



**Energy Exports
AFBF Policy Development
May 2014**

Issue:

Last fall, a record harvest of high moisture corn increased demand for propane for drying in the Midwest. As a result, propane inventories in the Midwest were at their lowest level heading into winter since 1996.

After harvest, logistical problems prevented the region from fully replenishing inventories before the onset of a particularly cold winter. The upper Midwest is supplied with propane by the Mid-American and ONEOK pipelines flowing north from Conway, Kansas, the Cochin Pipeline coming south from Canada and from rail deliveries. The Cochin Pipeline, which delivers ethane and propane from Canada to the upper Midwest, was out of service for maintenance from late November into late December and was unavailable to deliver supplies. In addition, rail transportation disruptions, both due to weather and other factors, curtailed deliveries from the Mont Belvieu, Texas, hub in the Gulf Coast, from Conway, Kansas, as well as from Canada.

Even with the rail and pipeline infrastructure challenges, abnormally cold weather hit the Midwest in late December and early January. Heating degree days in the Midwest were roughly 15 percent higher than the 10-year average levels. This cold weather created strong demand surges, which, when coupled with larger exports, low inventories and supply challenges, led to local shortages and a severe spike in propane prices. This in turn resulted in several states implementing emergency measures to provide propane to heating customers, including suspensions of limitations on hours of service for propane delivery truck drivers. Indiana, Iowa, Minnesota, Montana, Nebraska, South Dakota and Wisconsin declared states of emergency to enable more delivery of propane throughout the Midwest. At the same time, propane exports were at record highs while farmers were facing higher energy costs for propane.

Questions:

Should AFBF support continuation of energy product exports or consider limiting such exports?

With the growth of natural gas production in the United States and an increasingly complex array of laws and regulations for the federal approval process for new infrastructure projects, how can AFBF work to ensure an affordable and reliable energy supply during periods of market extremes?

With the surge in energy production domestically, should AFBF support policies and regulations that restrict the end use on energy products when disruptions or market extremes occur?

Background:

Propane is produced from natural gas at processing plants, at fractionating plants that further process mixed natural gas and from crude oil at refineries. Propane from natural gas has been the fastest-growing component of overall U.S. propane production. U.S. supply set record highs on an almost weekly basis in 2013 as a result of increased oil and natural gas drilling.

There are two major hubs for propane in the mid-United States: Mont Belvieu, Texas, on the Gulf Coast and Conway, located in central Kansas. With the rapid growth in U.S. propane supply, domestic production has exceeded domestic consumption, and the United States has become a net propane exporter. However, the United States has also continued to import significant amounts of propane, especially via tanker, into Northeast ports, and via several pipelines that carry supplies from Canada into the Midwest. The largest market nationally for propane is the industrial sector, including agriculture. Propane is also used heavily in the residential and commercial sectors in more-rural areas that may lack natural gas infrastructure. Residential and commercial demand has a strong seasonal pattern, with a winter peak to meet heating needs.

Some of the propane supply to the Midwest and Northeast is transported by common-carrier pipelines, which establish shipping schedules in advance and are constrained in rescheduling nominations to meet unexpected shortages in their delivery regions. In early February, the Federal Energy Regulatory Commission invoked its emergency authority under the Interstate Commerce Act, for the first time ever, to direct Enterprise TE Products Pipeline Company (TEPPCO) to temporarily provide priority treatment to propane shipments from Texas to the Midwest and to the Northeast.

The Cochin pipeline, which carries propane from Canada into Minnesota, was out of service for planned maintenance in late 2013 with related plans to repurpose and reverse the pipeline as early as mid-2014. Import flows into the Upper Midwest via this pipeline were cut off during this planned outage.

The development of extreme propane shortages in the Midwest in mid-January, and a significant rise in prices at Conway relative to those at Mont Belvieu, provided a strong incentive for flows of propane from south to north. Those flows, which occurred within the constraints of available infrastructure, resulted in a significant reallocation of supplies, as evident in Petroleum Administration Defense District level weekly inventory data. The spike in U.S. propane prices also led to increases in imports into Minnesota and Michigan via pipeline connections from Canada, and additional tanker cargoes imported into Northeast ports.

The continuing development of U.S. hydrocarbon resources, resulting in the increasing supply of crude oil, natural gas and propane along with other natural gas liquids, will continue to present both challenges and opportunities for the use of existing infrastructure and the development of additional infrastructure in the future.

Farm Bureau Policy:

252 – International Trade

Line 3.2 – [Agricultural exports will be increased by] Continuing to export regardless of domestic supply.

Line 7.6 – [We oppose] Protectionist restrictions on imported and exported farm inputs such as machinery, parts, petroleum and fertilizer.

402 – Energy

Line 5.4 – [We encourage] Exploration, extraction, pipeline and port facility construction to ensure gas and oil supplies meet demand.

Line 7.2 – [We oppose] Government rationing as a means of allocating scarce energy supplies, except in the case of national emergencies. In such cases, agriculture should receive uninterrupted supplies.