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Do You Realize? – U.S. Propane Market Requires a Delicate Balancing Act

Wholesalers, Retailers Must Account for Seasonal Demand, Steady Production



- Market delivers more than 9 billion gallons of propane annually to U.S. consumers
- Wholesalers play an essential role in moving volumes to propane terminals
- Retailers can be 'mom-and-pop' firms or larger companies with their own fleet
- Seasonal demand, steady production brings unique set of challenges
- U.S. propane pricing reflects seasonality, contract provisions and transport costs

1. Introduction

With more than 9 billion gallons of propane delivered to U.S. customers each year, moving those volumes to their final destination is a complex task involving pipelines, rail cars, storage and, ultimately, trucks. Several major factors help determine the quantity and price of propane delivered to end-use customers, including the seasonality of demand versus the steady nature of production.

Propane is produced from the wellhead and is entrained in the natural gas stream. The NGL stream is separated at a gas processing plant into a mix of NGLs, also known as raw mix or Y-grade. The cold temperatures of the processing plant cause the propane and associated NGLs to "fall out" of the stream as a liquid.

The raw mix is then piped to a fractionator, where it is separated into purity product streams. (The raw mix can also be placed in storage and kept underground until it is ready to be fractionated.) Following fractionation, propane is either stored until needed (this often occurs with propane

fractionated in the summer months for use during winter demand) or it can be taken directly to the next step, which is transportation to a wholesaler.

Wholesalers — companies that sell propane to retailers — have four primary functions. The first is *supply aggregation*, which includes acquiring propane from multiple sources. This is usually done by midstream companies that operate fractionation facilities and refiners that produce propane as a byproduct. It is also done by “pure” wholesalers that buy directly from fractionators and refineries, and refiners that produce propane as a byproduct. The second function is *operating logistics networks* to ensure the timely delivery of propane across regions. Many wholesalers maintain large fleets of propane transport trucks to handle long-haul deliveries to retailers. They also operate (and sometimes own) truck fleets or railcars to handle long-distance transport to terminals. The third function is *product trading*. Wholesale propane marketers engage in both physical trading and financial hedging. The fourth and final primary function is *midstream integration and wholesale competition*. Some wholesale propane marketers are midstream companies that own assets such as pipelines, fractionation facilities and terminals.

To reach the retailer, propane is transported from the wholesaler via transport trucks, with an average truck carrying 11,600 gallons. Propane is moved on these trucks to smaller bulk and retail store sites. From there, it is picked up by bobtail trucks. Bobtail trucks are smaller trucks with a capacity of 1,000 to 6,000 gallons. Delivery via bobtail can be challenging. Delivery via bobtail can be challenging. Much of the propane in the U.S. is consumed in rural areas with delivery locations often spread far apart. When propane demand is highest, snow and other adverse weather conditions can make delivering essential heating resources difficult in winter. In addition to managing logistics, retailers also have a presence in the local community.

The goal of our new Drill Down Report is to illustrate in some detail the complex nature of the domestic propane market and highlight the many steps that are required to get propane to its final home, including the difficult task of balancing seasonal demand with steady production and the differences in contract structures and pricing, all of which makes managing the market a real challenge.

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