

MID-YEAR REPORT:

Fundamentally, Propane Supplies Look Fine

The pattern of strong propane prices that began a number of years ago continues this year. Prices headed higher in 2003 when international tensions and domestic issues combined to elevate crude oil and natural gas prices, which in turn boosted propane prices. That strength—and associated volatility—remains in the crude, natural gas, and propane markets.

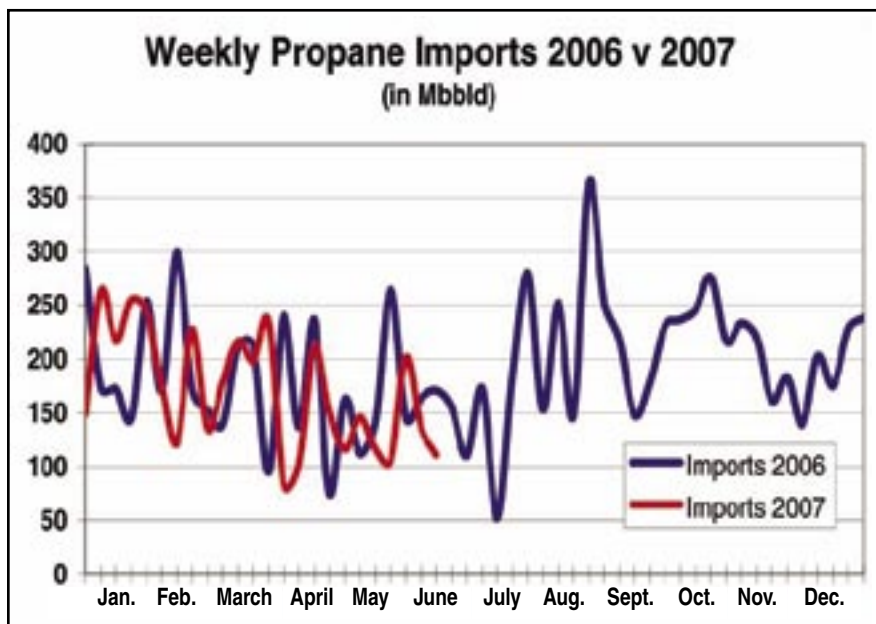
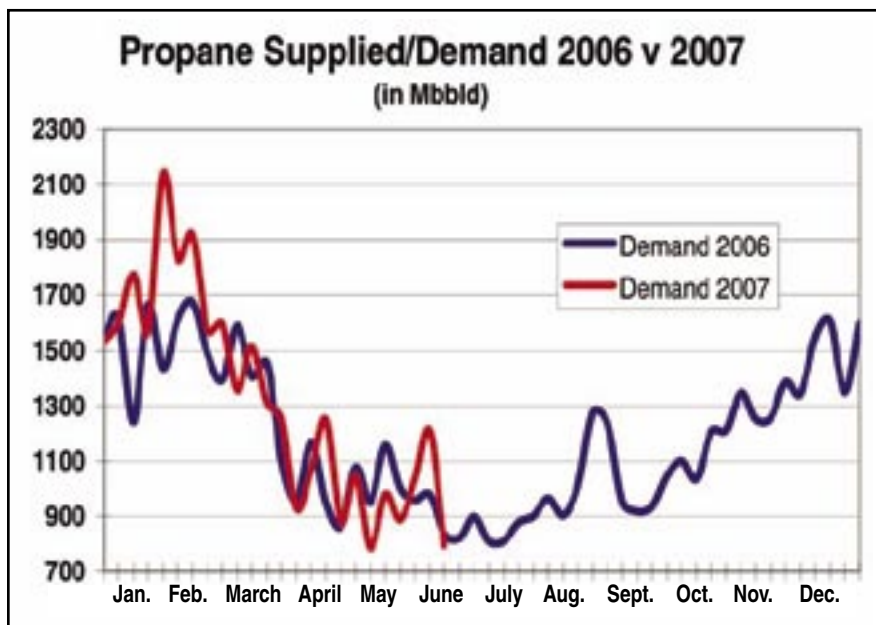
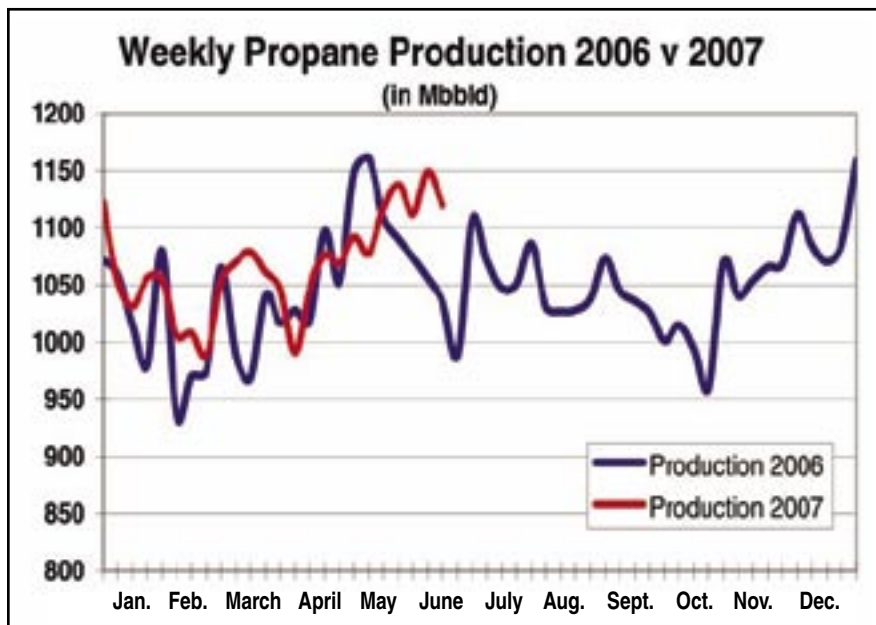
Other supply and demand factors are also behaving as might be expected. Comparing propane demand, production, and imports this year to last, there is little overall change in import or production levels. The one factor that is different and explains the reduction in inventory levels is propane demand.

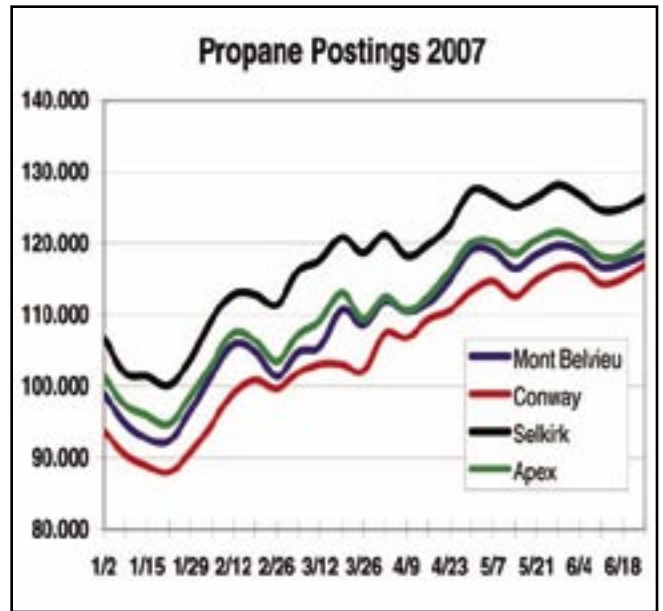
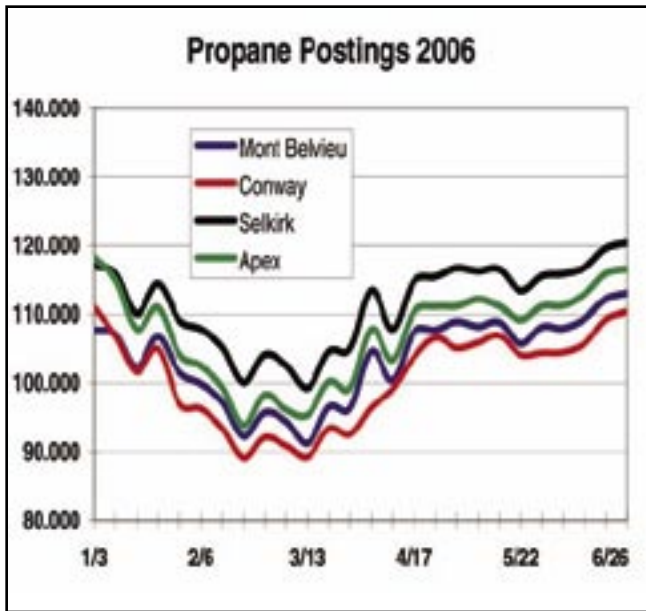
Based on data available from the Energy Information Administration (EIA), propane demand—referenced as “propane supplied” by the agency—through the end of June averaged 1326 Mbbl, which was 100 Mbbl higher than last year’s 1256 Mbbl. During 2006, propane demand averaged just 1187 Mbbl, which reflects warm weather in November and December.

The strongest demand so far this year occurred in February. The first week of that month demand jumped to 2142 Mbbl, some 706 Mbbl higher than the same week in 2006. That week started a nine-week stretch wherein seven of those nine weeks experienced higher demand in 2007 than in 2006.

Propane production over the first half of this year outpaced the same period in 2006. Through the end of June, production averaged 1120 Mbbl, up somewhat from last year’s 1043 Mbbl. During the first 24 weeks of the year, only seven weeks of 2006 had production levels higher than this year.

Looking at the graph “Weekly Propane Production 2006 v 2007,” production trended lower from late June through mid-October before heading





higher with the arrival of the heating season.

Perhaps the supply/demand area that might be of concern is propane imports. Through the first half of 2007, imports tracked a bit lower than in 2006. In fact, weekly propane imports averaged 171 Mbbl/d through the end of June, which was down from last year's 181 Mbbl/d. Despite being slightly lower than last year, propane imports followed a similar pattern. If this pattern continues throughout the remainder of the year, propane imports should gain steam in late summer.

Propane spot and posted prices this year are stronger than in 2006 by several cents. On average, Mont Belvieu spots are 4.7 cents/gal. higher and

Conway, Kan. (Group 140) spots are 4.4 cents/gal. higher this year. Belvieu spots have averaged 99.62 and the Group 97.95.

Compared to 2006, postings through the first half of 2007 were up from 3.499 cents to as much as 5.895 cents. Belvieu's average is 5.3 cents higher, Conway 4.035 cents, Selkirk 5.895 cents, and Apex, N.C. postings were up 3.499 cents from the same period in 2006. The average values include: Belvieu at 108.872; Conway 104.806; Selkirk 117.373; and Apex 110.639 cents/gal.

What can be observed on these pricing graphs is a disturbing repetition of last year: the lowest prices of the year occurred in winter. Both spot and post-

ed prices were at their lowest in late- to mid-January following the disappointing first half of winter. When demand picked up, prices began to rise, but they have failed to fall back to those winter lows with the arrival of summer. In fact, the Belvieu and Group 140 spot markets seem determined to reach last year's summer highs. Belvieu peaked at 119.00 on July 31, 2006 and the Group topped out at 115.75 on July 17, 2006.

Through the first half of this year, Belvieu peaked at 116.00 and the Group at 115.75 on June 25. If last year's pattern of the highest prices in July repeats, spot and posted prices will be headed even higher during the second half of 2007. —Pete Ottman

