



# Pickin' Up Speed

*While Inergy's retail operations lime gone from 0 to more than 60 acquisitions in 10 years, Inergy Services keeps on truckin'.*

**W**ith the rapid growth of Inergy LP (Kansas City, Mo.) over the past 10 years, the company's retail propane operations have received the bulk of the attention from industry insiders. Yet other business units of the master limited partnership have been juicily ramping up their services and offerings. In Fact. Inergy has grown from its founding in 1996 as a regionally-oriented propane company into a broad, diversified energy infrastructure and distribution company.

Inergy Services—the business unit that operates the wholesale, supply, transportation, and risk management business—has become a coast-to-coast force serving independent propane marketers as well as refiners on both coasts. At the same time, Inergy continues to add midstream operations that offer the company stable, long-term fee-based cash flows while lowering the company's cost of capital and greatly expanding its long-term growth potential. The pace of the company's midstream operations growth strategy, says John Sherman, president and CEO, has hit its stride.

Inergy's transportation operation has grown to be far more than just a fleet of propane transport trucks. Thanks to the company's expansion and ever-increasing transportation needs, it is now a nationwide operation that is integral to Inergy's success.

In fact, the company's transport units are seen “coming and going.” They play a major role in the fulfillment of refinery and processing “keep dry” agreements in places like Toledo, Ohio; Los Angeles and Bakersfield, Calif. Additionally they deliver feed-stocks to local refineries and fractionators. All the while Inergy's transportation operation is also providing bulk propane transportation services to hundreds of locations throughout the country for independent wholesale customers and Inergy's own retail operations.

The transportation operation was launched when L&L Transportation (Waterloo, Ind.) was acquired in 2001 as part of the Hoosier Propane acquisition. In 2003, the company's West Coast transportation business was added as part of the acquisition from EOTT (a former Enron division) of its Central California NGL operation. The West Coast transportation unit—which has more than doubled in size in the past three years—transports propane, butanes, amid pentanes. With the number of refineries on the West Coast, amid essentially no NGL pipelines available, these products are typically transported by rail or truck.



A third transportation operation was acquired in 2005 as part of Inergy’s acquisition of Dowdle Gas (Columbus, Miss.). Combined, the company operates more than 200 units and augments its fleet with common carriers and owner operators. More than 600 MMgal. were moved by the fleet in 2006.

The West Coast-based transport units operate under the Inergy Services name, while the Midwest and East Coast trucks operate under the L&L name.

Rick Kreul, Inergy Services vice president, admits that finding enough qualified and safe drivers to keep up with the growing fleet isn’t easy. But, he adds, “We value our drivers and have been successful in recruiting and retaining them with a competitive compensation package. Plus, drivers we hire appreciate the fact that we are committed to running a

safe and efficient operation across our entire transportation network.” Driver retention is a goal for the division—and that includes utilizing personnel-friendly factors such as equipping its tractors with conveniences not found in many transports.

Kreul noted that the company does its best to manage the huge swing in demand. “That means balancing our drivers and equipment with customer needs and inclement weather as well as hours-of-service regulations.” Although Inergy adheres to a decentralized operating structure, the company’s transportation and marketing units work very much in concert with one another. The success of that cohesive structure came through loud and clear earlier this year when first the West Coast, then the East Coast were slammed with crippling winter storms.





In late December, transport units from the Midwest were redeployed to the Pacific Northwest. Then, in February, resources from the Midwest were pulled into service in the Northeast. “I got this call on a Friday afternoon asking me how many trucks I could load at Todhunter or Seymour and head to New England ASAP,” said Joe Donnell, president of L&L Transportation. “I took a deep breath...and got to work on it. Over the next week we pulled together about 32 units.”

In one instance, wholesale customer Levi Ross, who manages Dead River’s (Bangor, Maine) supply logistics in Maine, New Hampshire, and Vermont, had struggled for days with the effects of a storm. He recently thanked his Inergy representative and said, “It was almost magical. Every time I thought I had played my last card, my phone would ring. It was Inergy and another one of their transport trucks rolled in. We really appreciate service like that.”

## A Team Effort

In another instance, Downeast Energy (Brunswick, Maine) was also struggling to keep up with demand. After several transports were dispatched from the Midwest, L&L’s Donnell got an e-mail from Christine Cornish with Downeast thanking him for Inergy’s support. “I don’t think I can begin to tell you how much help you have been—or how much we appreciate you and your drivers for all you have done for us.”

Inergy’s senior management credits the experienced and talented teams at each operation with creating a successful and seamless coast-to-coast transportation unit. “I can’t say enough good things about the people who run our business units and the teams they have in place,” said Phil Elbert, Inergy’s executive vice president responsible for propane operations. “We have experienced professionals who not only understand the complex issues involved but are 100% committed to taking good

care of Inergy’s customers.”

Such an extensive coast-to-coast transportation network provides exceptional support to Inergy Services, the company’s wholesale, supply, and risk services business. This unit serves independent propane retailers, processors, and refiners in addition to serving the company’s own retail operations.

Inergy Services has made a name for itself by always delivering reliable propane supply, reducing customers’ overall costs, and eliminating risk by providing immediate execution of forward price hedges. With several industry veterans on staff, the wholesale, supply, and risk teams have a long track record in the industry of doing what they say they’ll do. Inergy’s products are backed by the company’s solid balance sheet and its network of assets across the country. While being larger than many other propane wholesalers and consultants, Inergy remains exceptionally responsive and flexible. Plus, Inergy Services differentiates itself by offering a complete package of services. “Our goal





**GENE JONES**  
Assistant Manager  
West Coast Trucking Operations

**BOB HOWARD**  
Manager



**JOE DONNELL**  
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**KEITH LAIRD**  
Wholesale LP., a division of L&L

L&L Transportation



**BILL GAUTREUX**  
Vice President

**RICK KREUL**  
Vice President

Inergy Services

is to be capable of providing a one-stop shop for companies who want it all, and a high-precision a la carte menu for those who don't," said Bill Hancock, director—East Supply and Risk Services.

Not all propane marketers are willing to rely on one company for turn-key services. However, others, like 30-year industry veteran Don Schalk with Energy United (Mocksville, N.C.), believe it's the right way to go. "I know I can count on Inergy if there's ever an issue," said Schalk. "The Inergy team has integrity and they have proven themselves to me over the course of our relationship."

Inergy Services vice president Bill Gautreaux, who manages the wholesale, supply, and risk services team, credits the hard work of the team members. "During this recent spate of weather in the Northeast along with the CN rail strike, hand-to-mouth imports, and a severe TEPPCO allocation, there were countless communications across business units at all hours and on weekends. That led to a decisive mobilization of product and equipment from as far as Illinois to Maine, and I knew more than ever that we had a solid team in place."

### Midstream Growth

Inergy's midstream business separates the company from many of its propane-exclusive competitors. The midstream operations provide a stable, fee-based revenue stream, without the seasonality impacting the propane business.

As Inergy's propane operations grew, the company adjusted its strategy to encompass a more diversified business mix. Today, Inergy's midstream operations consist of a natural gas liquids business that encompasses natural gas gathering, processing, fractionation, and rail/truck terminaling; a natural gas storage business in the Northeast; and two NGL storage facilities.

These four key assets are: Stagecoach Natural Gas Storage facility, 150 miles northwest of New York City; the West Coast NGL facility, west of Bakersfield, Calif.; Seymour Propane Storage facility in Seymour, Ind.; and its newest addition, the Bath Propane Storage facility, located near Bath, N.Y. The West Coast NGL facility has about 1.1 MMgal. of bullet storage for mixed and purity NGL products and a 5-MMgal. refrigerated propane storage tank. There is also a state-of-the-art automated truck loading/unloading rack capable of handling eight trucks simultaneously on-site and the nearby Rogas rail facility, which can load/unload 20 railcars at the same time. The Seymour facility, formerly called "Silgas," has about 1 MMgal. of aboveground propane storage and 21 MMgal. of mined cavern storage, while at Bath there is 63 MMgal. of LPG storage in a salt cavern and 180,000 gallons of aboveground storage. The Bath facility can load/unload 19 railcars daily and can load about 25 transports per day.

Inergy's successful transition and diversification into the midstream sector has been executed with great discipline and focus as are its expansion plans for this sector. The company's most recent earnings report identified approximately \$257 million of capital expansion projects related to its midstream assets. These expansion projects include:

- West Coast NGL Facility: Inergy is expanding this

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operation to support West Coast refineries, given the substantial demand in blend stocks for motor fuel. This expansion project consists of constructing a butane isomerization unit and related ancillary facilities. The butane isomerization unit will provide isobutane supplies to refiners or wholesale distributors for gasoline blending. In addition, the company is expanding its butane storage with plans to install an additional near-15 MMgal. of refrigerated butane storage capacity. This expansion effort is expected to be operational in the summer of 2008.

- Stagecoach Phase II: Once constructed, the expanded natural gas storage facilities are expected to add approximately 13 Bcf of working storage capacity to Stagecoach's existing 13.6 Bcf of working storage. Inergy expects this expansion project to be in service by September 2007.
- Stagecoach North Lateral: This proposed approximate 9-mile, 20-in.-diameter lateral pipeline will connect the Stagecoach facility to the proposed 182-mile natural gas pipeline, known as the "Millennium Pipeline."

## Retail Acquisition Pace

In fiscal 2006, Inergy's retail acquisition efforts resulted in 10 more propane companies joining the Inergy family." As of early 2007, the assets of four separate retail firms—Stevens Gas Service (Essex Junction, Vt.), Hometown Propane (Campbell, N.Y.), Mid-Eastern Oil Co. (Salisbury, Md.), and the Jacksonville operations of Sunbelt Energy of Florida (Jacksonville)—were acquired. That brings the company's tally of acquisitions to 66 since its inception in 1996. It now has approximately 700,000 retail customers in 28 Midwestern and Eastern states.

Among the larger retail acquisitions completed in 2006 were Columbus Butane Co. Inc. and related companies (Columbus, Miss.), which delivered propane to more than 15,000 customers from 13 retail locations; and Country Gas (Sumiton, Ala.), which served 21,000 customers in Alabama. In late 2005, Dowdle Gas (Columbus, Miss.), which served more than 120,000 retail customers in five Southern states and operated its own transport fleet in the region, was acquired.

Inergy continues to operate much of its retail operations under the various names of the companies it has acquired. Vice president of business development Carl Hughes expects the aggressive expansion of Inergy's propane platform to continue, given the continued fragmentation of the industry. Asked about Inergy's footprint expanding to the West Coast, Hughes responded, "We are very disciplined about our acquisition criteria. Once we find the right candidate west of the Rockies that meets all of our criteria, we will absolutely expand in that direction. In the meantime, we have been extremely pleased with the caliber of companies that have chosen Inergy to help them with their succession plans."

—Ann Rey