

## Primer on Propane Pricing

Propane prices are typically not subject to government regulation. Without government regulation, propane suppliers are free to adjust their propane prices to any level at any time. If a propane consumer is using 1,000 gallons of propane per year and is paying 50 cents more per gallon than the propane price offered by most other suppliers in the area, that consumer could be overpaying by \$500 or more per year. To avoid overpaying for propane, each propane consumer must proactively research and remain aware of the propane prices offered by competing propane suppliers offering service in their area. Since most propane suppliers choose not to publicly post their current propane prices, researching propane prices requires some detective work on the part of each propane consumer.

**BACKGROUND:** Natural gas liquids (or NGLs) are a group of hydrocarbons (ethane, **propane**, butanes, and pentanes) that are often found alongside dry natural gas (methane). Many upstream companies (companies that produce crude oil and natural gas) garner much of their revenue from producing and selling NGLs—especially those that have a significant amount of “rich gas” assets or natural gas assets “rich” in liquids.

**Historically, NGLs’ prices have largely tracked crude oil prices.** However, over recent years, the composite barrel as a percentage of crude prices has declined. This is because ethane and propane make up a large percentage of the average NGL barrel, but these two commodities, especially, had experienced a surge in supply due to the **shale boom** and a decline in prices in relation to crude oil.

There’s still a correlation between NGL prices and crude, and movements in oil prices can cause NGL prices to move as well. The NGL barrel price relative to crude oil has recovered somewhat since June of 2013.

**Supplier Costs:** Spot propane pricing, although historical in nature based on reporting, can be beneficial to gauge where supplier pricing may go over the short term.

A **spot price** is the current price of a commodity at a particular time and place. An extremely common and widely accessible spot price for propane is the Mont Belvieu, TX terminal spot price. For the week ending September 28, 2012, the spot price of propane at Mont Belvieu was \$0.89 per gallon.

(Spot prices are frequently shown as TET or non-TET. TET indicates the product is in the Texas Eastern Products Pipeline at Mont Belvieu Texas. Non TET refers to product in a location at Mont Belvieu other than in the Texas Eastern Products pipeline, such as independently owned storage facilities, Velerio or Targa.)

Essentially this means that anyone could walk up to the terminal on September 28<sup>th</sup> and buy propane for \$0.89 per gallon. Another spot price terminal is the Henry Hub, a

distribution hub on the natural gas pipeline system in Erath, Louisiana, owned by Sabine Pipe Line LLC, a subsidiary of Chevron Corporation.

While the terminal spot price is instructional, it is not the only cost of getting propane to a final user. Unfortunately for most propane users, Mont Belvieu is a very long way from where they live or use propane. So in addition to the raw cost of the fuel, there are significant transport costs, whether the propane moves by pipeline, rail car, tractor-trailer load. Once the propane is available locally, **the next biggest component to supplier cost is the distribution cost**. This is the cost associated with delivery via **bobtail truck** to a home or business including all of the safety programs in place to keep our consumers safe. On top of that, taxes and government fees from local, state, and federal regulations further add to the price of propane. Finally, tank leasing costs, which are most often simply rolled into a propane price per gallon, also contribute to the final supplier price.

### **Consumer Price**

Several factors impact a consumer's current residential propane price. Two of the very important factors include **propane tank ownership** (customer-owned tank or leased tank from a supplier) and **propane price protection programs** (pre-buy propane agreements and price cap agreements). In addition, propane consumers with a home heating system (one or more furnaces and/or space heating appliances) will typically use a higher volume of propane than a consumer that uses propane for cooking only, for example. As a result, home heating consumers should be paying lower, extremely competitive propane prices versus the propane prices paid by consumers that may be using propane for cooking only.

When a propane consumer owns his/her propane tank, this consumer is free to call any/all propane suppliers in the area that offer "customer-owned propane tank service" to compare their current propane price per gallon and order propane from the supplier of their choice when a delivery is needed. Since this customer is not locked into one suppliers propane service and propane pricing, many **customer-owned propane tank consumers pay lower propane prices** as they benefit from several suppliers aggressively competing for their business each time a delivery is needed. Propane consumers that own their propane tank have significant control over their future propane pricing.

Conversely, **when a propane consumer leases his/her propane tank, this customer is typically locked into the single propane supplier** that installed the leased tank and is subject to the propane prices charged by that single supplier for each future delivery. Most propane suppliers will appropriately recommend that customers with their leased propane tanks agree to an "**automatic-fill**" or "**keep-full**" delivery program to optimize routing efficiency and minimize the chance of a customer run-out. However, since most propane suppliers choose not to publicly post their propane prices, many customers receiving automatic-fill deliveries on random

delivery dates without a propane supplier price protection agreement will be unaware of their propane price per gallon until they receive an invoice from their propane supplier requesting payment for a recent delivery. Without being aware of their propane price per gallon before future deliveries, these propane consumers have very little control over their propane pricing and may or may not be paying competitive propane prices for propane deliveries that occur in the future.

Fuel prices, including gasoline for automobiles and propane for home heating, are subject to change due to a variety of political, economic, domestic and global reasons. **Yet, it is interesting to observe that most gasoline station operators manage to publicly post their current gasoline prices on illuminated signs clearly visible to the public, while most propane suppliers choose not to post their current propane prices on their company website.** Many propane supplier websites communicate that they do not publicly post their current propane prices because propane prices change so frequently. It is also interesting to observe that some propane suppliers do manage to display their current propane prices on their website - while other suppliers choose not to publicly post propane prices. If some propane suppliers can publicly post current propane prices - why do other propane suppliers find it difficult to publicly post current propane prices? Perhaps your propane supplier can explain this mystery to you.

If the propane supplier providing your leased propane tank chooses not to publicly post their current propane price per gallon for customer comparison, contact your supplier and request an e-mail, voice-mail or fax 24 to 48 hours before each future delivery providing advance notification of your propane price per gallon. This will give you the opportunity to compare your supplier's current propane price per gallon to the [cost of propane \(http://www.propane-prices.com/cost-of-propane.html\)](http://www.propane-prices.com/cost-of-propane.html) and other local suppliers to ensure that it is competitive before each future delivery.

If your supplier is unable to provide 24 to 48 hour advance price per gallon notification before each delivery, contact your supplier and request that your delivery status be changed from "automatic fill delivery" to "**will-call delivery**". This simply means that it becomes your responsibility to check your tank gauge and contact your supplier to order a propane fill when the tank level reaches a certain level - typically in the 20% to 30% full range. At the time that you contact your supplier to order your will-call delivery, simply ask your supplier for your propane price per gallon that will apply to your requested delivery. The next step is to complete your price comparison process as noted above. If you have any questions or concerns regarding your propane price per gallon, contact your propane supplier prior to your delivery.

If your propane supplier communicates that changing your delivery classification from "automatic delivery" to "will-call delivery" will make you a low priority customer receiving low priority deliveries, you should seriously consider changing your service to another propane

supplier that will truly appreciate your business and provide excellent customer service regardless of your delivery classification.

While many customers lease a propane tank and others purchase a propane tank, it is important to consider the responsible party for any future tank maintenance and repairs. Suppliers are typically responsible for any tank repairs to their leased tanks, while customers are typically responsible for any repairs made to a propane tank that they own.

If you are leasing a propane tank from your supplier, **your supplier is typically responsible for promptly repainting its leased tank**, as needed, to help you maintain the appearance and value of your property. A leased propane tank with faded and peeling paint and a mismatched rusty lid should not be acceptable to any homeowner. If your leased propane tank is in need of replacement or repainting, contact your supplier's service department to request that your tank be replaced with a new tank or repainted as soon as possible. If you are being charged a tank rental fee, you should contact your supplier to request that the tank rental fee be suspended - or at the very least reduced - until the unsatisfactory tank is replaced or repainted. Summer is the best season to have your propane tank replaced or repainted as the process can be completed quickly without weather challenges.

**Some propane suppliers indicate that propane prices are based on each customer's 'usage'.** If this is the case with your propane supplier, make sure that you contact your propane supplier for a clear explanation of the annual usage brackets and the propane prices associated with each usage bracket (for example, customers using between 300 and 500 gallons per year pay 'X' propane price per gallon and customers using between 500 and 700 gallons per year pay 'Y' propane price per gallon, etc). Ask your propane supplier to notify you in writing (written records are better if you need to question your supplier's future propane prices) when the propane prices associated with each annual propane usage bracket changes in the future.

When considering several propane suppliers to install a propane tank and provide service, beware of suppliers that only lease propane tanks or suppliers that strongly discourage you from purchasing your own propane tank. A reputable propane supplier will carefully explain the advantages and disadvantages of both purchasing vs. leasing a propane tank and encourage you to make the decision that is best for your situation.

Each propane consumer is ultimately responsible for ensuring that his/her propane pricing is competitive. If it becomes evident during your price surveys that your supplier does not offer competitive propane pricing, it may be appropriate to change your propane service to another supplier. If applicable, the summer is typically the best season to change propane suppliers as the tank replacement process can be completed quickly without weather challenges. **Many propane suppliers will change-out your existing tank at no charge, including handling all communication with your former supplier to ensure a seamless service transition.**