage is highly regulated through building and fire codes, and the engineering of systems is standardized to a significant degree. The propane industry works closely with state and local officials to ensure a comfort level with propane storage, and this is an ongoing process. It is critical for

state and local officials to allow propane storage to be built, maintained and expanded, so that the growing customer base of propane consumers can be served safely and efficiently.

Assessing Industry Practices and Opportunities for Industry Education

The difficulty in meeting unexpected propane demand efficiently this winter can in part be attributed to industry business practices that have taken hold in response to shifts in market conditions over the last 20 years. Consumer propane sales have fallen by more than 24 percent between 2000 and 2010. Moreover, retail propane jobs fell by more than 20 percent during the same period. This has been the result of a number of factors, including competition from other energy sources, as well as improvements in appliance and building efficiency.

Consumer education plays a role in lessening the risk of supply shortage. NPGA believes it is critical for consumers to build a relationship with a local propane supplier and to buy their fuel well in advance.

Propane customers typically fall into two categories: "keep full" customers, those who enter into a contractual agreement with a propane retailer to keep their tanks full; and "will call" customers, those who choose not to enter into a contract with a retailer and instead choose to buy their propane supply on their own. The "keep full" customer benefits from the security that their energy needs will be met, and retailers benefit from the certainty of being able to plan ahead for their customers' fuel needs. "Will call" customers must manage their own supply level, price shop for fuel, and ensure their system is in proper working order. "Will call" customers typically have a lower priority compared to "keep full" customers when system demands are high. Such customers are much more vulnerable to market variability and supply disruptions – like the ones resulting from this winter's supply, demand, and infrastructure challenges. NPGA will redouble its efforts to encourage consumers to build a relationship with a retailer in their area to make sure that their energy needs are met.

Many consumers can also fill their tanks in the summer, planning ahead for winter heating. This can also have the added benefit of lower off-season propane prices. Unfortunately, many propane customers are unable to afford to tie up their available cash by refilling their tanks during the summer. For these customers, one additional way to increase certainty of propane supply in the winter heating months is for customers to enroll in a budget plan with their marketer. This allows the costs of fuel to be spread over the entire year, making it more affordable than paying for a full tank all at once.

Conclusion

As we analyze the causes of the problems encountered during the winter of 2013/2014, NPGA's goal is to ensure that such a situation never happens again. NPGA has established a Supply and Infrastructure Task Force charged with conducting a comprehensive post-winter analysis to identify causes and contributing factors, and analyze, debate, and provide recommendations for future efforts and strategy as it relates to propane supply, distribution and infrastructure. We intend to pursue the Task Force's policies and recommendations aggressively, and we anticipate that our efforts will focus on public policies, industry operations and practices, and consumer needs. We look forward to keeping you informed of our progress as we move forward.

NPGA and its members appreciate the opportunity to present their perspective on these important issues to the Committee.

Thank you.