

Some Cry Foul Over Rapidly Rising Propane Prices

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This week Senator Kathleen Vinehout writes about the propane shortage and rapid increase in price. After being contacted by people concerned about the crisis, she spoke with those in the industry and did research to help folks understand the reason behind the problems and what could be done to prevent this from happening in the future.

ALMA - “I’ve been in business for 36 years,” the propane man told me. “I believe this is simply price gouging.” The propane retailer’s wholesale price went from \$3.19 to \$5.29 a gallon in just a few days. I wanted to know why.

At first, I heard the usual “supply and demand” story: a late planting season meant high moisture grain drew down propane supplies. Indeed, propane use to dry grain was four and one-half times larger this past harvest than a year prior.

January-like weather during the first of December meant increased propane demand earlier in the season. As one industry representative said: “It’s simply a matter of economics 101 – supply and demand.”

But things were not as simple as they seem.

“The propane industry has some responsibility here,” one man told me. “We knew reserves were dangerously low going into the harvest season,” said another.

According to Bloomberg News Service, propane stockpiles are the lowest since the government began keeping records in 1993.

I spoke those in the propane industry, listened to constituents and congressional staffers and did some digging in industry and government publications. I learned several “man-made” actions contributed to a shortage of propane.

In mid-November, Kinder Morgan Inc. shut down its Cochin pipeline carrying propane from Canada to the Midwest. The company kept the pipeline down until late December to install pumps used to reverse the flow of gas from south to north.

The company plans to sell a lightweight petroleum product to Canada to mix with heavy crude oil. The complete reversal of the pipeline was scheduled to happen next summer. However, I heard from retailers, the company upped the start-up date to mid-February – permanently removing a critical route transporting propane to the Midwest.

Many in the industry told me rail lines – another route of transporting propane to the Midwest – choose large volume contracts like coal, grain or sand – over smaller lots like propane. I learned of one retailer who ordered nine rail cars of propane last fall and still had not taken delivery. Trucks also are in short supply.

“I can buy propane for \$1.50 a gallon in Texas,” one Alma man told me. “But I can’t find a truck to go pick it up.” A Pepin retailer said, “There are 186 trucks lined up [in Mont Belvieu, Texas] to get propane and they can only fill three an hour.”

The Wisconsin Propane Gas Association recently sent a letter to lawmakers explaining the shortage and the rapid rise in prices. They closed the letter with the following: Be warned, the situation in 2013-14 is not the result of a “perfect storm,” but rather due to structural flaws in the industry.

The U.S has no strategic reserve for propane and no restrictions on the export of propane.

According to the U.S. Energy Information Administration, the exports of propane and propylene have increased five and a half times in the past two years. Just in the past year exports nearly tripled.

Industry officials knew about the Cochin pipeline shut down (and the plans to reverse the line no longer delivering propane to the Midwest). They knew about the high demand for fuel to dry down grain and help cope with the very early, very cold winter. Still exports remained at the nearly triple (over last year) high figures all throughout January.

Reuters recently reported: "This is definitely an issue that will come to the surface as the fallout (of the shortage) becomes more well known," said John Kilduff, partner at Again Capital LLC, a hedge fund. "The industry has been caught short, a lot of consumers are going to ask the question - why are we allowing this?"

Finding a solution involves action by the industry and government. We need an "At Home First" U.S. policy that creates a strategic reserve of propane, limits exports in times of domestic need and makes sure companies are not price gouging.

Iowa Senator Chuck Grassley recently requested the Federal Trade Commission "remain vigilant in overseeing the propane market to prevent anti-competitive behavior or illegal manipulation, and ensure that any supply shortages are not created artificially." Senator Grassley has the right idea.

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