

# LPGAS

**The pH Factor:** Taking the bait on political debate

**Vital Signs:** NPGA moves to stymie threat to PERC authorization law

**Snapshot:** Owens Energy expects the unexpected



## TRUST WASHINGTON?

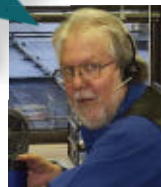
Not propane marketers,  
who sound off in our  
State of the Industry report  
about government influence  
over their sales and margins

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**[EVENTS]**

- **JAN. 9-11, 2012** North Carolina Propane Gas Association Leadership Summit at the NCPGA Training Center in Raleigh, N.C. For more information, contact John Jessup at [jjessup@ncpga.org](mailto:jjessup@ncpga.org).
- **JAN. 10-11** Colorado Propane Gas Association Meetings at the Millennium Harvest House in Boulder, Colo. For more information, contact Baron Glassgow at [bglassgow@npga.org](mailto:bglassgow@npga.org) or 866-881-6309.
- **JAN. 13-14** Benchmarking Council at the Embassy Suites in Jacksonville, Fla. For more information, contact Baron Glassgow at [bglassgow@npga.org](mailto:bglassgow@npga.org) or 866-881-6309.
- **JAN. 23-25** International Air-Conditioning, Heating and Refrigerating Expo at McCormick Place in Chicago. Visit [www.ahrexpo.com](http://www.ahrexpo.com).
- **JAN. 24-25** Virginia Propane Gas Association Winter Meeting at the Omni Hotel in Richmond, Va. For details, contact Mary Howell at [mary.howell@easterassociates.com](mailto:mary.howell@easterassociates.com) or 804-643-4433.
- **JAN. 29-31** NPGA Winter Board of Directors Meeting at the Marriott Key West Beachside Hotel in Key West, Fla. For more details, contact Peter Ferrell at [pferrell@npga.org](mailto:pferrell@npga.org) or 202-355-1338.
- **FEB. 8-11** NAHB International Builders' Show at the Orange County Convention Center in Orlando, Fla. For details, visit [www.buildersshow.com](http://www.buildersshow.com).
- **FEB. 14-16** World Ag Expo at the International Agri-Center in Tulare, Calif. Visit [www.worldagexpo.com](http://www.worldagexpo.com).
- **FEB. 16** PERC Meeting by conference call. For details, contact Anna Lombardo at [anna.lombardo@propane.com](mailto:anna.lombardo@propane.com) or 202-452-8975.
- **FEB. 29-MARCH 3** Hearth, Patio & Barbecue Expo at the Georgia World Congress Center in Atlanta. For details, visit [www.hpbexpo.com](http://www.hpbexpo.com).
- **MARCH 5-7** Purvin & Gertz International LPG Seminar in The Woodlands, Texas. For more information, visit [www.purvingertz.com](http://www.purvingertz.com).

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**LP GAS** (ISSN 0024-7103) is published monthly (12 times per year) by Questex Media Group LLC, 306 W. Michigan St., Suite 200, Duluth, MN 55802. Subscription rates: one year \$36.00, two years \$55.00 in the United States & Possessions; one year \$48.00, two years \$73.00 in Canada and Mexico; all other countries: one year \$120.00, two years \$180.00. Single copies (prepaid only): \$5 in the United States; \$7 in Canada and Mexico; \$16.00 all other countries. Back issues, if available: \$9 in the U.S.; \$13 in Canada and Mexico; \$33 all other countries. For air-expedited service, include an additional \$48 for 1 year or \$96 for 2 years per order. Include \$6.50 per order plus \$2 per additional copy for U.S. postage and handling. Periodicals postage paid at Duluth, MN 55806 and additional mailing offices. POSTMASTER: Please send address changes to LP Gas, PO Box 1269, Skokie, IL 60076-8269. Canadian G.S.T. number: 840 033 278 RT0001. Publications Mail Agreement Number 40017597. Printed in the U.S.A. Copyright 2011 Questex Media Group LLC. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical including photocopy, recording, or information storage and retrieval system, without permission in writing from the publisher. Authorization to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by Questex Media Group LLC for libraries and other users registered with the Copyright Clearance Center, 222 Rosewood Dr. Danvers, MA 01923 phone: 978-750-8400 fax 978-750-4470; call for copying beyond that permitted by Sections 107 or 108 of the U.S. Copyright Law. For those not registered with the CCC, send permission request in writing to [questexpermissions@theysgroup.com](mailto:questexpermissions@theysgroup.com) or 800-494-9051, Ext 100.

**SUBSCRIPTIONS:** Subscriptions to LP Gas are available by calling 866-344-1315. For single back issues, CD-ROM, call 866-344-1315. Outside the U.S., please phone 847-763-9594.

**REPRINTS:** Reprints of all articles in LP Gas are available (500 minimum). [LPGas@theysgroup.com](mailto:LPGas@theysgroup.com), 800-290-5460, ext 100.

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## Taking the bait

Personal rule on political discussion faces Thanksgiving Day test

This year I broke a personal tenet that ruined an otherwise perfect Thanksgiving Day gathering: I engaged the family curmudgeon in a post-meal debate about politics.

It was stupid and I know better. My wife's ornery, opinionated cousin is a recent retiree with far too much time to soak in the drone of talking heads on TV and radio. I don't have the time, interest or stomach for any of that stale, empty theatrics.

But Roger loves to instigate. So he corners me in the living room, ignores the fact that I'm watching the Dolphins-Cowboys football game with a dozen other sensible folks and annoyingly stirs the pot.

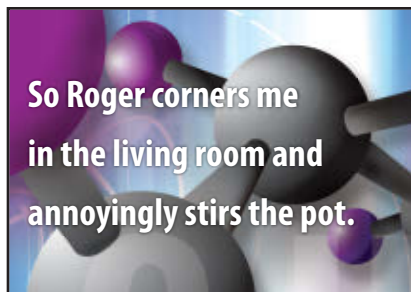
The news earlier that week that the bipartisan Joint Select Committee on Deficit Reduction – the so-called super committee – could not agree on how to lop \$1.2 trillion from federal deficits over the next decade greased some early haymakers about who's to blame for this historic mess that divides our nation.

"So, what do you make of these clowns in Washington that want to bankrupt the nation," he lobs out to me in his favorite sarcastic tone.

I should have changed the subject with a comment about the Dallas head coach being a Cleveland native. I should have gotten up and poured another drink. I regret doing neither. Instead I took the bait.

I qualified my political bent as a long-standing registered independent because I have little use for either side of the aisle.

I explained that it had nothing to do with partisan ideologies; 35 years



of watching both sides sacrifice the best interest of our nation in favor of political traction has simply crushed all trust and hope I ever had in functional political leadership.

I told him that I blame most of my cynicism on a two-party system that breeds spineless, self-serving scavengers. Nobody can get the job without party backing, and once they have it there is no wiggle room under the thumb of its overwhelming influence.

I said it frosts me that elected officials on both sides have calculated that the price of compromise is too high. Each is convinced that there is political gain in sticking firmly to their core principles – Republicans refuse to raise taxes, and Democrats refuse to make big cuts to entitlement programs like Medicare.

Besides, I noted, Republicans know they can always blame Democrats – and vice versa – as a way to stave off criticism from the electorate that trusted them to produce solutions. And so, amid historically low approval ratings of Congress, inertia reigns in the nation's capital.

The wine had fully kicked in by then. The volume and pace of the discussion picked up and drew stares of curiosity and concern from those not

in the line of fire. Someone turned up the TV volume.

I argued that the unproductive, line-in-the-sand attitude toward two dramatically competing visions of the role government should play in a free society is a dangerous gamble. I believe there is sufficient middle ground on the proper purpose and design of the social safety net and the fundamentals of job creation and economic growth.

And I'm convinced that when both sides see unbending stubbornness as a winning political strategy, we all lose.

Our half-hour, animated debate didn't win me a single point with Roger. In hindsight, I guess I didn't really expect it to – precisely why I have a rule of thumb to avoid political discussions.

In our prayer before the meal, I specifically gave thanks for the grace of living in what is still the greatest nation on Earth. I still believe that – our dire economic and federal budget woes notwithstanding.

Like the tasty hors d'oeuvres of sausage made fresh at the corner butcher and served before our Thanksgiving dinner, I know the end result outweighs the ugly process of legislatively steering our country.

But that's little comfort from the persistent indigestion and heartburn the heartland is getting from Washington these troubled days. **LPG**

A handwritten signature in black ink that reads "Patrick Hyland".

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# VitalSigns

INDUSTRY NEWS & NUMBERS

## NPGA moves to stymie congressional threat to PERC authorization law

An ill-timed effort to create a checkoff program for the Christmas tree industry has produced a legislative backlash that threatens the operation of the Propane Education & Research Council (PERC).

On Nov. 8, a program of the U.S. Department of Agriculture (USDA) establishing a “national research and promotion program for Christmas trees” to strengthen and expand markets for fresh-cut U.S. Christmas trees was published in the Federal Register. The effort provided for an assessment of 15 cents per tree – similar to self-assessments that other industries use to fund their check-off programs.

The program was several years in the making by the Christmas tree industry after concern about lost market share to the artificial Christmas tree industry. An industry

task force proposed that the USDA create the program by regulation to be followed by a referendum among domestic tree producers and importers three years after the first assessments to determine whether they favor its continuation.

Despite widespread usage of the phrase “Christmas tree tax” in a flurry of media reports about the program, the assessment was not intended to be a tax to raise revenue for the government. But unfavorable public reaction forced the White House to announce Nov. 9 that implementation of the program was indefinitely delayed.

Among the many critics was Sen. Jim DeMint, R-S.C., who lambasted the checkoff program in his blog. Calling it “crony capitalism” and “the stupidest tax of all time,”

*Continued on page 10*

### Study measures impact of Propane Gas Act

The Propane Green Autogas Solutions Act (Propane Gas Act) of 2011 offers significant economic growth and environmental and energy security benefits to the American economy, according to a study released by the National Propane Gas Association (NPGA), as federal alternative fuel tax credits were set to expire at year’s end.

The legislation would extend for five years tax credits for propane used as a motor fuel, propane autogas vehicles and propane autogas refueling equipment.

The study performed by ICF International projects that the Propane Gas Act’s impact on jobs and the economy will be significant. The growth in propane vehicle sales and use created by the tax credits will generate an increase in economic activity that peaks at between \$4 billion and \$5.7 billion per year in 2016. That translates to between 30,000 and 42,000 new jobs created by 2016.

### NGL Energy Partners closes SemStream deal

NGL Energy Partners LP completed the previously announced acquisition of SemStream L.P., a subsidiary of SemGroup Corp. The transaction includes all of the assets comprising SemStream’s natural gas liquids operations.

## LP Gas Stock Index

### [PROPANE MASTER LIMITED PARTNERSHIP COMPARISON]

Company	Symbol	Quarter Ended	Price (11/21/11)	Distribution	Yield	Tax Deferral	Debt/Capital	Debt/Mkt. Cap	Total Units Outstanding (millions)
AmeriGas	APU	June	\$44.02	\$2.96	6.7%	75%	59%	33%	57.1
Energy Transfer	ETP	June	44.16	3.58	8.1	80	56	83	208.6
Ferrellgas	FGP	July	22.40	2.00	8.9	90	2	1	75.9
Inergy	NRGY	June	23.97	2.82	11.8	80	62	59	131.4
NGL Energy Partners	NGL	June	20.96	1.35	6.4	90	17	7	14.8
Suburban	SPH	June	47.53	3.41	7.2	80	46	21	35.6
Average:					8.2%		40%	34%	

### [LAST TWELVE MONTHS]

Company	Revenue	Gross Profit	Gross Margin	Gross Profit (Per employee)	EBITDA (millions)	Gallons Sold (millions)	Percent Change	Gross Profit (Per gallon)	EBITDA (Per gallon)
AmeriGas	\$2,537.9	\$932.7	36.8%	\$160,810	\$335	874	-2.1%	\$1.07	\$0.38
Energy Transfer	1,410.9	634.2	45.0	157,570	253	551	-1.8	1.15	0.46
Ferrellgas	2,423.3	689.4	28.4	192,140	227	655	-3.8	1.05	0.35
Inergy	858.6	388.4	45.2	135,567	235	326	-4.3	1.19	0.72
NGL Energy Partners	76.1	41.5	54.5	117,564	13	54	NM	0.77	0.23
Suburban	1,009.0	514.6	51.0	198,075	177	299	-6.0	1.72	0.59
Average:			43.5%	160,288			-3.6%	\$1.16	\$0.46

1. Energy Transfer LTM results are only those of ETP’s propane segment (Heritage Propane).

2. Suburban’s gallons sold include propane and heating oil gallons.

3. NGL’s LTM is pro-forma 2010 results.

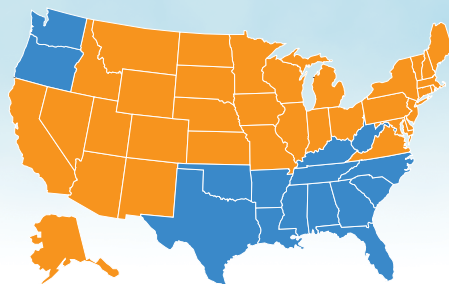
Wells Fargo Securities LLC  
Ron Londe – analyst

# WeatherWatch

## [HEATING DEGREE DAYS BY STATE]

State	October	Deviation From Norm	Last 12 Months	Deviation From Norm
Alabama	199	46	2911	72
Alaska	886	-112	10930	-260
Arizona	27	-49	1979	-181
Arkansas	195	22	3512	6
California	70	-49	2599	-35
Colorado	535	-38	7030	-378
Connecticut	350	-71	6004	-65
Delaware	245	-40	4617	-123
Dist. of Columbia	213	8	4083	28
Florida	18	8	812	118
Georgia	201	47	3126	243
Hawaii	0	0	0	0
Idaho	500	-32	7062	154
Illinois	361	-34	6529	175
Indiana	363	-13	6040	146
Iowa	403	-42	7468	409
Kansas	264	-12	5335	216
Kentucky	297	10	4701	85
Louisiana	97	34	1956	172
Maine	494	-85	7797	-215
Maryland	290	-13	4802	-47
Massachusetts	374	-76	6281	-126
Michigan	417	-53	7052	103
Minnesota	459	-128	8808	52
Mississippi	176	50	2673	110
Missouri	289	-13	5377	159
Montana	589	-64	8228	-82
Nebraska	371	-41	6778	254
Nevada	151	-70	3659	-144
New Hampshire	486	-79	7374	-214
New Jersey	305	-61	5390	-54

## OCTOBER



LOWER THAN AVERAGE HEATING DEGREE DAYS



HIGHER THAN AVERAGE HEATING DEGREE DAYS



PERCENT RETURN NOT MEANINGFUL

New Mexico	290	-33	4345	-491
New York	347	-58	5903	-213
North Carolina	236	21	3751	226
North Dakota	531	-132	9667	217
Ohio	384	-12	6072	100
Oklahoma	174	9	3788	38
Oregon	415	20	5774	624
Pennsylvania	388	-23	5919	10
Rhode Island	335	-53	5918	29
South Carolina	192	44	3101	306
South Dakota	431	-102	8062	214
Tennessee	287	37	4181	181
Texas	63	1	1878	-119
Utah	433	-45	6442	-171
Vermont	527	-69	8063	-47
Virginia	278	-13	4536	57
Washington	462	12	5891	378
West Virginia	382	12	5353	57
Wisconsin	456	-64	7933	142
Wyoming	578	-66	8094	-210
<b>United States</b>	<b>259</b>	<b>-23</b>	<b>4559</b>	<b>35</b>

## [NEWS BRIEFS]

### Hamilton Energy merges with CHS Inc.

Hamilton Energy, a division of Hamilton Farm Bureau, is now connected to the propane resources of CHS Inc. The companies completed their merger in September.

### Holston Gases acquires Propane Express

Holston Gases acquired Propane Express LLC, which operates in Sheperdsville, Ky. Terms of the deal were not disclosed. Propane Express will continue to operate at Holston Gases' location in Louisville, Ky.

Knoxville, Tenn.-based Holston Gases has 22 locations in Tennessee, Kentucky, Alabama and North Carolina.

### Event raises \$40,000 for prostate cancer research

The fourth annual PROS4CARE golf outing, held in Humble, Texas, helped raise \$40,000 for the Prostate Cancer Foundation, topping last year's \$32,000 total, the Texas Propane Gas Association said.

The amount, aided by a match from Safeway grocery stores, was unofficial as fund collections were ongoing at press time. PROS4CARE is a partnership between the Prostate Cancer Foundation and a propane industry coalition dedicated to promoting prostate health and awareness.

*Continued on page 12*

## Gas Pains

[BY LEO MICHAEL]



*Continued from page 8*

DeMint promised to offer an amendment for its repeal.

On Nov. 16, DeMint submitted two amendments he plans to propose to deauthorize all checkoff programs. One would repeal the Propane Education & Research Act (PERA); the other would prohibit the use of funds to pay the salaries and expenses of Department of Energy (DOE) staff that oversee PERC.

National Propane Gas Association (NPGA) leaders have told state association executives that the prospects of the DeMint amendments moving forward are “moderate to low.” Still, NPGA says it is treating them seriously because they represent the philosophical opposition, gaining credibility from groups on the right, to checkoff programs.

Congress enacted PERA in 1996 “to enhance safety, training, research and development, and safety education in the propane gas industry for the benefit

of propane consumers and the public.” It established an unpaid 21-member council (PERC) to direct and oversee the spending of tens of millions of dollars generated annually from an assessment on each gallon of odorized propane.

Although the lion’s share of PERC spending had been focused on a consumer advertising campaign to promote propane as the energy of choice for American homeowners, those early initiatives were quashed two years ago by order of the U.S. Department of Commerce. PERC credited that campaign for adding 65,000 new residential propane customers and \$118 million in revenue from 2001-07.

The law stipulates that PERC’s operations are to be overseen by the DOE, although a federal review found that oversight to be minimal. In fact, DOE has not exercised any authority provided by Congress – reviewing PERC’s

budget, providing recommendations regarding its programs and activities or determining whether propane assessment costs are improperly being passed on to consumers. PERA also provides that oversight expenses incurred by the department to be reimbursed back to DOE, but it has never requested any.

Philip Squair, senior vice president for public and governmental affairs for the NPGA, said it’s unclear if DeMint simply doesn’t understand how check-off programs work.

The association has been in contact with his office to try to differentiate checkoff programs that exclusively promote agriculture industry commodities – such as milk, beef, pork and eggs – with propane’s version that features vital safety and consumer education components.

“We are working to ensure that he knows what it means to the state of

*Continued on page 12*

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*Continued from page 10*

South Carolina and to the safety of the industry overall,” Squair said. “It doesn’t cost taxpayers any money, and there are clear safety and training benefits to having PERA alive and well. It’s a good program that should remain in place.”

NPGA also has been recruiting support from industry ally Sen. Lisa Murkowski, R-Alaska, who is the top Republican on the Senate Energy Committee.

Squair said opposition also could come as a point of order to DeMint’s efforts to move the legislation as an amendment to an appropriations bill that funds energy and water development agencies for the fiscal year ending Sept. 20, 2012.

“Appropriators don’t like it when legislators muck up their work,” Squair explained. “They’re considered turf issues.”

### [NEWS BRIEFS]

*Continued from page 9*

#### **DCP Midstream completes acquisition of Seaway Products Pipeline**

DCP Midstream closed on its previously announced acquisition of the Seaway Products Pipeline Co. from ConocoPhillips.

DCP Midstream will convert the renamed Southern Hills Pipeline to natural gas liquids service and add extensions to Mont Belvieu, Texas, along with various receipt points in the Mid-Continent region and associated gathering infrastructure, to create new NGL transportation capacity from the Mid-Continent to the premium Texas Gulf Coast markets.

Southern Hills Pipeline will have a target capacity of about 150,000 barrels per day of Y-grade NGLs and is expected to be in service as early as mid-2013. DCP Midstream will operate it as a common carrier pipeline.

#### **DOE includes modifications in final rule on decorative hearth products**

The Department of Energy (DOE) planned to publish a final rule on decorative hearth products in the Federal Register, according to NPGA, which had concerns that proposed DOE rules from July would eliminate entire product lines and have an economic impact on the propane industry.

Under the proposed rule, decorative gas hearth products would have to meet the same energy efficient standards and regulations as heater-rated gas fireplaces.

DOE modified its definition of vented hearth heater from its earlier proposal, excluding gas log sets from having to meet any energy conservation standards, NPGA said.

Decorative gas fireplaces are excluded from energy conservation standards

*Continued on page 14*

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## VitalSigns

### [NEWS BRIEFS]

*Continued from page 12*

only if they meet specified exclusion criteria consistent with the agency's proposed rule.

NPGA said it believes DOE still erred by including decorative gas fireplaces and gas log sets as covered products within the direct heating equipment category, allowing them to remain subject to possible future DOE actions.

### More efficient livestock building heating system in works

The Propane Education & Research Council (PERC) and heater manufacturer L.B. White joined forces on a research project that could lead to the development of a more efficient livestock building heating system.

The research project will verify the cost savings that pork producers can achieve by using variable-rate technologies and electronic controls on propane-fueled heating systems in

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swine confinement buildings while also improving the comfort of the animals in their care.

PERC approached L.B. White to propose the research project earlier this year. L.B. White had already started developing the Smart Box, a variable-rate heat control that works with the Guardian with Smart Sense variable-rate, forced-air agricultural heater.

"The partnership with PERC is allowing L.B. White to accelerate the demonstration of improved fuel savings, presently documented as 15 to 35 percent," L.B. White Director of Engineering John Tomlinson said. "And more importantly, it allows us to document the improvement in animal productivity and health with dedicated trials that are starting shortly."

Variable rate control provides a more consistent temperature at the desired warmth for animal health. Demo results are expected in fall 2012.

## [PEOPLE]

### Roush CleanTech

**Chelsea Jenkins** was appointed eastern region fleet sales manager. Based in Virginia Beach, Va., Jenkins will work with East Coast-based public fleets, propane companies and school districts to market the company's liquid propane autogas technology and educate companies about the benefits of alternative fuel vehicles.



Jenkins

### Growmark

**Marion Ertmer**, manager, propane marketing



Ertmer

and electronic payment systems, announced his retirement after more than 39 years of service to the Growmark system. A reception was scheduled for this month.

### ThompsonGas

CEO **Randy Thompson** was named Baltimore *SmartCEO* magazine's CEO of the Year.

### Eastern Propane & Oil

Delivery driver **Jim Johnson** was recognized for his 25 years of dedicated service to customers and the company.



Johnson

### Cavagna North America

**Harry Tarsi** was named LPG area sales manager for the company.

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# TRUST WASHINGTON?

*For LP Gas Magazine's annual State of the Industry analysis of propane retailing, we ask retailers about the condition of their propane delivery business on a local level and then compile their collective responses by state and region. However, oftentimes – and this is one of those times – the condition of their local business is to a great degree the result of an underlying environment far beyond their control.*

In addition to data-providing questions we ask each year in the State of the Industry survey, we invite responding retailers to comment on what's on their minds. This year we asked them specifically to comment on their greatest concern for the coming year regarding continued success of their delivered retail propane sales.

We weren't surprised to find propane pricing mentioned about twice as often as any other concern, considering that consumer angst over energy costs has been escalating the last few years. Other retailing-specific concerns about product supply and the loss of customers to competing energy sources were also high among retailer concerns. But it was interesting to find that Washington's handling of the economy and unemployment, as well as the plethora of government regulations, were likewise seen as "hitting close to home."

The government's handling of the economy, unemployment, regulation and energy policy is evidenced in retailers' daily business management. Growing receivables. Supply. Credit availability. Customers lost to other energy. Fewer new sales opportunities. If you're a retailer feeling like the "tail on the dog" – having no control over which way you're being "wagged" – it's not surprising.

So, while providing you retail propane-focused findings of the 2011 SOI survey in this report, allowing you to compare your operation to retail business within your region and across the country, we are also providing insights into the uncontrollable factors that are impacting your sales and margins, and those of retailers nationwide. We think you'll find it interesting.

### The wolf at your front door

As more than 70.6% of dealers responding to our annual State of the Industry surveys have more than 30 years in the retail propane delivery business, we estimated most to generally be in the 50 to 60 age range, then compared our estimate to a recent Pew Research Center study into age-specific opinions about government. Their research

found 54% of this age group want a smaller government, and 70% said that government controls too much of daily life. Altogether, that research supports the responses and comments of dealers in the 2011 SOI survey. There is little, if any, trust of Washington.

The nature of propane retailing gives the local Gas Man a uniquely close-up view of the personal consequences for consumers – their long-time customers and neighbors – from our country’s dismal economic condition and the failure of Washington’s “stimulus” efforts ... where some households must consider choosing between fuel and food.

One retailer responding to our survey said, “People do not have the income to match their bills.” Looking at how to not let his operation deteriorate, another retailer worried about his “ability to afford new equipment and trucks.”

Price being the top-most concern of retailers, some blame “speculators” for manipulating propane price. ... Others say propane exports drive up the domestic price. Then there are retailers who tried putting a bit of humor into their worries: “Walmart electric blankets may be my biggest competitor” ... and just “need wet corn and cold weather.”

Looking at the bigger picture, some retailers are up front with their feelings about Washington’s responsibility for our nation’s economic mess: “Lack of political willpower!” and “Useless Congress!” and “Get rid of the president! Term limits for Congress!”

You may be inclined to think that complaints about Washington during a particularly pitiful economy indicate a bias due to political party leaning. When you consider, however, the number of retailers responding to our survey who felt that the lack of presidential leadership and congressional performance – 82.2% and 85.7% of retailers, respectively – would be detrimental to their business in the coming year, it’s apparent that their responses are set against the

*Continued on page 18*

**“Most Americans say they are frustrated with the federal government. ... Trust in government has fallen among all generations in the past few years.”**

— Pew Research Center, “The Generation Gap and the 2012 Election,” 11-3-11

**“By second-quarter 2011, the share of unemployed people who had been looking for work for more than one year was the highest recorded.”**

— ERS/USDA, Rural America at a Glance, 2011

**“Nearly 85% of economic experts surveyed expect the economy to grow at a meager 2% or less over the next 12 months. ... The number of companies that plan to hire more workers fell from 42% to 30%.”**

— National Association for Business Economists as quoted in Builderonline, 10-24-11

*Continued from page 17*

background of their businesses, their customer communities and their years of experience – not merely political party leaning.

In fact, we asked retailers on the survey how their business had been changing in the past year. Seeing the percentages of responders reporting various aspects of their businesses having worsened from the previous year, they have reason to doubt a deadlocked Washington will provide timely solutions for the economy – to trickle down to their business anytime soon.

This October, consumer confidence fell to its lowest since 2009.

In this year’s SOI survey questionnaire, we asked retailers 35 questions – most having multiple answer possibilities. Altogether, the responses we received provided nearly 60,000 data points. During our planning of the questionnaire, we realized that this year it had to address more than how each retailer

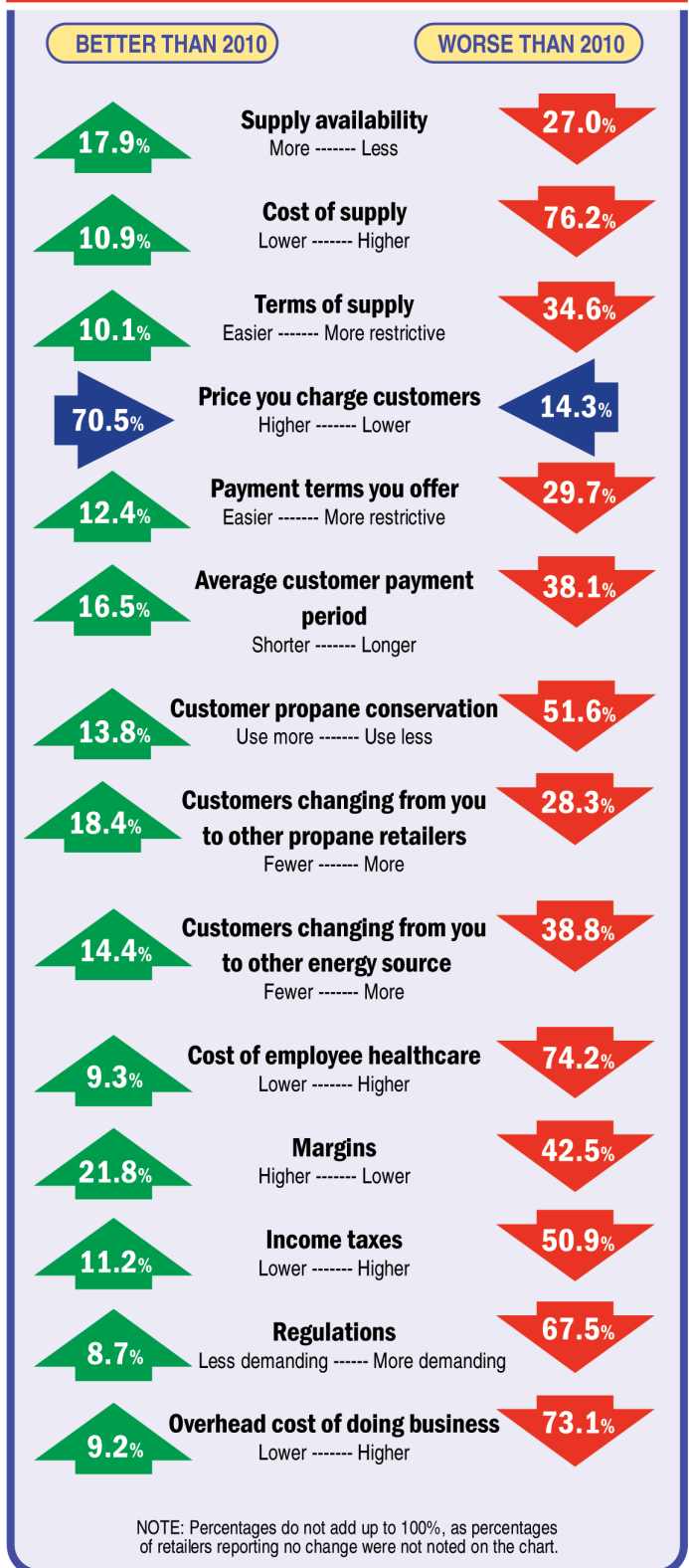
felt about their business within the context of their territory. We had to ask about even more than the condition of the propane retailing industry. We had to ask how pervasive the condition of our country and Washington were to their business. And so they told us.

The topical arrangement of this report – the economy, regulatory environment, current propane retailing market, supply availability, the rural nature of propane sales, the agriculture market and retailer future expectations – provides glimpses into the bumps and potholes along the road from the front door of your retailing operation

**Some are “saying that recovery is just a matter of ‘confidence’” ... but “confidence follows cash flow, not the other way around.”**

— Weekly Standard, Lawrence Lindsey, 10-17-11

## Percent of Retailers Feeling 2011 Propane Retailing Business Changed from 2010



to the front steps of Washington. You'll find an abundance of notable quotes, and data from EIA and USDA to substantiate what retailers tell us.

### Regulatory quagmire

We could not say it any better than Ronald Reagan did: "Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it."

Retailers across the country told us this year that they are worrying about the direct impact of government regulation and legislation on their business ... worrying that regulation will become increasingly hurtful ... further lessening their trust in Washington. About 67% said regulation has been more pervasive in 2011. The majority believe, moreover, that regulation will further hurt their business in 2012.

You may be interested in knowing that there is potential regulation – though indirect for propane retailing – that could potentially hinder new home construction and, therefore, new propane sales opportunity. It regards the Endangered Species Act, where the Fish & Wildlife Service will be reviewing additional species of animals and plants that could double the 1,370 already protected as "endangered" or

The administration "has created a regulatory environment that is suffocating America's ... ability to create jobs and grow business. The result has been a regulatory tsunami that has stifled productivity, wages, job creation and economic growth."

"[F]irms, their families, suppliers, customers and employees all bear the cost of these new and proposed regulations. [T]he price is greater than just compliance."

– D. Issa (R-CA), House Oversight & Reform Committee

"threatened." Particularly for the Mid-Atlantic, Southeastern and Gulf Coast regions, it could mean additional building restrictions and permitting. If that doesn't already make you hot under the collar, learning that the Endangered Species Act overrides any consideration of economic costs, lost jobs or reasonable use of land by landowners should do it. Obviously, we can't assume regulation is based on common sense – although it seemingly should be.

Imagining that such regulation could particularly impact  
*Continued on page 20*

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Continued from page 19

new home construction on outlying parcels of land – a prime market segment for residential propane – the latest home building projections provide a further “downer,” as the 2012 forecast fell in just the last six months from a 39% increase in housing starts to only 19%.

No doubt, many of the propane dealers who “raised a red flag” on this year’s survey regarding regulation had in mind – for one – the individual healthcare mandate that could severely affect small retailing operations. The Supreme Court will examine the constitutionality of this act next spring.

And, if you think regulation is escalating beyond what may affect your business, you aren’t just imagining it. The administration has been adding 10,000 regulatory agency jobs per year, has imposed 75 new major regulations at a cost of \$380 billion over the next 10 years, and has another 219 “in the pipeline,” a House Oversight Committee report states.

## Propane retailers defending their turf

### Competing on price

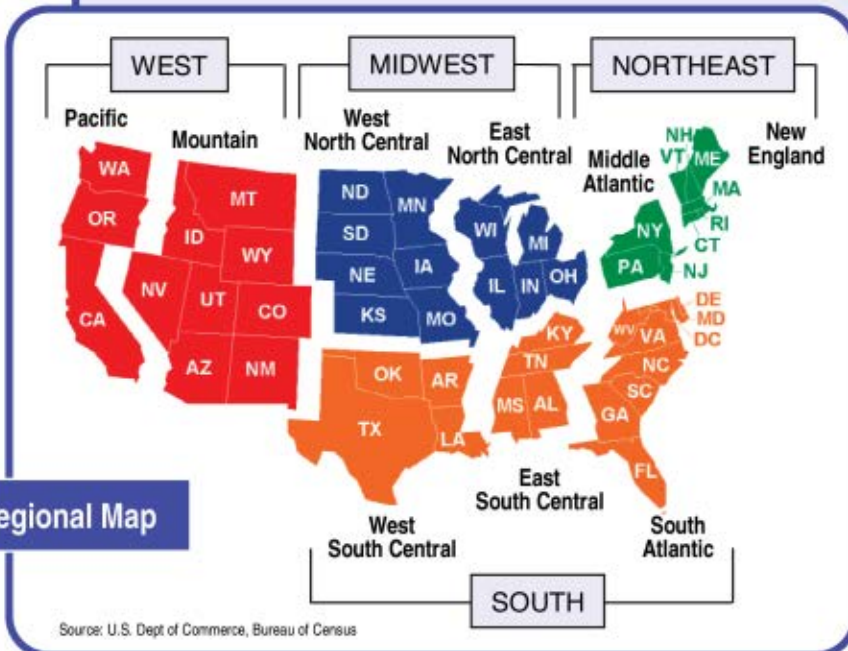
A series of articles in *LP Gas Magazine* earlier this year discussed propane sales as reported by the American Petroleum Institute, as well as results of an ICF International market outlook report for PERC – both providing evidence of significant changes in the propane industry, including declining annual domestic propane sales in the last decade of more than 2.5 billion gallons. The rising price of propane, decreasing electricity costs, natural gas pipeline expansion, consumer conservation, high-efficiency appliances and agricultural machinery, Washington’s alternative energy incentives, as well as fewer homes being built in the recessionary economy, have all, no doubt, contributed to declining propane sales.

As significant as the issue of competing with other energy sources is for retailers in regard to maintaining or growing

### Strength of Competition from Competing Residential Energy Sources as Seen by Propane Retailers in Each Region

Retailers rated competition on a scale of 1 to 5: 1 being lowest level of competitive threat, 5 being the greatest

Energy source:	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Natural gas	2.1	3.2	2.8	3.3	3.3	3.4	3.5	3.7	4.1
Electricity	3.3	3.7	4.1	3.8	3.4	3.4	3.3	3.5	3.6
Heating oil	1.8	1.8	1.6	1.2	1.4	1.6	1.7	1.7	2.4



“... Unfashionable common sense tells us government doesn’t need more stimulus. It needs a tranquilizer ... renewed focus on limiting government, the unwinding of federal involvement ... a moratorium on regulations...”

— The Weekly Standard, “Overstimulated,” 9-19-11

their customer base, this year's *LP Gas* State of the Industry survey asked retailers how they rated the competitive strength of each. Survey data was charted by region to make it most meaningful, considering the differing availability and price of natural gas, or the price of electricity across the country. Obviously, in some regions retailers feel a considerable competitive incursion.

To read comments retailers wrote on the SOI survey questionnaire about other energy, refer to the box on the right.

Ultimately, underlying the retailer ratings of the competitive strength of other energy sources against propane – whether from newly-expanded gas pipelines or more-affordable electricity – is pricing. When asked on the survey, “What is your greatest concern for the coming year regarding continued success in your delivered retail propane sales?” they resoundingly said price.

### Competing on incentives

A few SOI survey respondents mentioned geothermal energy with its tax credits getting attention within their territories. One retailer said: “Geothermal conversions [are being] spurred by programs that bash ... propane ... as high-priced and unsafe.”

You will be interested in another recent Pew Research study

- “Electricity – this is the enemy!”
- “Natural gas – moving into our service area.”
- “Cost of propane is exceeding consumer perceived value vs. other energy sources.”
- “Cost is driving customers to electricity.”
- “Natural gas is eating our lunch!”

on alternative energy that found the American public is changing in its feelings about Washington's funding development of new energy technology. From 2006 to 2009, about 80% supported increased government funding for alternative energy research. Public favor of such funding has now fallen to 68%. Alternatively, 58% are in favor of allowing more oil & gas drilling in U.S. waters. It appears that a divide between the public and the focus of the administration's energy policy may be growing.

### Competing on tactics

In addition to competitive energy sources, we likewise asked retailers to rate the strength of competition they felt from other propane retailers operating within their marketing area. When charted by region, again there were considerable differences.

*Continued on page 22*

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## Strength of Competition from Competing Propane Retail Operations as Seen by Propane Retailers in Each Region

Retailers rated competition on a scale of 1 to 5: 1 being lowest level of competitive threat, 5 being the greatest

Type of retailer:	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Owner-operator retail operation(s)	2.9	3.5	3.5	3.6	3.2	3.9	3.7	4.5	4.3
Large, multi-operation retailer(s)	3.3	3.2	3.3	3.2	3.0	3.3	2.7	2.8	3.2
Farm co-op(s)	1.8	2.6	3.1	2.5	3.0	2.9	4.8	2.7	3.1

Continued from page 21

What's more, 29.2% of responding retailers said new retailer competition had opened for business in their territory in the last 12 months – an average of one new competitor in each of their territories. On the other hand, 19.4% reported having expanded their own geographic territory to increase their retail propane sales potential.

From the overall propane industry standpoint, a propane consumer's change from one retailer to another does not reflect as a loss or gain in propane gallons sold. In some regions, however, by comparing the competing retailer chart to the competing energy sources chart, it's obvious that the competitive ploys of other retailers were rated at a higher threat level than other energy sources.

Finding a workable, sensible strategy to retain competitive advantage, whether dealing with other energy or other retailers, is always a challenge – particularly in an economy when you can't afford to lose any customer. Over years of gathering retailer input from SOI surveys, however, we have found that there are wide-ranging retailer opinions about what are sensible marketing tactics. It's often a matter of a tactic working for one retailer as "a great sales tool," while in the eyes of a competing retailer it's "below-the-belt," aggravating or even occasionally illegal.

This year, 41.7% of retailers responding to our survey said they either sold tanks or provided them free to customers. Other retailers say it's a sure way to allow customers to easily jump to another retailer offering a "sweet deal" like below-cost pricing for new customers.

Another point of disagreement is will-call delivery versus the cost-effectiveness of keep-full route-scheduled delivery. On average, surveyed retailers do both equally. It wouldn't be surprising if more customers were requesting will-call, trying to tightly manage timing of their household expenses.

In view of the current economic environment and retailers' financial worries, we wondered how they would respond this year to some of the questions we have asked in previous years. Here is what we found:

- Regarding boosting retail sales potential by adding to their product offerings, 14% of responding retailers indicated they are planning to add more propane-powered equipment or appliances; 7.7% are planning to begin selling another fuel besides propane (such as wood pellets).

- Regarding tank setting, the average number of tanks the small retailers foresee setting is 43; the multi-million-gallon retailers, 307.

- Regarding the purchase of bobtails over the next 12 months, 73.4% of retailers had no plans to buy, while many of the rest gave answers that could be characterized by "could, would, might ... um-m, it all depends."

- Regarding the most common fuel for retailers' bobtail fleets, diesel won by a significant margin – 76.7% versus 43.4% for propane, 10.1% for gasoline. When asked why propane vehicles were not in their fleets, availability of conversion and service was noted by 42.8% of retailers; lack of reliability, power and mileage, 28.6%; cost of operation and maintenance, 13.5%; and purchase price, 8.2%.

## Average Percent of Annual Delivered Retail Propane Sales Coming from the Oct-Mar HEATING SEASON

As reported by retailers in each region:

New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
80.6%	82.6%	80.6%	80.8%	77.3%	81.8%	78.0%	100.0%	76.3%

- "Unreliable supply in the Northeast."
- "Supply – can we get propane to sell?"
- "Availability of propane – man-made shortages."
- "Getting prompt delivery."



### The supply conundrum

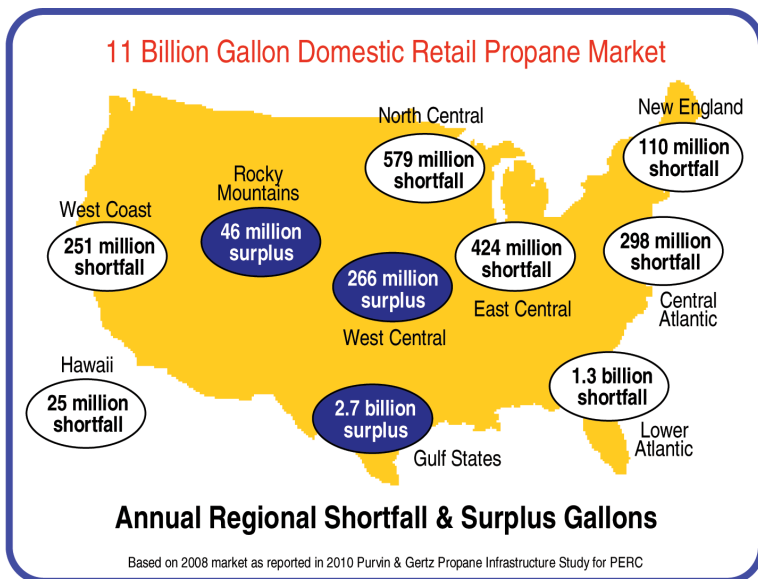
On this year's survey, 27% of propane retailers said supply availability in 2011 had been worse than in 2010. What's more, as the second most mentioned greatest concern for the continued success of their propane sales, retailers said supply – availability in particular. Refer to the box below left to read some of their comments.

As reported in a 2010 Purvin & Gertz Propane Infrastructure Study for PERC, the shortfalls in propane supply, especially experienced in the winter heating season, are not merely imagined by retailers. While forecasts are for an increasing supply of propane on the world market in years ahead (notwithstanding current growing Middle East turmoil), as well as benefits from domestic production “soon to come” from NGLs extracted from shale gas, winter shortages will undoubtedly occur again and send retailers scrambling in some regions, especially if this heating season is a repeat of last year for much of the Midwest, New England and down to D.C. Until system loads stabilize as expected over near-term years, having a supply

strategy is sound sense, to include locking in gallons early with a supplier and alternatives in case of weather anomalies.

In their early November fuels outlook (the most current as

*Continued on page 24*



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**Last 2010-2011 Heating Season:  
Retail Price per Gallon Charged  
RESIDENTIAL Propane Customers**

**Beginning of this 2011-2012 Heating Season:  
October Week 1 RESIDENTIAL Propane Price per Gallon**

New Jersey	North Carolina	Ohio	Wisconsin	Iowa
\$ 3.662	\$ 3.000	\$ 2.577	\$ 2.029	\$ 1.911

**Lowest to highest prices charged during Heating Season within geographic sampling of states**

	New Jersey	North Carolina	Ohio	Wisconsin	Iowa
<b>Lowest</b>	\$ 3.310	\$ 2.554	\$ 2.159	\$ 1.744	\$ 1.607
<b>Highest</b>	\$ 4.021	\$ 3.127	\$ 2.774	\$ 2.068	\$ 1.880

Source: EIA Petroleum & Other Liquids, November 2011

**Last 2010-2011 Heating Season:  
WHOLESALE Propane Price per Gallon**

**Beginning of this 2011-2012 Heating Season:  
October Week 1 WHOLESALE Propane Price per Gallon**

New Jersey	North Carolina	Ohio	Wisconsin	Iowa
\$ 1.680	\$ 1.655	\$ 1.654	\$ 1.535	\$ 1.517

**Lowest to highest prices paid during Heating Season within geographic sampling of states**

	New Jersey	North Carolina	Ohio	Wisconsin	Iowa
<b>Lowest</b>	\$ 1.372	\$ 1.323	\$ 1.328	\$ 1.259	\$ 1.232
<b>Highest</b>	\$ 1.930	\$ 1.651	\$ 1.792	\$ 1.669	\$ 1.646

Source: EIA Petroleum & Other Liquids, November 2011

Continued from page 23

of this report writing), the EIA is forecasting this winter's average household heating expenditures for propane to increase by 9% and heating oil by 10%, with natural gas and electricity to hold close to last winter's household heating costs.

Of course, despite the significance of winter heating degree-days to retailers in most states, Texas retail propane owner-operators and farm co-ops faced the business impact of summer drought crop damage on irrigation and grain drying needs. The heat severity was evidenced in cooling degree-days that increased to 1,091 from a norm of 790 in the second quarter, then 1,767 from a norm of 1,424 in the third quarter. Altogether, Texas and surrounding states experienced the driest 12 months on record.

One retailer there, responding to the survey, said his greatest concern now – real down home – was “not having a cold winter.” After a record-breaking summer, we can't fault him for fretting about Mother Nature rather than Washington.

**Last 2010-2011 Heating Season:  
GROSS MARGIN between National Averages  
of Wholesale & Residential Retail Pricing**



Source: EIA Petroleum & Other Liquids Data - Pricing History

## The rurality of propane retailing

Our focus over the years of *LP Gas*'s State of the Industry research has been retailers' business outcomes – providing data to which they could compare their operations and financial results with other retailers of similar size or in the same region of the country. While you'll still find that in our report this year – with a lingering economic downturn now as palpable across the country as are retailing business concerns about product supply and competition – we felt it was particularly poignant to provide a closer look at the rural and agricultural nature of the retailing market.

Numbers, like pictures, tell a story without words ... and the numbers we found regarding our retailers' rural market environment provide a background of reasons for customers to be protecting their solvency by conserving energy, changing to will-call service, requiring longer payment periods or not paying at all, or looking for more affordable energy ... regardless of years of loyalty to their Gas Man.

This is not to say that retailers aren't well aware of the financial problems their customers face as rural residents –

problems increasingly passed down to a retailer's fuel business. But the rural nature of retail propane delivery faces extra stresses in economic hard times in some parts of the country more than others.

The numbers in the economic conditions chart truly tell the story about the rural economic environment. While nationwide unemployment hovers around 9%, rural jobs are harder to find in many states. But the numbers that hit particularly close to the heart are those rural residents living in poverty – and the numbers indicate that many employed rural residents still live in poverty. In 10 states, one in five households lives at or below the poverty level.

In past decades, a mainstay of rural America has been mobile homes – and generally a "sure" market for propane as the primary household energy. Manufacturers of mobile homes, however, have seen their placements dwindle each year. In 2000, nearly 281,000 new mobile homes were placed nationwide – these new placements numbered only 49,500 in 2010. The South in 2000 saw by far the majority of new mobile home placements with 178,000. That number had

*Continued on page 26*

A concern from one retailer with a huge heart: "Being able to purchase propane for my customers who don't pay."

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*Continued from page 25*

fallen to only 34,000 in 2010. On a nationwide scale, it is a considerable loss to propane retailing.

### Agriculture: A mainstay market

Considering that regardless of how bad the economy is we will still need to eat; there will always be a demand for what farms provide. So it's not unrealistic to say that providing consumables required in farm production – like fuel – make agriculture a good market in which to have loyal customers. The potential market comprises 2.2 million farms nationwide. While farm cooperatives deliver a great percentage of propane to large farming operations, owner-operators responding to our SOI survey confirm the significance that agricultural and farmhouse propane sales are to their businesses.

Conventional wisdom would say that a large number of farms within a propane retailer's territory yields greater sales opportunity. On the other hand though, sales territories with the largest acreage farms can benefit from more gallons of fuel required per farm (although the more distant spread of farms requires more unproductive bobtail drive-time and most probably more bobtails to efficiently service far-flung farms).

**“Other industries are downsizing, some even permanently. Relatively speaking, agriculture is a good place to be.”**

— M. Boehlje, Purdue Extension, AgWeb.com, 8-12-11

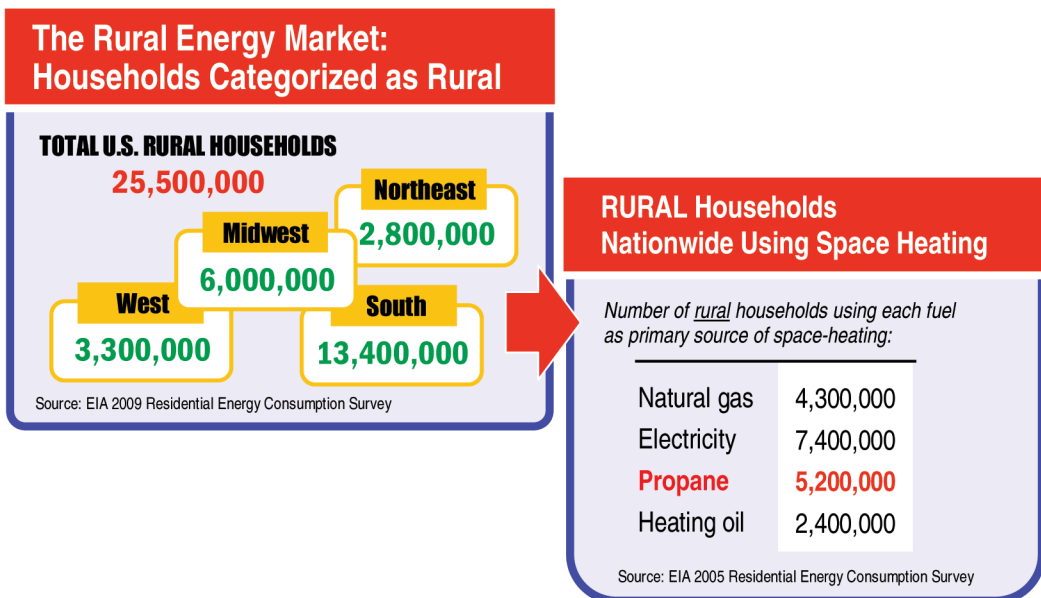
Sales of propane for farm processes differ across the country, depending on crops and livestock types, as well as climate. While its portability and versatility in heating and drying applications make propane an efficient farm fuel, data in the most recent USDA Census of Agriculture further pointed out that propane is the most cost-effective fuel in pumping well water for crop irrigation at \$38.72 per acre irrigated (compared with \$93.03/acre for natural gas, \$84.98 for gasoline, \$57.80 for electricity and \$54.20 for diesel). When surface water pumping is combined with well water pumping, farm irrigation accounts for over \$37 million in retail propane sales – yet, the total energy costs of irrigation pumping in the country being about \$2.7 billion for combined fuels, the opportunity for propane gaining a larger market share is not unrealistic.

### Mother Nature and Uncle Sam

Farm operators have every reason to feel that their lives are controlled by Mother Nature. The severe drought burning through the Southern Plains this year, severely impacting wheat farmers and cattle ranchers by lost crops and early-to-market livestock sales, evidenced “her” occasional wrath.

A propane retailer's sales to farms and ranches is, understandably, dependent on how the best and worst of weather impacts the farming community ... the scale of grain drying and irrigation for large farm operations ... the need of small farms to counter temperature extremes for young livestock, broods or produce.

*Continued on page 28*



## Economic Conditions Impacting Rural Residents' Ability to Pay

### RURAL POPULATIONS

	Unemployment	Poverty
--	--------------	---------

#### NEW ENGLAND REGION

Maine	9.0%	14.8%
New Hampshire	5.8%	9.7%
Vermont	6.7%	12.0%
Massachusetts	7.8%	7.7%
Rhode Island*	11.6%	12.0%
Connecticut	9.4%	7.7%

#### MIDDLE ATLANTIC REGION

Pennsylvania	9.2%	13.0%
New York	9.0%	15.4%
New Jersey	9.5%	9.4%

#### EAST NORTH CENTRAL REGION

Ohio	11.4%	15.4%
Michigan	12.9%	16.1%
Indiana	11.0%	14.1%
Illinois	10.3%	15.0%
Wisconsin	8.9%	12.0%

#### WEST NORTH CENTRAL REGION

Minnesota	7.7%	12.4%
Iowa	6.5%	11.6%
Missouri	9.5%	18.7%
Kansas	5.9%	14.7%
Nebraska	4.2%	12.7%
South Dakota	4.7%	17.2%
North Dakota	4.0%	12.2%

### RURAL POPULATIONS

	Unemployment	Poverty
--	--------------	---------

#### SOUTH ATLANTIC REGION

Delaware	8.3%	12.2%
Maryland	8.6%	11.1%
West Virginia	9.7%	20.5%
Virginia	9.1%	15.9%
North Carolina	11.8%	19.1%
South Carolina	13.8%	21.5%
Georgia	11.6%	22.7%
Florida	11.0%	19.4%

#### EAST SOUTH CENTRAL REGION

Kentucky	11.2%	23.3%
Tennessee	11.9%	19.3%
Alabama	10.9%	21.0%
Mississippi	11.9%	25.5%

#### WEST SOUTH CENTRAL REGION

Louisiana	8.7%	21.8%
Arkansas	9.0%	21.2%
Oklahoma	6.8%	18.7%
Texas	8.2%	19.5%

#### MOUNTAIN REGION

Colorado	8.6%	13.8%
New Mexico	8.2%	20.6%
Arizona	12.0%	22.1%
Utah	8.8%	13.6%
Wyoming	6.8%	10.3%
Nevada	13.7%	10.9%
Idaho	9.4%	15.8%
Montana	7.9%	15.5%

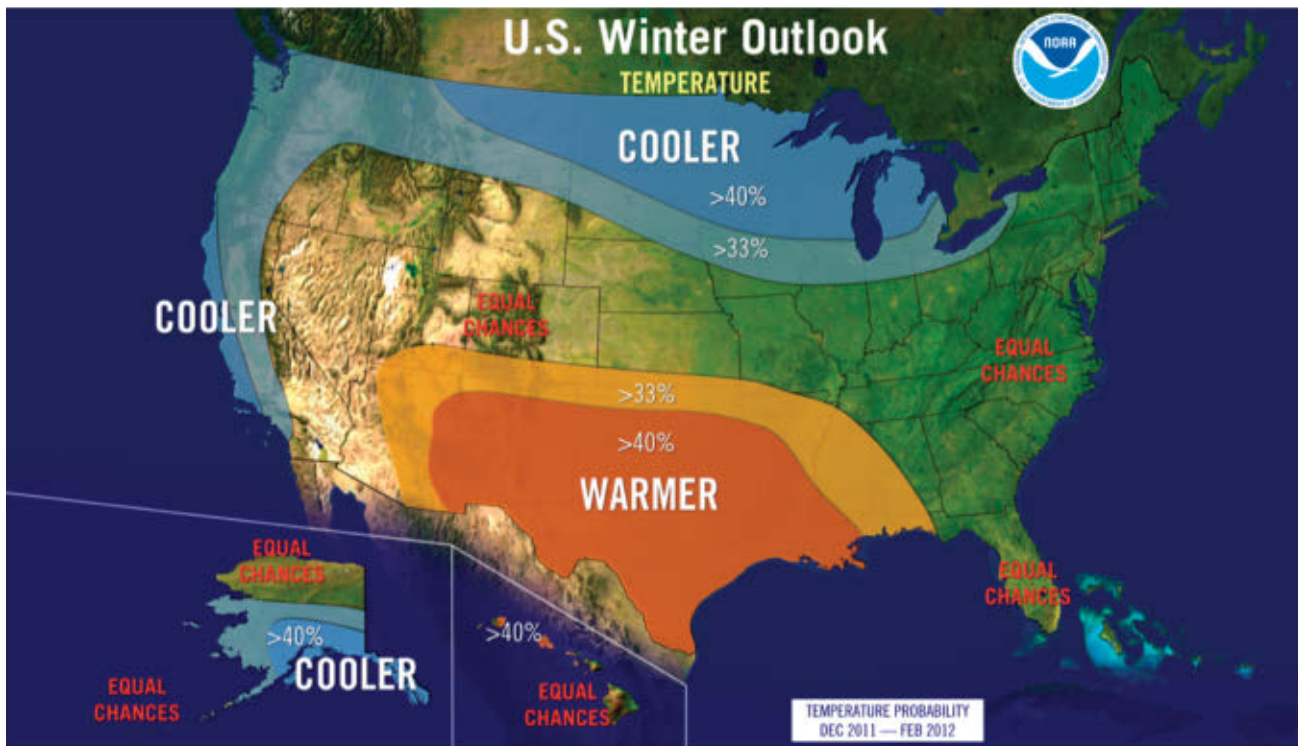
#### PACIFIC REGION

Washington	10.4%	16.4%
Oregon	12.2%	17.2%
California	13.8%	16.0%

States having more than 1 in 5 rural households at poverty level

Although unemployment is being reported daily by media as the standard indicator of the financial condition of consumers, the poverty rate is a better indicator of the ability of consumers to afford living necessities like fuel – because many employed are still below the “poverty line.”

Source: USDA State Fact Sheets, updated September 2011



Continued from page 26

In the large view, America’s farm output and income is driven by the appetites of both our country and the world, commodities markets determining prices. Some forecasters are saying that a weak dollar on the world market would be a plus for agriculture, further supporting agricultural exports that reached a record high in 2011.

But from a “down home” perspective, 97% of farms by USDA’s count are “family” farms ... many being husband and wife teams ... many having off-farm employment to supplement their farm income. Many of these are customers of propane retailers who keep farm “home fires” burning and operations running ... and while labeled as “family” farms, their propane expenditures are among the nearly \$1.5 billion that farm production spends on propane annually – and that’s not chicken scratch.

Farming does have the upside of not being an industry that can be shut down. Reality is, however, that regardless of the continuous appetite for the output of this nation’s farms, the added-to-weather stress of Washington’s failure in economic strategy and sound policy development is “knocking at the back door” of rural farming families as it is other working families of America. Indefinite crop value? Additional regulations? Change in government farm subsidy policy? Taxes? Farm credit availability? Employee healthcare costs? Inflation causing higher farm operating expenses?

Farms being a significant segment of the customer list of any rural propane delivery retailer, it would not surprise us if some small farm families are among the late-paying re-

**One propane marketer from the West South Central Region cites government regulation and paperwork as his greatest concern for the coming year. “Leave me alone and let me work,” he says.**

ceivables or among requests for a change to will-call delivery – regardless of the USDA reporting higher average farm income in 2011.

The Rural Energy for America Program (REAP), one of Washington’s programs providing grants and loan guarantees for wind and solar energy use, particularly for agricultural purposes, may also be impacting retailer farm sales.

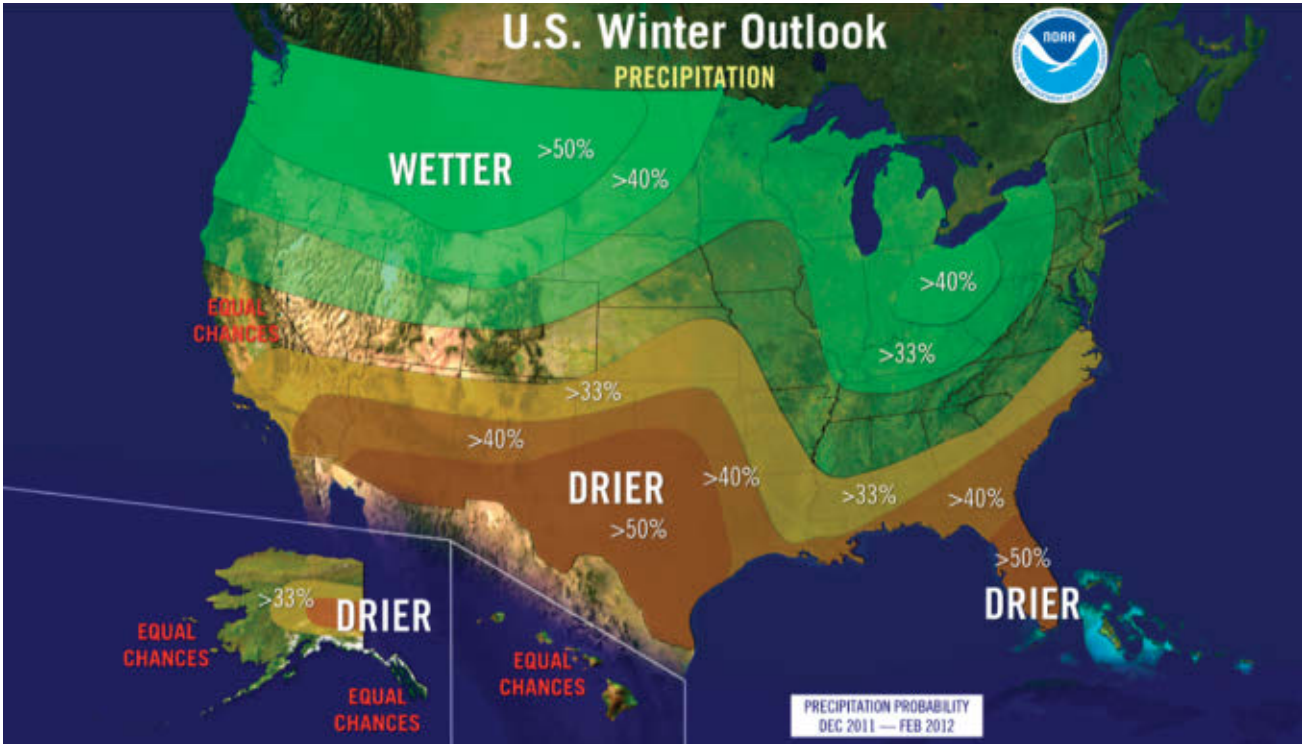
Thus, Uncle Sam’s “pet projects” and utter ineffectiveness get passed along to retailers.

**Where can you keep your job despite making mistakes over and over again?**

**Washington & weather forecasting**

The one thing we didn’t ask retailers to tell us in the SOI survey was their prediction for the winter heating season underway. With their decades of experience in slogging through

*Continued on page 30*



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Continued from page 28

rain, wind and snow to keep customers warm, we expect any Gas Man worth his salt could do just as well as any professional forecaster, keeping a finger on the pulse of Mother Nature.

If you'd like a peek at how NOAA sees the winter forming up, see pages 28 and 29 for its latest maps.

Any weather anomalies that La Nina may sling your way this winter we hope will warm your margins (after any chill Washington throws your way).

**"We have always wanted a global economy – now we don't like paying world prices for LP gas."**

— Propane marketer from the South Atlantic Region

The "big however" for the Northeast (where 80% of heating oil-fueled homes are located), says the EIA, is that if heating oil costs top a 12% increase after doubling over the last seven winters, consumers might "jump ship." Mid-October heating oil had already reached \$3.82 per gallon, up 27% from a year ago.

For our Northeast propane retailers, we expect you will be seeing this as continuing conversion opportunity – especially if your propane price rise is less than expected.

2012

**Will national & global affairs impact propane retailing in the coming year?**

Here are the predominant dealer expectations for their 2012 business environment:

Will HELP 2012 Business	Will HURT 2012 Business	
<input checked="" type="checkbox"/>	<input type="checkbox"/>	Domestic oil exploration
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Natural gas supply
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	Propane supply
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Prices of other energy sources
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Gov't permitting & regulation of petroleum exploration
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Economy
<input type="checkbox"/>	<input checked="" type="checkbox"/>	National employment
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Commodities markets
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Home construction
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Modular housing market
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Interest rates/credit availability
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Presidential leadership
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Congressional performance
<input type="checkbox"/>	<input checked="" type="checkbox"/>	National energy policy
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Taxation & tax reform
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Banking & financial policy
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Gov't control vs. free market direction
<input type="checkbox"/>	<input checked="" type="checkbox"/>	Regulatory environment



## Retailer prognostications

Economists are now saying they believe unemployment will remain hovering around 9% for the next two years, adding that any recovery of the American economy must be led by a rebound in the housing industry that has become constrained by poor consumer credit.

It's obvious that propane retailers are not looking for business improvement in the next year, when you consider their responses to our survey question: "How do you expect

national and global affairs to impact your propane retailing business in the coming year?" – which factors would help, which hurt.

Surveyed retailers have hope for domestic oil exploration to be improved as a plus for the energy industry, and they are evenly di-

vided in their hope for stabilized propane supply. For the remaining national and global affairs, they see little hope.

Being that there is essentially no area of business or homelife into which Washington does not have its fingers or is generating little confidence, we thought a couple retailers,

An unbridled comment from one retailer:

- Get rid of the president! Term limits for Congress!

**"The use of propane for home heating has been suffering a slow death."**

— Propane marketer from the South Atlantic Region

when noting front-of-mind concerns, brought the discussion back to "front porch reality":

- Ability to afford new equipment and trucks.
- Having to add money-making ventures.
- Lack of new business opportunities.

Like the 80% of Americans who do not trust Washington to do the right thing (Pew), retailers are undoubtedly feeling overwhelmed by the frustration of having no control – other than to try bringing change to government as a U.S. citizen.

Some retailers blame the commodities market for driving  
*Continued on page 32*

## Sometimes, buying cages isn't all black and white



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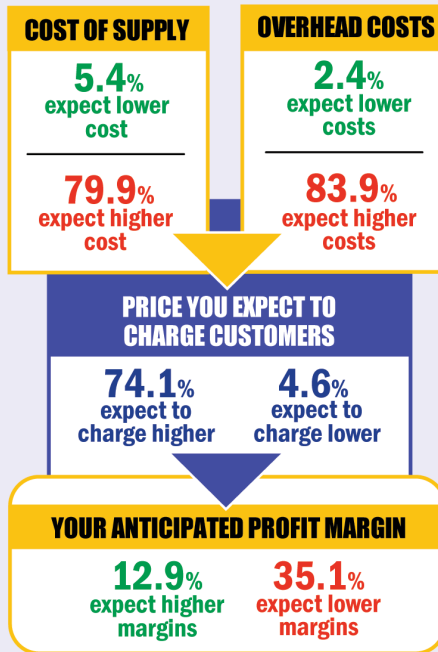
## Opportunity to Increase Propane Gallons Sold as Seen by Retailers in Each Region

Retailers rated opportunity on a scale of 1 to 5: 1 being lowest level of growth opportunity, 5 being the greatest

	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific
Conversion of consumers from other energy	2.6	2.3	2.4	2.4	2.1	2.5	2.6	2.7	2.7
Conversion of consumers from other propane retailers	2.9	3.4	3.6	3.6	3.1	3.7	3.8	3.4	3.5
Conversion of agricultural processes from other energy	1.0	1.3	1.6	1.4	1.6	1.3	1.4	1.6	1.5
New residential construction	2.8	2.7	2.3	3.0	3.0	2.5	2.7	2.7	2.3

### What business conditions do you expect to see in the next 12 months?

Dealer expectations for change in 2012 compared to their 2011 propane retailing business:



NOTE: Percentages do not add up to 100%, as percentages of retailers anticipating no change were not noted on the chart.

**One propane marketer realizes he must adjust to challenging conditions. "Business is tough for everyone," he says. "You have to work harder, but the smart guys still make a buck."**

Continued from page 31

up price; some blame over-regulation that limits in-country exploration of gas and oil; some blame wholesalers; some blame exportation and importation of propane, and still others blame Washington's unrealistic focus on subsidizing "green energy" fuels. Together they would undoubtedly agree that overall, a commonsense, realistic national energy policy could go a long way in providing solutions.

In the meantime, very few retailers are envisioning costs of supply and business overhead to benefit their margins in the coming year, regardless of their expecting to raise prices to customers to make up the difference in their margins.

When survey respondents across all regions of the country rated their growth opportunities, they were consistently more confident in converting consumers from other propane retailers than in converting consumers from other energies.

And so another year is history. The significance of this year is that next year you will have the opportunity to decide what changes you would like made in Washington. Good luck! **LPG**

Overall, retailers plan to stay in the business. About 49% plan to keep current ownership, 31.7% want to keep the business in the family, 17.3% want to acquire other retailers – leaving only 1.7% expecting to be acquired.

Interestingly, however, 21.3% of owner-operators say that if they could get a fair price, they would sell out today.

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COLUMNIST | CARL HUGHES

## Chairman's perspective

### The U.S. propane industry faces a period of remarkable, profound change

I want to take this opportunity to pass along what others in the industry are saying as I have traveled around the country as the chairman of the National Propane Gas Association.

First, there is a sense that we are facing stiff winds of change. We must acknowledge that for many years we enjoyed consistently positive tailwinds composed of solid housing starts, economic advantage over competing fuels and steady, solid growth of 2 to 4 percent per year.

Now the realization has set in that these favorable conditions are no longer present, and in fact reversed.

I have talked to retailers who relate their personal stories of bearing the brunt of energy conservation, few housing starts, a tough economic market and a pricing differential to competing products gone negative. Many have an understandable level of anxiety about the future.

These are some of the questions I hear from marketers:

- How is it that we have the stron-

gest propane production curve in our history, yet we are no longer the cheapest fuel compared to our competitors?

■ While propane is almost 100 percent domestically produced, why do we struggle to get attention for what propane can do to contribute to a cleaner environment and reduce dependency on foreign oil?

■ Since we are producing more propane than ever and our total demand for propane has dropped, why are our wholesale prices so high?

*Continued on page 36*

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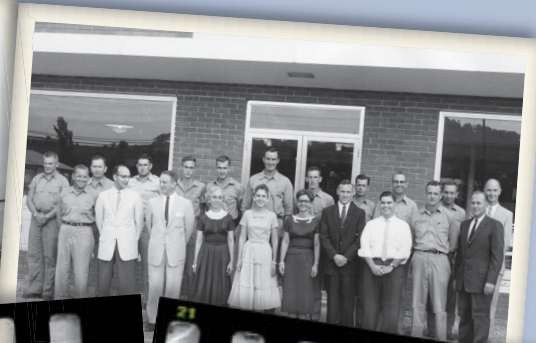
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*Continued from page 34*

There is a lot of irony in these questions. It is clear that there has been a fundamental shift in the relationships that a lot of marketers built their business upon.

Mike Sloan of ICF International offers a glimpse into the propane industry's future, based upon continued

in-depth industry research. Some conclusions from a recent report are:

- Growth in supply improves our résumé for energy security and environmental rankings.
- World LPG demand has repositioned the U.S. from being an importer to an exporter.
- Higher oil prices have pushed pro-

pane prices higher relative to electricity and natural gas.

- Propane is becoming a North American resource, with 98 percent produced in the U.S.
- Conventional markets will remain challenged if current market fundamentals remain – abundant natural gas from shale and strong world demand for NGLs and crude oil.

■ Economic opportunities in the on-road and off-road motor fuel markets exist because gasoline and diesel prices are likely to continue to increase relative to propane.

- Economic opportunities remain strong for high-end residential housing.
- Propane supplies will remain more than adequate, although regional disruptions remain part of the industry.
- Future technological advances can have a significant ability to create new opportunities.

Clearly the U.S. propane industry is in a period of remarkable and profound change. However, the same can be said for virtually all fuels today. We are participating in a world where demand for crude, natural gas and NGLs is growing by double digits, while the U.S. market is focused on conservation and demand is flat. The U.S. will become a net producer of natural gas and NGLs, when just a few years ago we were importers.

Historically the propane industry's changes have been gradual, but now we encounter dramatic-step changes. All of our news is not bad, and changes in these fundamentals – always hard to forecast – can swing back our way.

We continue to offer a clean, domestic product that, if positioned well, can significantly contribute to cleaning the environment and creating more independence. Most certainly our business models will also have to adapt and adjust to profitably participate in the future. **LPG**

*Carl Hughes is senior vice president of business development for Inergy LP. Reach him at [Chughes@InergyServices.com](mailto:Chughes@InergyServices.com) or 816-842-8181.*

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A common issue that can create a basis for liability in defending gas explosion cases is the level of odorant in the gas as it is emitted into the atmosphere. When people who are injured in a gas explosion testify that they did not smell gas, the focus immediately turns to the odorant in the gas.

In accidents that include personal injuries, it is standard to obtain a liquid sample of gas to be lab tested to determine the level of odorant in the gas.

NFPA 58 references that 1 pound of ethyl mercaptan per 10,000 gallons of propane has been shown to be an effective odorant. The code requires the odorant to be detectable at one-fifth the lower explosive limit. The amount of ethyl mercaptan required in propane exceeds the amount of odorant needed to meet this threshold requirement. The general industry practice is to place 1.5 pounds of ethyl mercaptan per 10,000 gallons of propane. This level is substantially above the threshold requirement to meet the code standard.


In tests following an accident, there are occasions when the level of odorant found in the liquid sample falls below 1 pound per 10,000 gallons. This can occur in two ways: The odorant was not added in the right quantities at the outset or the odorant was lost due to several possible events after it was added to the propane.

The safeguards present for making sure odorant is added in sufficient quantities at the outset vary at the



terminals where the propane is picked up. Mechanical devices are designed to inject the odorant at the right levels before it leaves the terminal. The level of odorant injected is then documented on a bill of lading that goes with the product until it reaches the local propane marketer. This is the only documentation showing the amount of odorant actually in the propane.

A sniff test required by the code is the other documentation of odorant. This takes place when LP gas is delivered to a bulk plant and when shipments of LP gas bypass the bulk plant. In many instances, the local propane marketer does not transfer propane to the bulk plant. An independent trans-



**It is important that odorant levels and sniff testing are documented.**

port driver often does this. The bill of lading is often viewed as the written documentation that the propane has been sniff tested at the point of transfer to the bulk plant or when the bulk plant is bypassed. A sniff test does not confirm the level of odorant in the propane – just that it can be detected by smell.

So there are two pieces of evidence that can be used to defend claims of insufficient odorant against propane marketers: a bill of lading showing odorant levels that meet code requirements and a documented sniff test by a bill of lading or otherwise that meets the requirements of the code.

Odorant loss can also occur in new tanks or cylinders. That is why there is a general requirement that the first fill be to 80 percent. This does not eliminate odorant loss in the container but reduces its effect. Odorant loss can also occur in older containers through oxidation in the container degrading the odorant. There are myriad ways odorant can be lost outside the container as well. Leeching in the ground, absorp-

tion, adsorption and masking are just some examples.

It is important from a safety point of view that odorant levels and sniff testing are properly documented. It is also important to follow safe procedures when installing new containers to reduce the chance of odor fade. And it is helpful to identify the ways that

odorant can be lost in the environment, recognizing that possibility when called about a potential gas leak. **LPG**

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*John V. McCoy is with McCoy Law Group, S.C., and his firm represents industry members nationally. He can be reached at 262-522-7007 or by emailing [jmccoy@mccoylawgroup.us](mailto:jmccoy@mccoylawgroup.us).*



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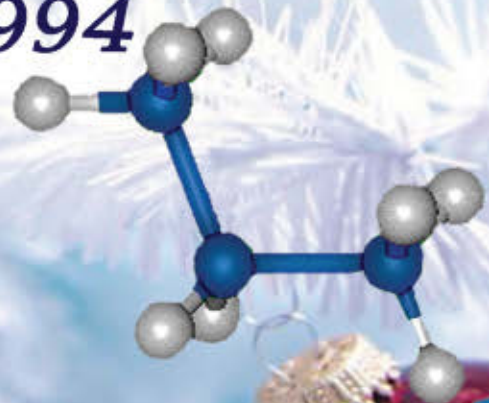
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# Owens Energy

Expect the unexpected in the Wild West of Show Low, Ariz.

BY BRIAN RICHESSON  
SENIOR EDITOR

Owens Energy isn't your typical retail propane company, especially when the owners "can't say how many times we've had guns pulled on us," co-owner Dennis Owens guesses.

Welcome to the Wild West of Show Low, Ariz.

The action takes place about 6,500 feet in elevation, where the Owens brothers – Dan and Dennis – have serviced customers across challenging terrain and in unique propane applications since 1999. About 175 miles northeast of Phoenix, Show Low is known as the recreational area of Arizona, with plenty of camping, fishing, hiking, golfing and skiing.

Then there's the area east of town where hundreds of families live off the electrical grid, on ranchettes that rely on renewable energy (solar and wind) and generators for backup power. Propane is used for heating and cooking, and most appliances run on gas, including dryers, refrigerators and the generators. These off-grid accounts represent about a quarter of the company's business.

"A lot of the customers are off the grid," says Dennis Owens, adding that his brother lives off the grid as well. "They want to be kind of solitary. In some areas you don't drive your personal vehicle because you might get shot at, but in a propane truck you don't have a problem. It's interesting some things we run into."



That's if the company can get there. About half of its customers are only accessible from dirt roads, and in some cases Owens Energy had to get creative to service them because "it's not worth trashing a \$150,000 truck" to sell a modest amount of gas, Owens says.

In one case, the company ran a 300- to 400-foot line up a mountain to the customer's house because it was so difficult to access with a bobtail. The customer's tank is about a quarter-mile from the house. Another customer set up a small trailer to move his tank closer to the paved roads to have it filled.

"We'll try to work with them in ways they can get service without us having to go clear to the home," Owens says.

The Owens brothers have roots in the area. Dan Owens had been transporting propane in Canada before returning to Arizona and uniting with his brother. Dennis Owens had hopes of keeping his job as an electrical contractor while working in propane, but he discovered that wasn't possible.

"We knew a lot of people here, and we got busy real quick," Dennis Owens says. **LPG**

**TEAM:** Owners (and brothers) Dan and Dennis Owens

**LOCATION:** Show Low, Ariz.

**FOUNDED:** 1999

**EMPLOYEES:** 9

**CUSTOMERS:** 3,000

**PROPANE SALES:** About 2 million gallons annually

**NOTEWORTHY:** Owens Energy has a customer who applied for a Propane Exceptional Products incentive and is likely to be approved. It is a \$1,000 incentive to purchase and report performance of a Generac off-grid generator. The Propane Education & Research Council launched the program in October.

**ONLINE:** [www.owensenergy.com](http://www.owensenergy.com)

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