

Propane Market Status Report



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Energy Information Administration

Coalition of Northeastern Governors
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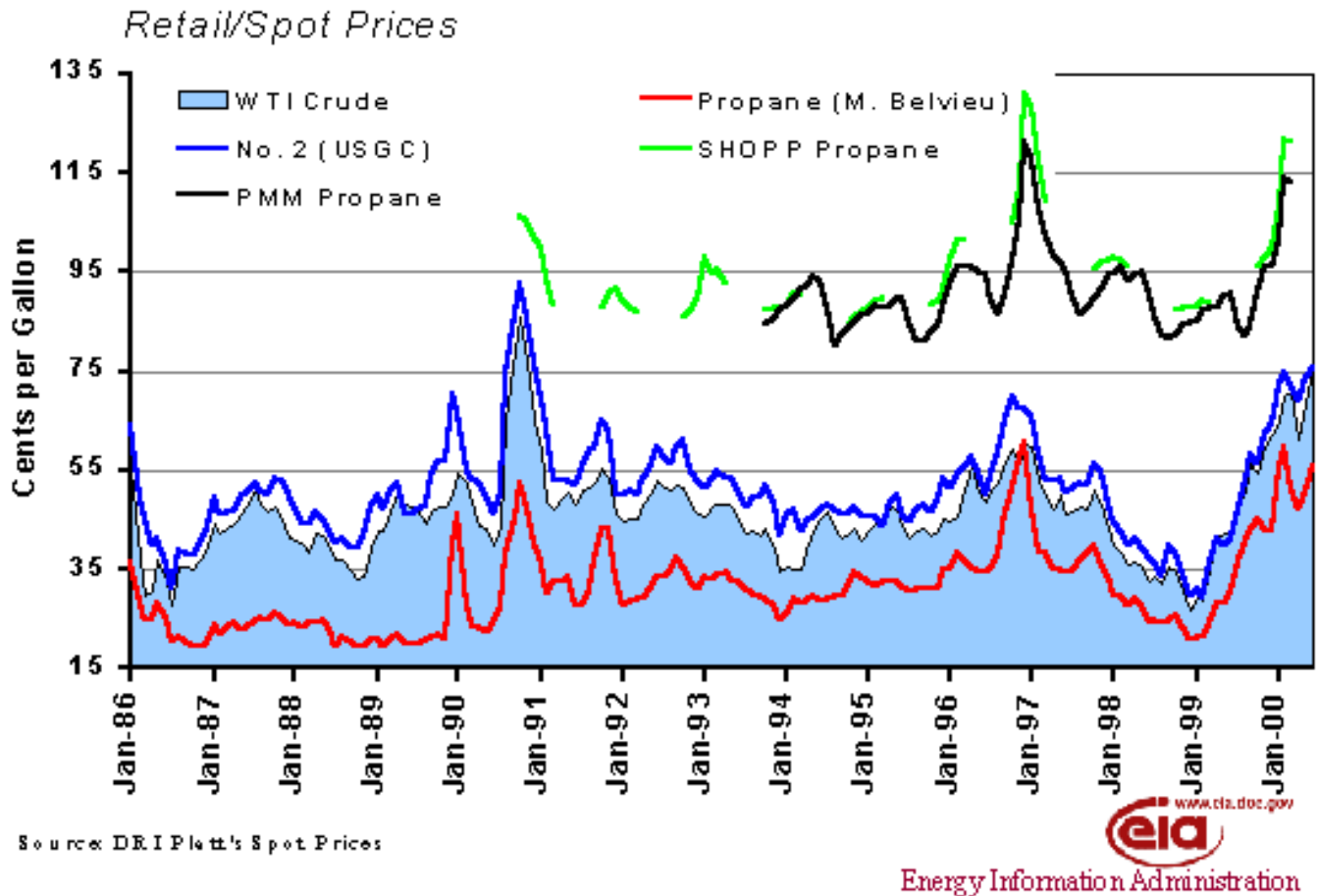
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Notes:

Good morning, thank you for inviting me to speak to you today about the status of propane markets.



Propane Prices Follow Crude Oil



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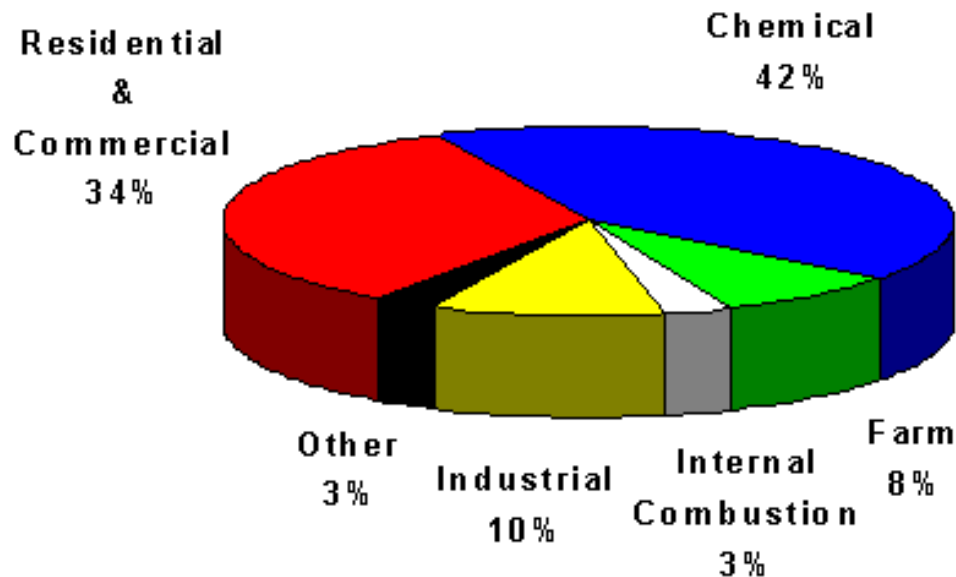
Prices are one of the first signals in deciphering what is happening in the market.

This chart shows propane prices (both spot and retail) as well as spot heating oil and crude. As you can see, most prices track the price of crude oil; when crude oil goes up so do product prices. Hence, crude oil is the major driver behind product price swings.

Propane prices move with the heating fuels in the winter months, and competes with both crude-based and natural gas-based fuels in the petrochemical market during the summer. Propane tends to follow petroleum product markets; however, because there are different sectors competing for demand of propane, price movements can be more exaggerated.

Propane spot prices at Mt. Belvieu currently stand at 54 cents per gallon.

Propane Demand by Sector



Source: 1997 Sales of NGL's, API

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Notes:

In order to understand markets you also have to look at supply and demand. First, demand or who uses propane.

For the most part, the major components of propane demand are residential, chemical, farm, and industrial. Combined heating and chemical demand account for about 76 percent of total propane demand. These sectors generally co-exist, with chemical demand generally lower during the peak winter months when heating demand and prices are much higher.

Ordinarily, agricultural demand does not impact regional propane markets except when unusually high and late demand for propane for crop drying combines with early cold weather to cause greater-than-normal demand.

We will be watching the agricultural sector, since the Agriculture Economic Research Service has predicted a record corn crop this year.

Where to Find EIA Information



- **WWW.EIA.DOE.GOV**
 - Watches
 - Weekly Petroleum Status Report
 - Winter Fuels Report
 - Short-Term Energy Outlook
 - Prices Hotline 202-586-6966
- **NEIC - 202-586-8800**
- **People/Contacts**



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Notes:

Lastly, many of you are very aware of EIA and the information available to you to track markets, however, if you're not -

EIA has information available to you through several sources - there's our web site, plus we also publish weekly watches such as the propane watch, distillate watch, mogas and crude oil watch, the Weekly Petroleum Status Report and the Winter Fuels Report. You can also contact the National Energy Information Center at: 202-586-8800 or one of our program fuel experts.

Propane Market Status Report

07/27/2000

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Propane Prices Follow Crude Oil

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Conclusion

- U.S. and regional propane inventories are expected to begin the heating season below normal level of 60 MMB.
- Propane supply likely to remain above prior year levels due to:
 - high co-production of propane as refineries struggle to keep up with strong demand for motor gasoline.
 - high gas plant production of propane as surging crude oil prices keep gas plant margins in positive territory.
 - however, higher U.S. exports of propane may act as wild card as new markets emerge in Mexico and South America.
- Residential heating demand likely to increase if weather returns to normal following above normal temperatures during the past two winters.
- Consumers will continue to pay more due to higher world oil prices.



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Notes:

In conclusion, inventories are expected to be below normal for the heating fuels. Propane will probably be below the 60 MMB target.

We'll probably see lower imports for propane but we're also seeing higher production.

Heating demand may be higher if temperatures return to normal.

Consumers will pay more due to higher prices.

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Demand Impacted by Weather

*Percent Difference from Annual Average
Heating Degree Days*

Year	West- North Central	East- North Central	Mid- Atlantic	New England
1996	11.5%	9%	5%	3%
1997	3%	4%	2%	3%
1998	(12%)	(17%)	(16%)	(12%)
1999	(7.5%)	(9%)	(12%)	(17%)



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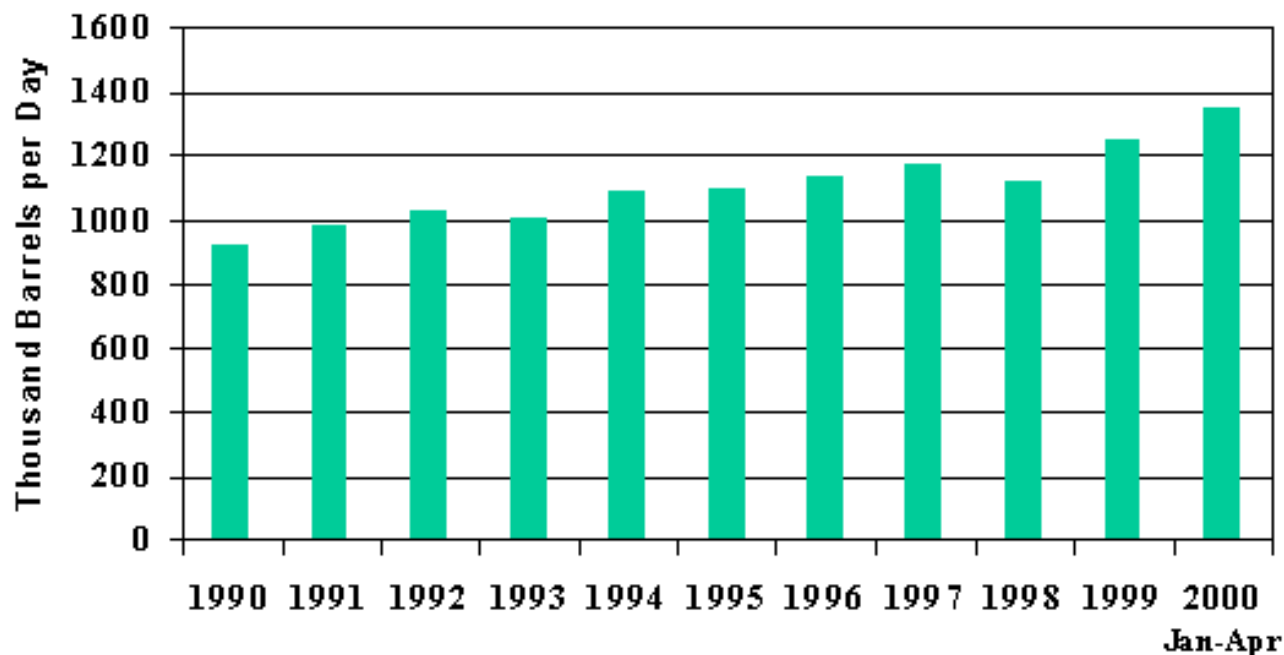
Notes:

When you look at demand, it's also interesting to note the weather. The weather has a big impact on the demand of heating fuels, if it's cold, consumers will use more. If a disruption occurs and it's very cold, markets will become volatile, as was the case with heating oil in the Northeast last Jan and Feb.

As this table shows, calendar years 1998 and 1999 were warm in the major residential propane-consuming regions, keeping heating demand down.

However, isolated cold snaps in certain regions such as the Northeast did affect the distillate market.

U.S. Propane Demand



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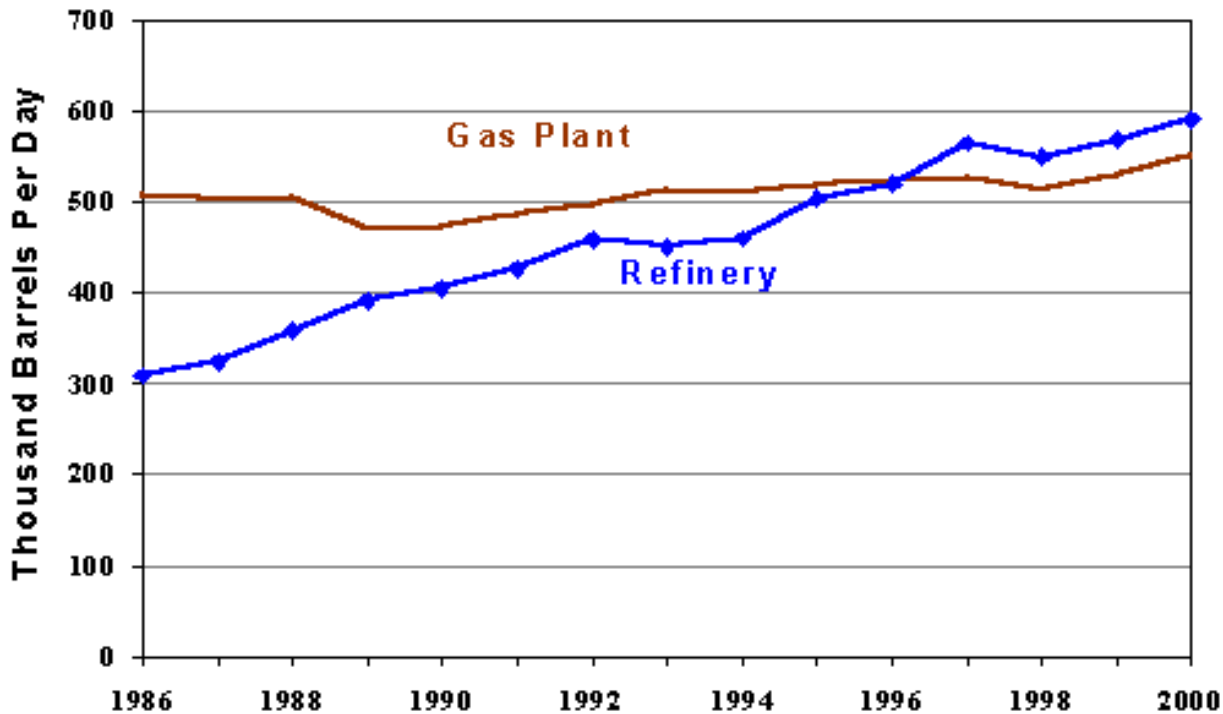
If we look at demand in more detail, we can see that propane demand has shown steady growth throughout most of the 1990's, rising about 300 MB/D, up more than 36 percent since 1990.

During this decade, propane demand on an annual basis has declined only twice, in 1993 and 1998.

Demand is higher in 1999 due to higher petrochemical demand and a strong economy.

We are also seeing strong demand in the first quarter of 2000; however, as the economy slows down so may petrochemical demand.

Propane Production by Source



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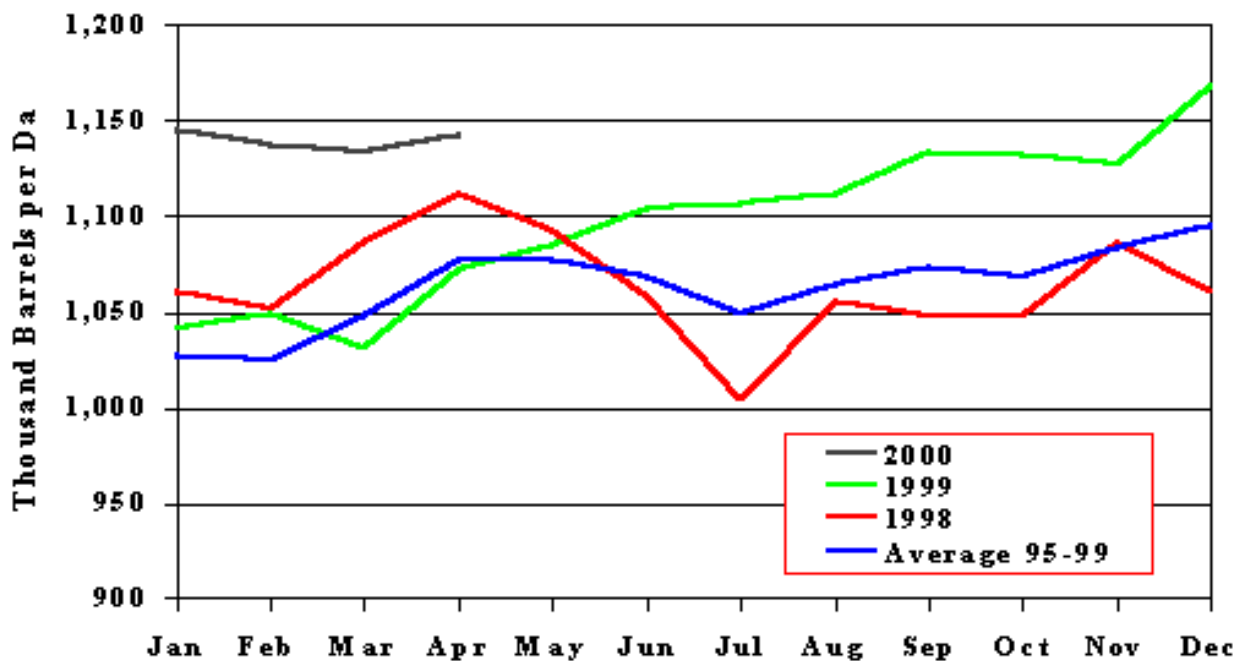
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So where do we get our supplies of propane? Well, propane comes from both gas plants and refineries. Here we see data through April which shows that production at both gas plants and refineries are up right now.

This is primarily due to an increase at the refinery level because of an increase in gasoline production. When refineries crank out gasoline, propane is a by product and right now gasoline production is up.

Production of propane at gas plants is also up. Since prices of natural gas and propane are up, this has created positive margins to produce propane.

U.S. Propane Production



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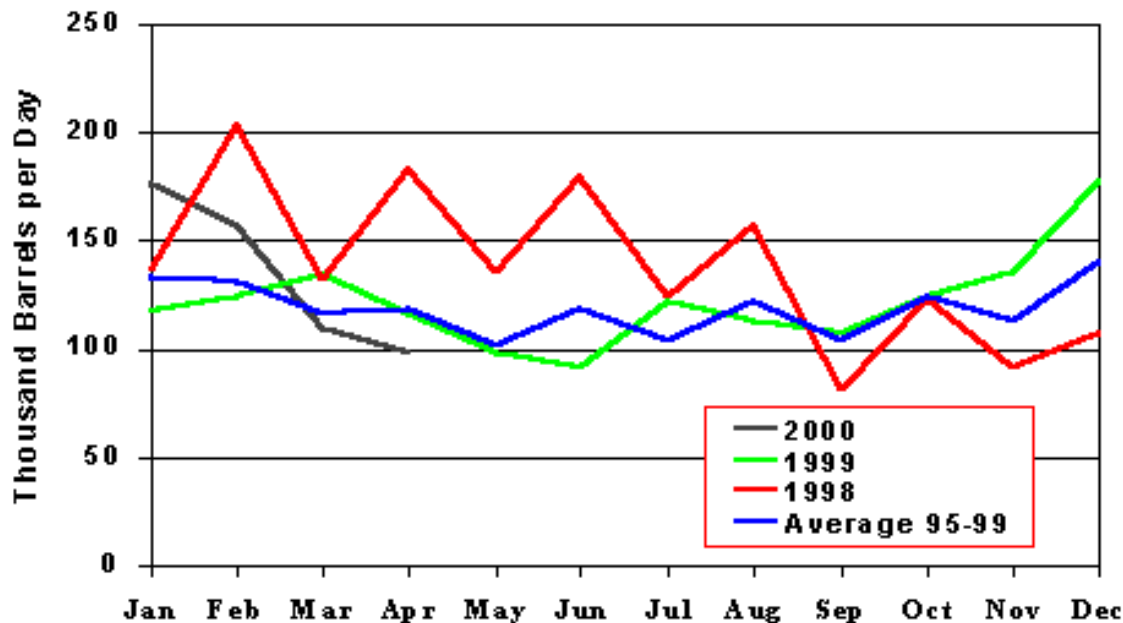
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Notes:

The chart provides a picture of propane production over the past three years and five-year average. Total propane production in the first four months of this year is almost 100 thousand barrels higher compared to same period last year.

Note though, the level of propane production remains relatively inelastic to short-term changes in price and demand. This is due to its by-product status at gas plants and at refineries.

U.S. Propane Imports



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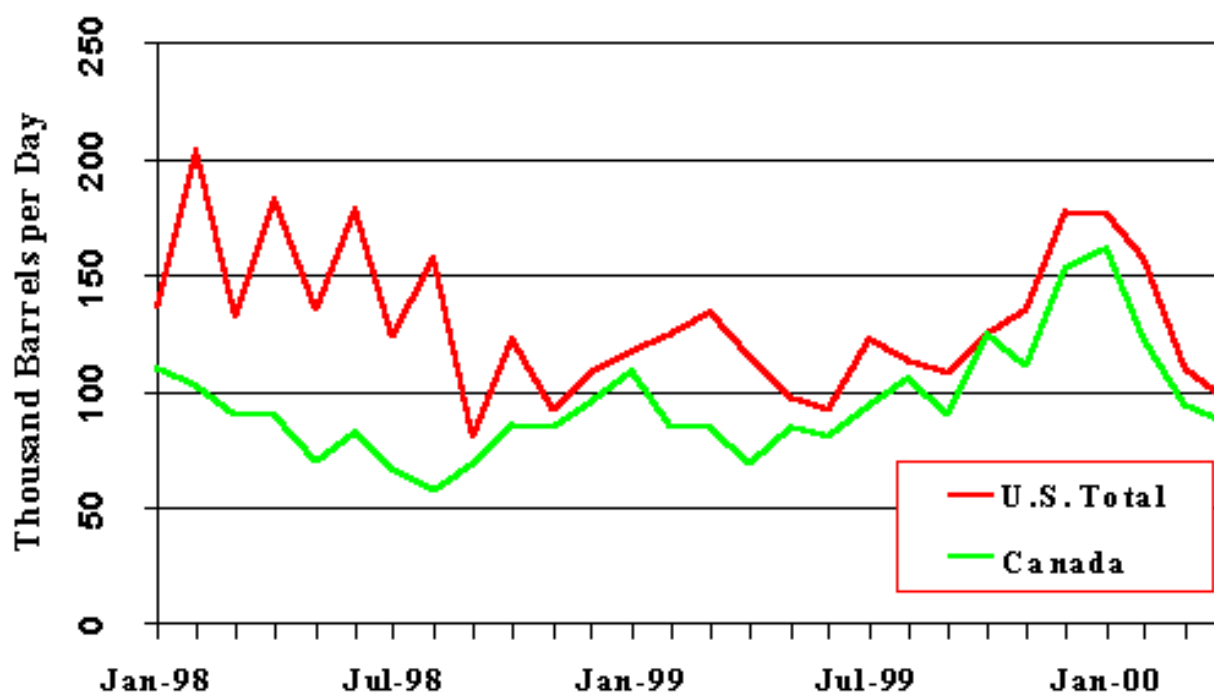
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Notes:

Another source of supply of propane is from imports. Imports for the first four months of this year have increased about 11 percent compared to the same period of time one year ago. However, they are starting to drop off and may not be as strong as last year. Right now imports are a wild card because of strong world demand.

Waterborne imports are a swing supply for the US in the winter but most waterborne imports have dried up since last winter.

U.S. Imports from Canada



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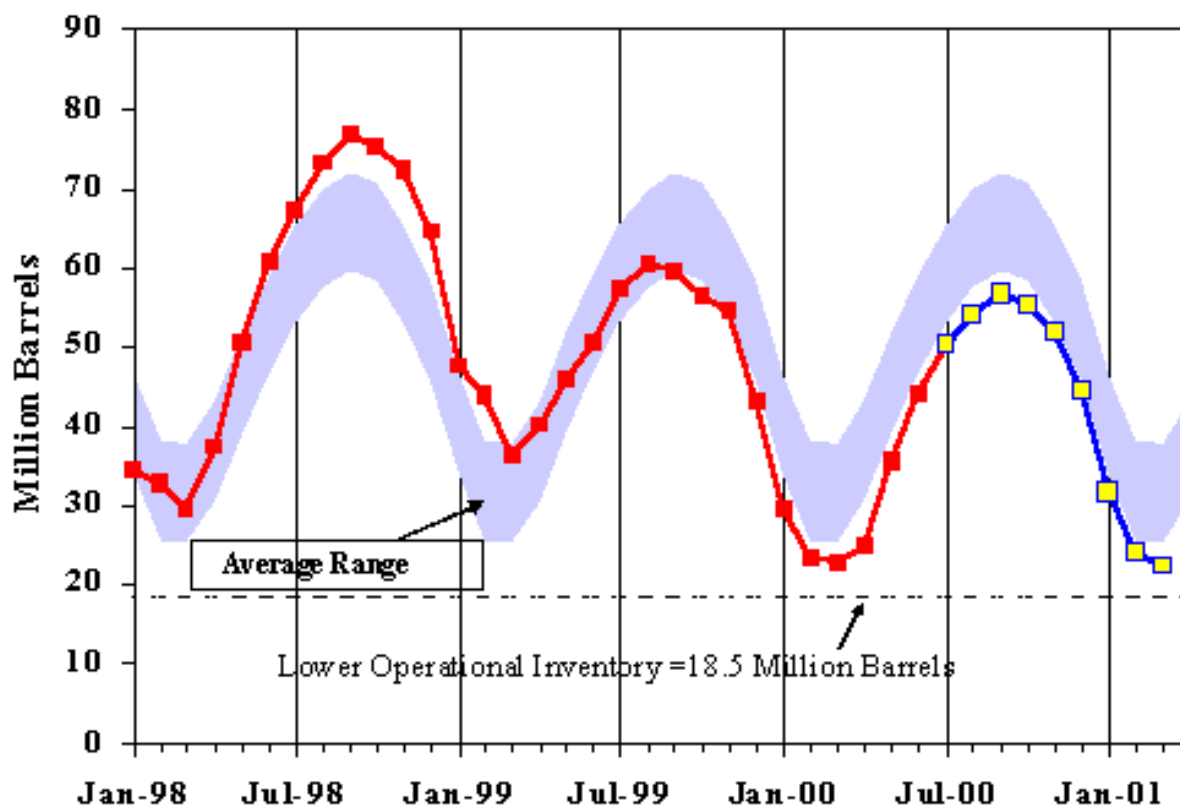
Notes:

The US gets most of its propane imports from Canada, which typically accounts for about 75 percent of U.S. propane imports. During 1998, Canada fell to only about 61 percent of U.S. imports, due to higher imports from Algeria.

However, right now Canadian imports have regained more than 90 percent share of U.S. imports.

Remember, Canadian imports play an important role to the NE and upper Midwest during the winter.

U.S. Propane Stocks



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Notes:

Stocks are a barometer for judging whether the market is tight or loose.

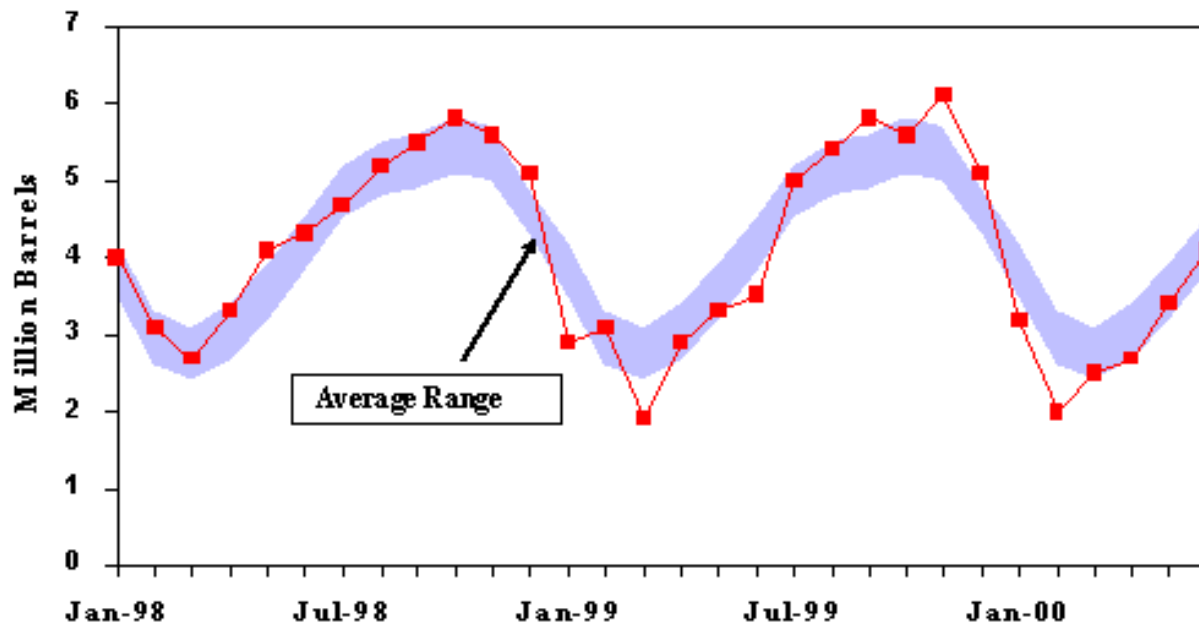
Stocks are the immediately available supply to satisfy demand. When they are low and dropping sharply, especially during the high demand season, wholesale buyers may begin to worry about short-term supply availability and bid prices up.

Our latest data show U.S. inventories of propane at 44.1 MMB, 13 percent lower than last year at this time. EIA is projecting stocks to reach approximately 57 MMB at the start of the heating season.

March through September is the stock building season (September is usually when stocks peak). Stocks normally build around 34 million barrels. At the US level stocks have been building at 6.5 % above the five year average.

US stocks are the lowest since 1996.

PAD District I Stocks (East Coast)



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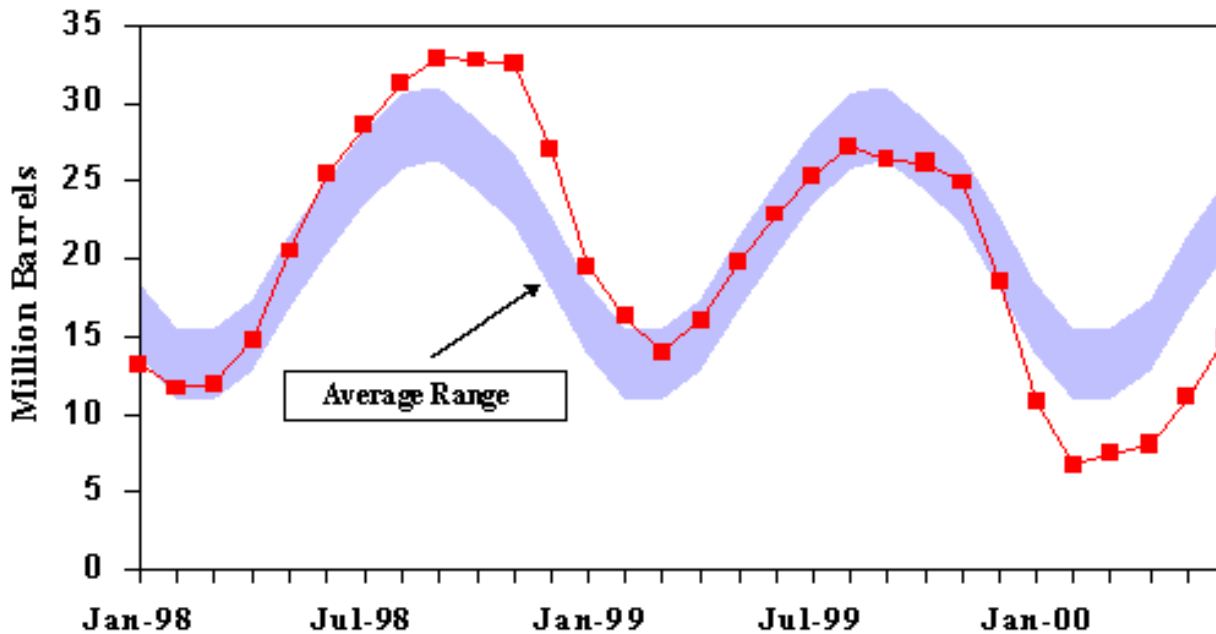
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Notes:

East Coast inventories currently stand at 4.1 MMB.

East Coast stocks remain well within the normal range for this time of year.

PAD District II Stocks (Midwest)



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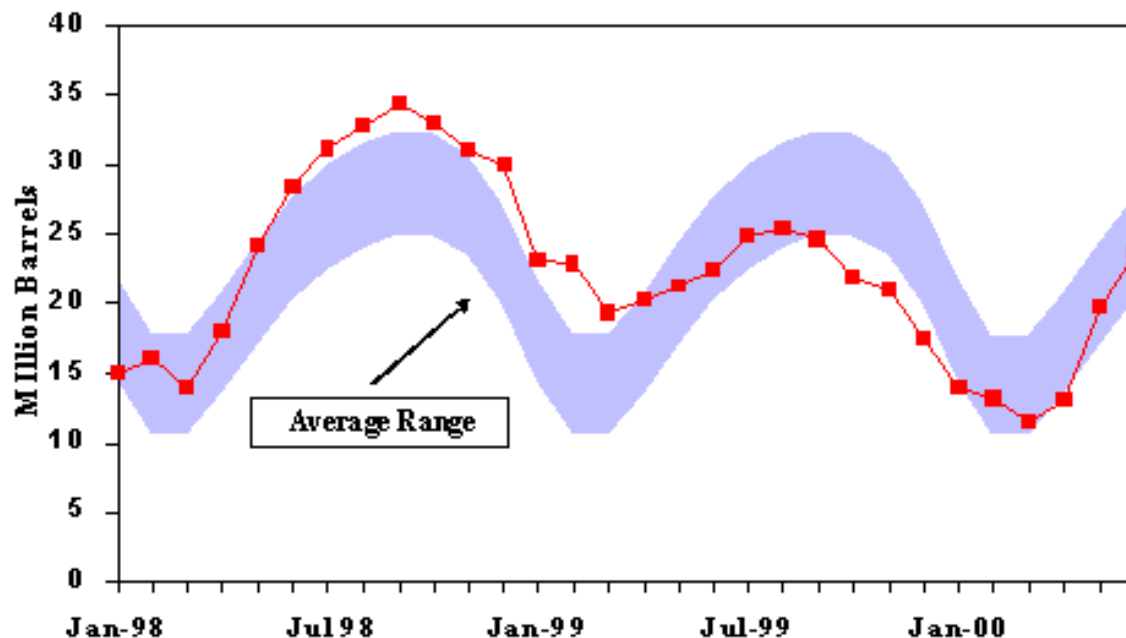
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Midwest inventories currently stand at 14.9, and remain below average for this time of year.

Last time stocks were this low was in 1970.

EIA will be monitoring this region since propane is used for heating and crop drying.

PAD District III Stocks (Gulf Coast)



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Notes:

Gulf Coast inventories are at 23.6 MMB and are well within the normal range.

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