



*National Association of
State Energy Officials*

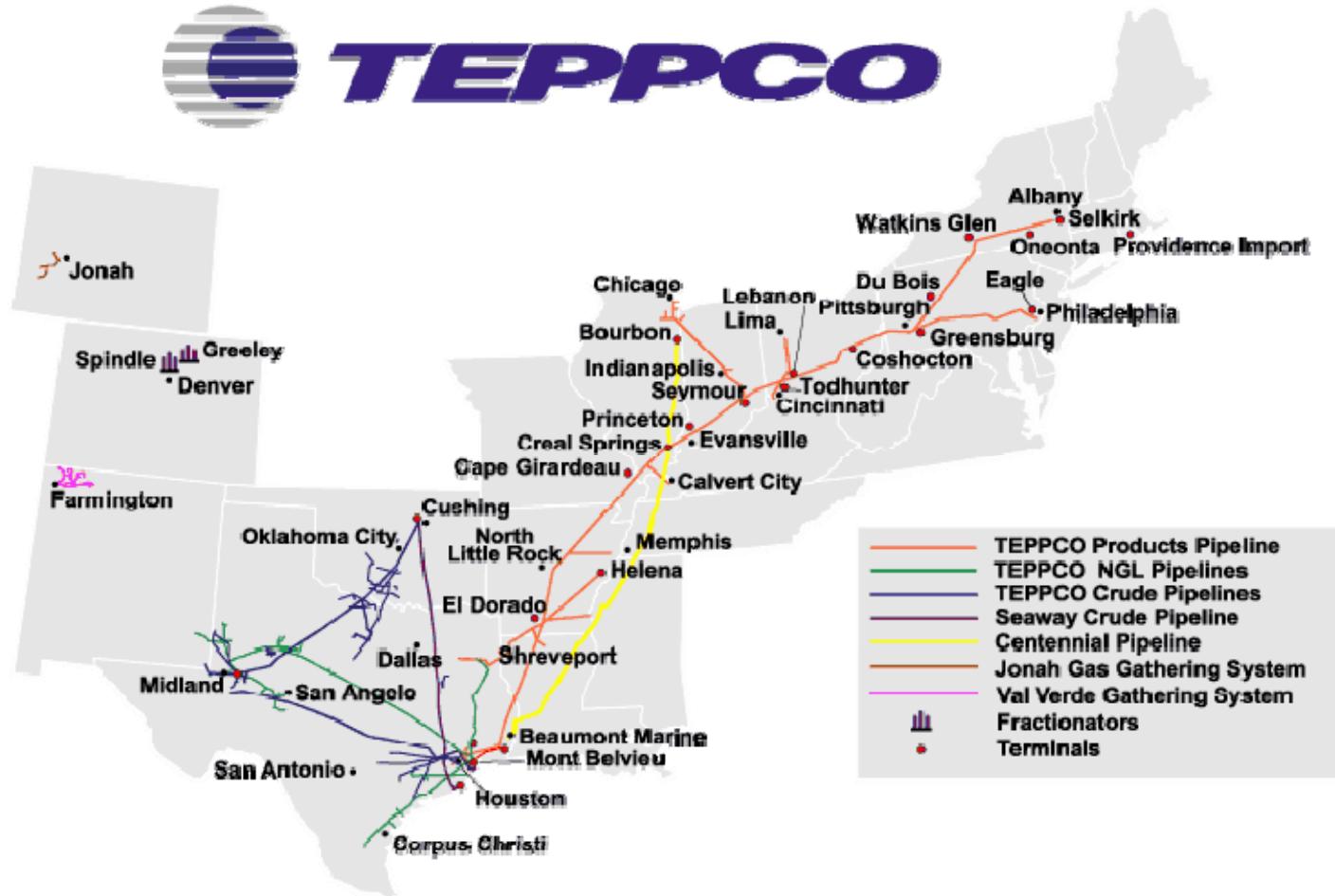
**State Heating Oil
and
Propane Program Conference**

August 6, 2007

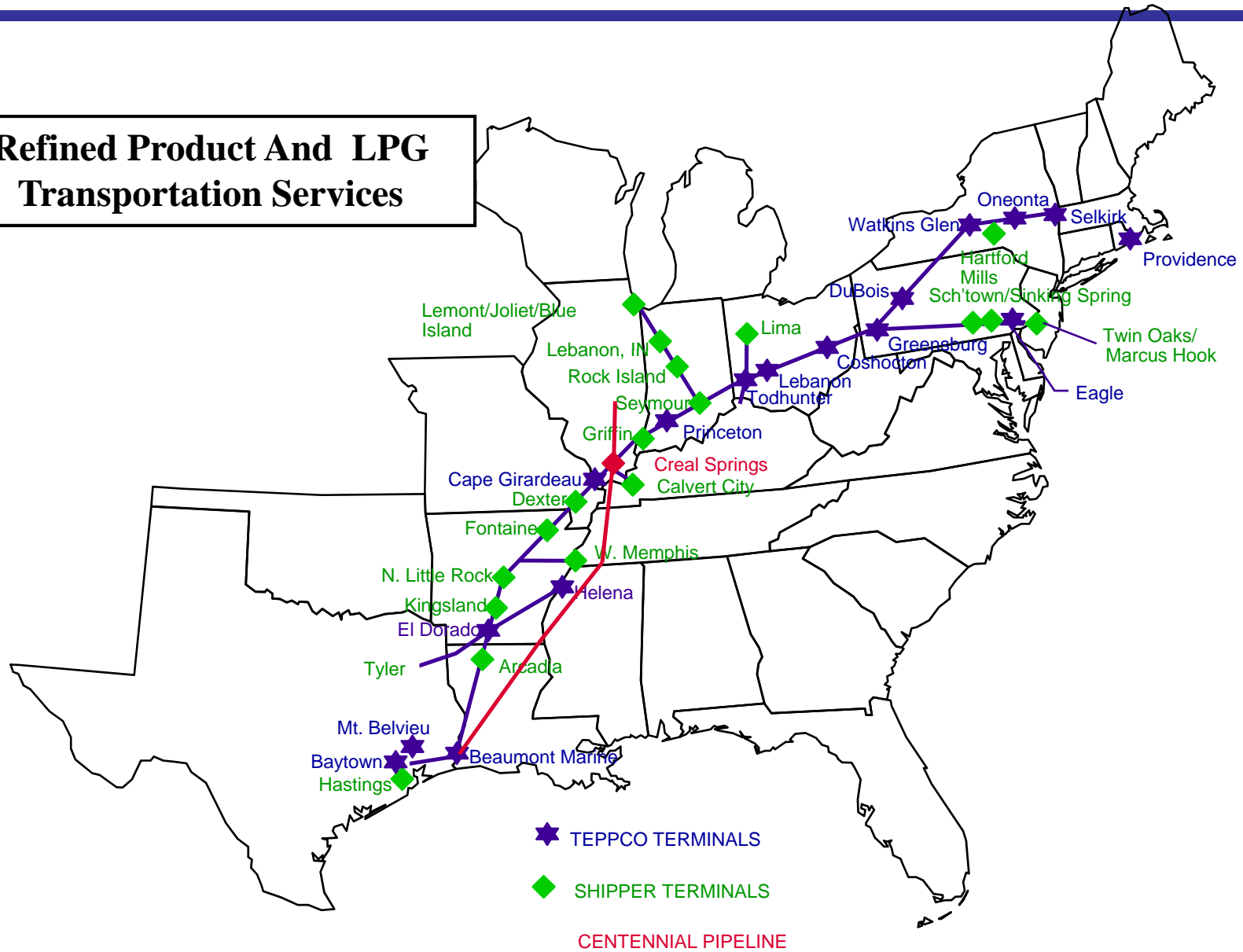
- *TEPPCO Overview*
- *Propane Supply Sources & Challenges*
- *Propane Market & Season Outlook*
- *Key 2007/2008 Issues*



Over 11,000 miles of pipeline in 16 states

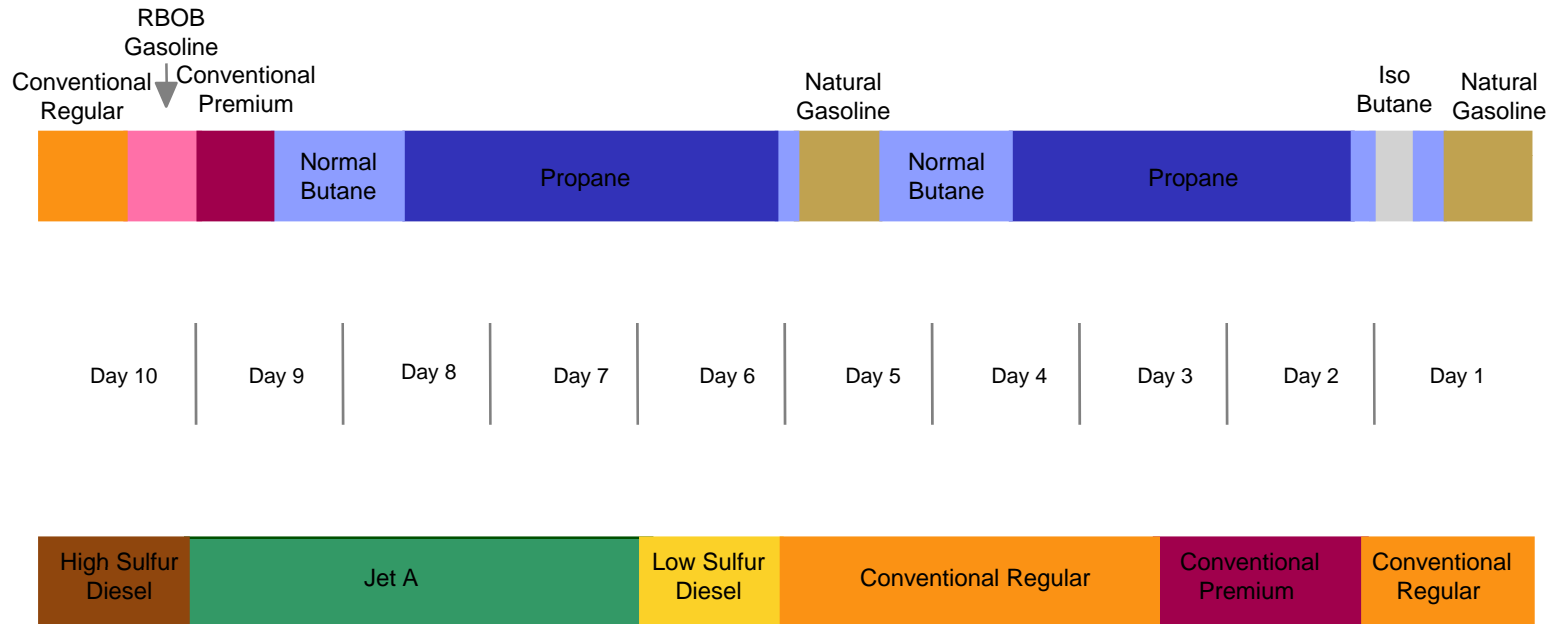


**Refined Product And LPG
Transportation Services**



Cycle Repeats every 10 days

20" Mainline



16" Mainline

- Propane demand in the United States is met through four primary sources of supply:
 - Natural gas fractionation
 - Refinery production
 - Canadian imports
 - Waterborne imports
- Each source could face potential obstacles

- **Natural Gas Fractionation**
 - The pricing differential between propane and natural gas influences the volume of propane fractionated from the natural gas stream
 - If the differential is not there, less propane is produced from natural gas, leading to less propane supply from this key source.
 - Off season inventory build issues
 - Peak season supply issues
 - Propane has followed crude pricing and has provided good fractionation economics, although production is below average

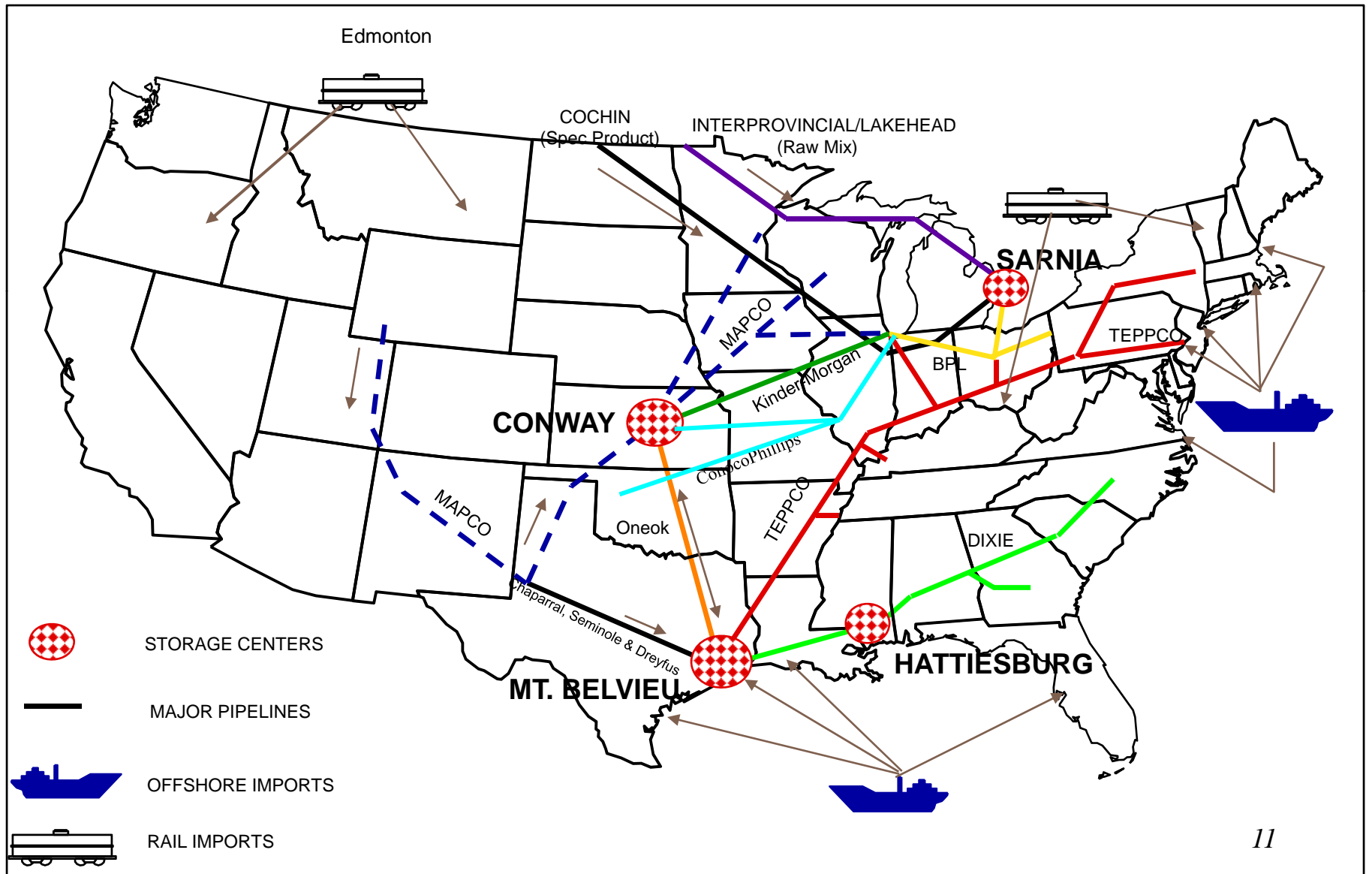
- **Refinery Production**

- When propane prices are lower relative to natural gas or with seasonal natural gas curtailment, refineries may consume propane rather than supply the market
 - Off season inventory build issues
 - Peak season supply issues
- Not a problem so far this year
 - Production has risen to average levels
 - More of an issue in the winter

- **Canadian Imports**
 - Supplement domestic supply
 - Pipeline
 - Rail
 - Truck
 - Propane production linked to natural gas economics
 - Imports to US running below average

- **Waterborne Imports**
 - Imports running above average but below last year's levels
 - Belvieu price should attract more imports during the rest of the year (usually spike late 2nd or early 3rd QTR)

- Peak season demand creates challenges for primary, secondary and tertiary logistic systems:
 - Rail – Lag time due to scheduling and weather-related delays.
 - Waterborne Imports – Lag time due to travel distance. Large volume cargos subject importers to price risk.
 - Pipeline – Movement from production/import facilities to primary market storage constrained by physical capacity
 - Truck racks - Peak demand can strain truck racks causing backups in the supply of product to the market.
 - Truck – Truckers' hours can be tied up waiting in lines or traveling long distances in bad weather. Not enough trucks/drivers to meet peak demand.

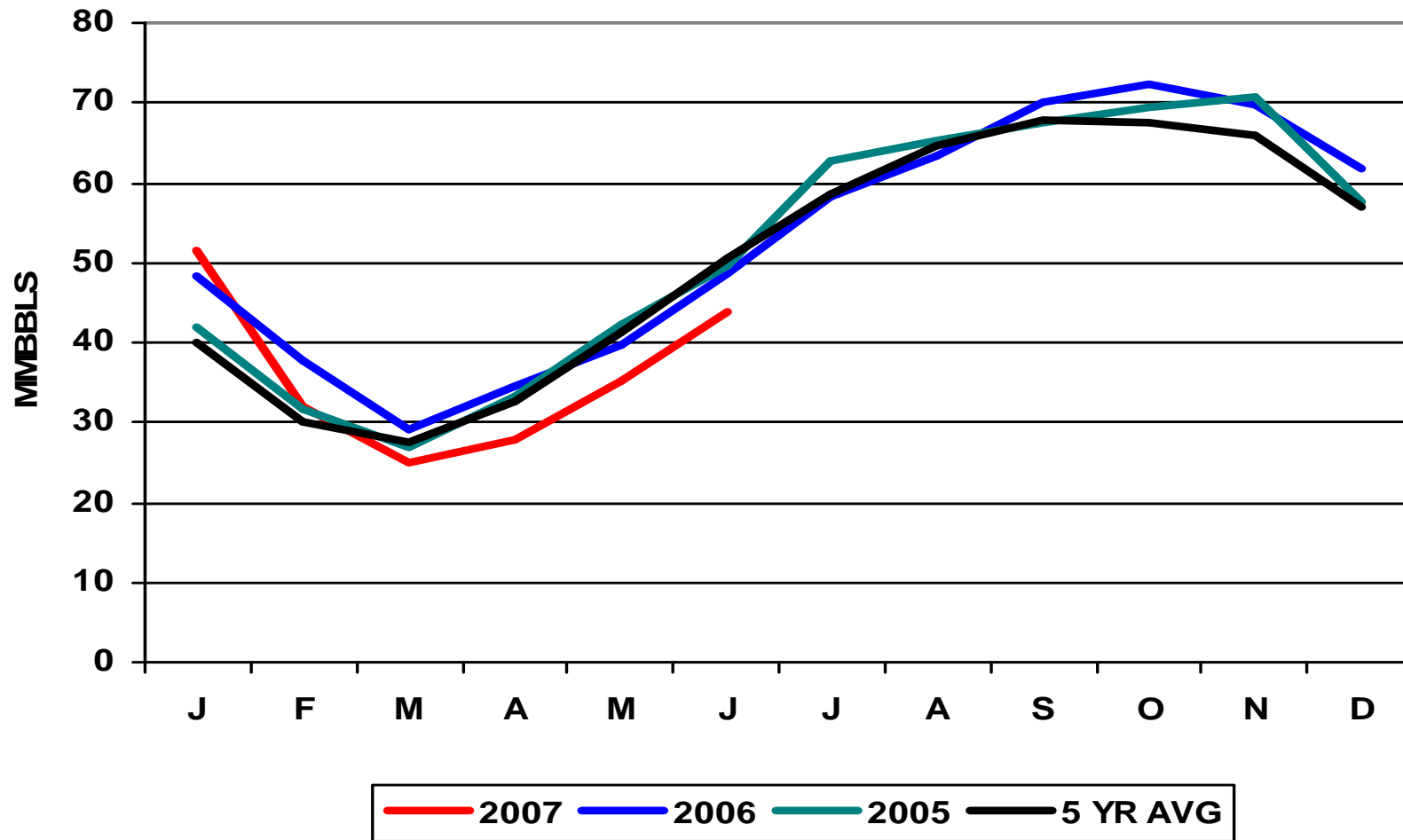




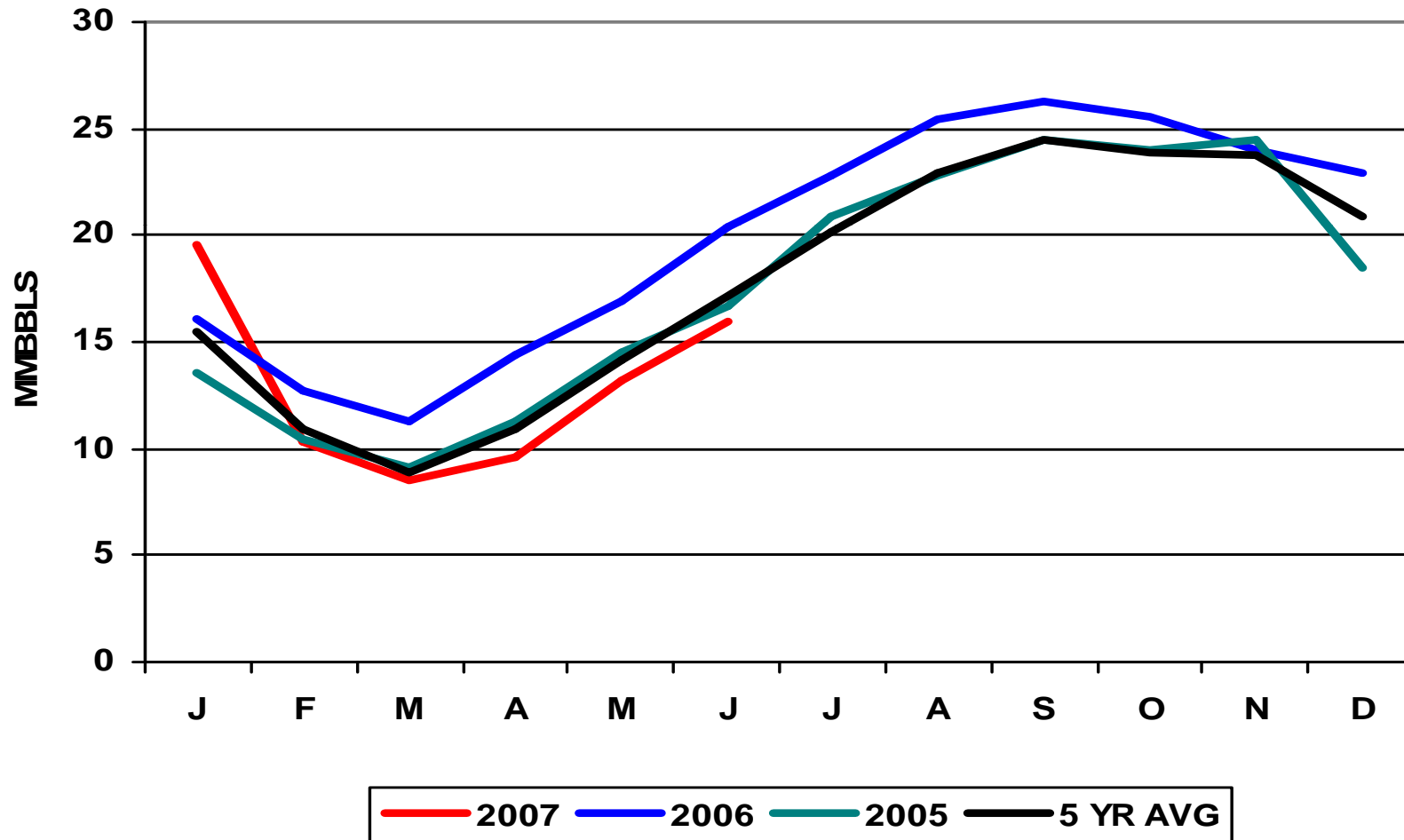
TEPPCO *Overview of Current US Propane Market*

- Oil prices remain high – influencing the overall level of propane prices.
- Propane stocks are no longer considered high in PADDs II & III
- Gas plant production, refinery production, Canadian and U.S. propane exports and U.S. waterborne import levels are all back to average levels for this time of year.
- Petchem demand remains high due to economics.
- Outlook for 2007 through 2012 calls for world LPG supply growing faster than world LPG demand.
- International propane demand in developing nations has slowed down due to high international propane price levels.

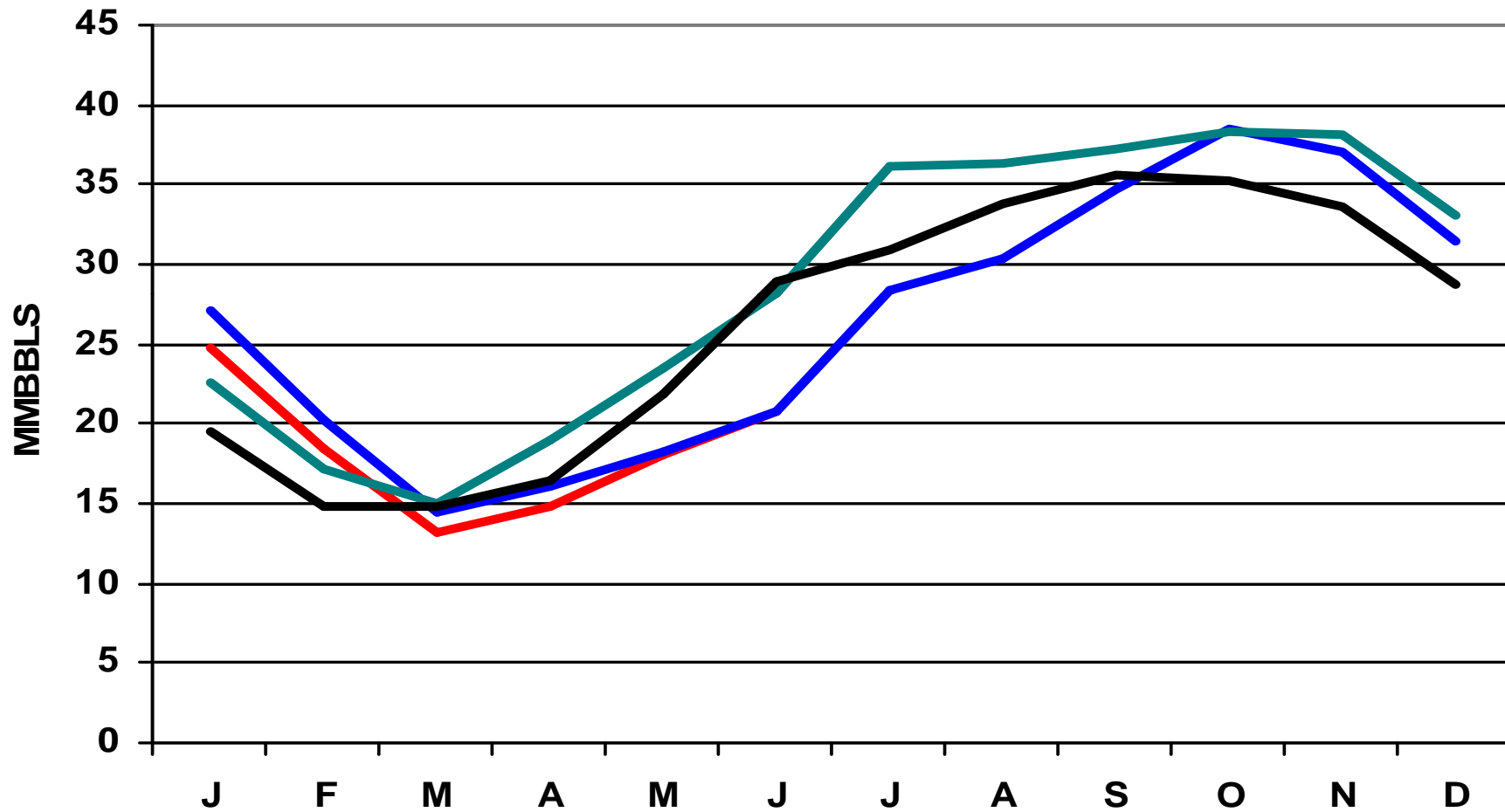
- Demand for propane is seasonal
 - Approximately 3-4 units of winter need to 1 unit of summer propane consumption
 - National and Regional demand impacted by degree days
- Propane production is ratable
 - Seasonal demand is supplemented by storage & imports
- Summer inventory build is needed to meet winter demand
 - Primary
 - Secondary
 - Tertiary
- Primary, secondary and tertiary inventories linked by logistic systems with unique challenges and opportunities for optimization.



Source: EIA

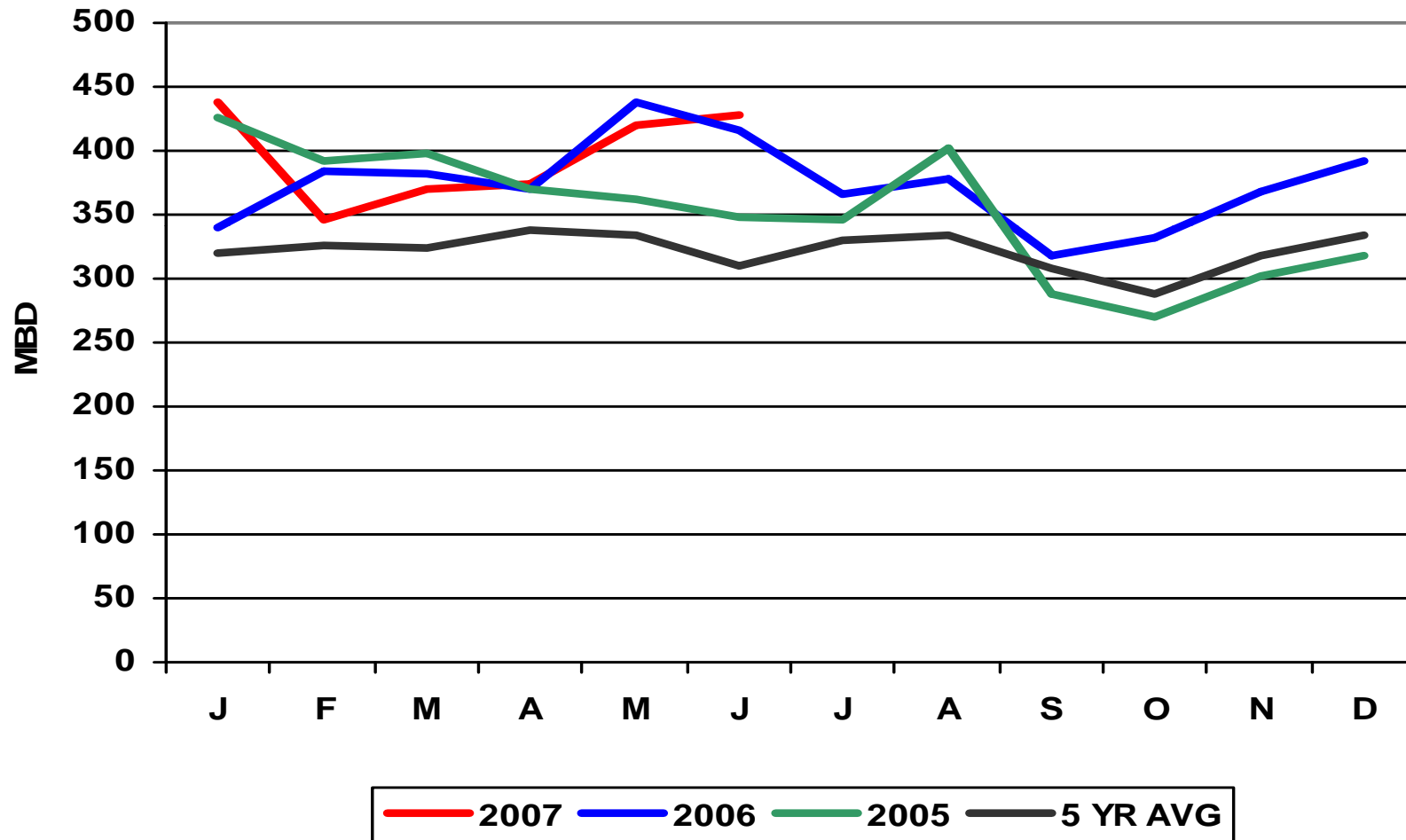


Source: EIA



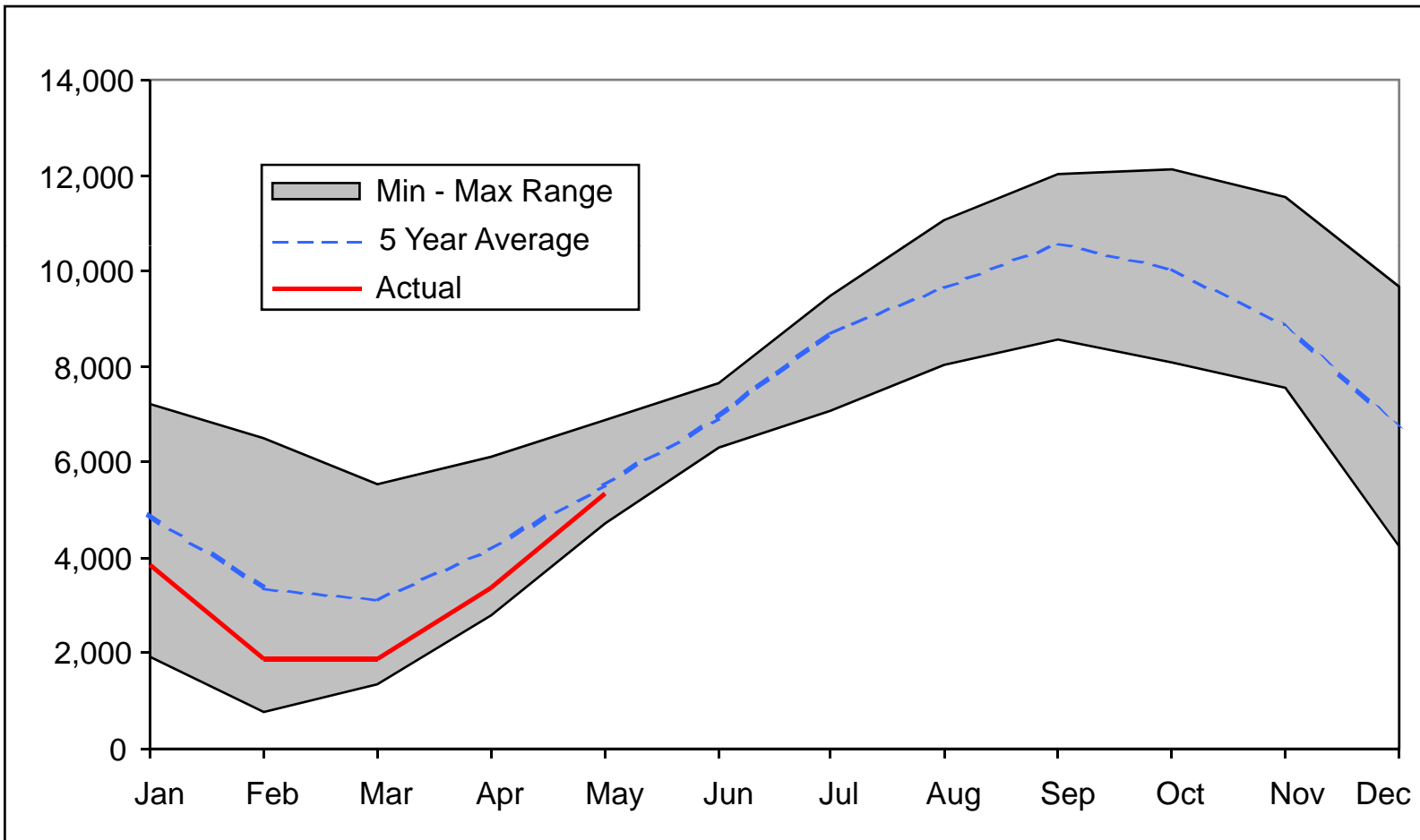
Source: EIA

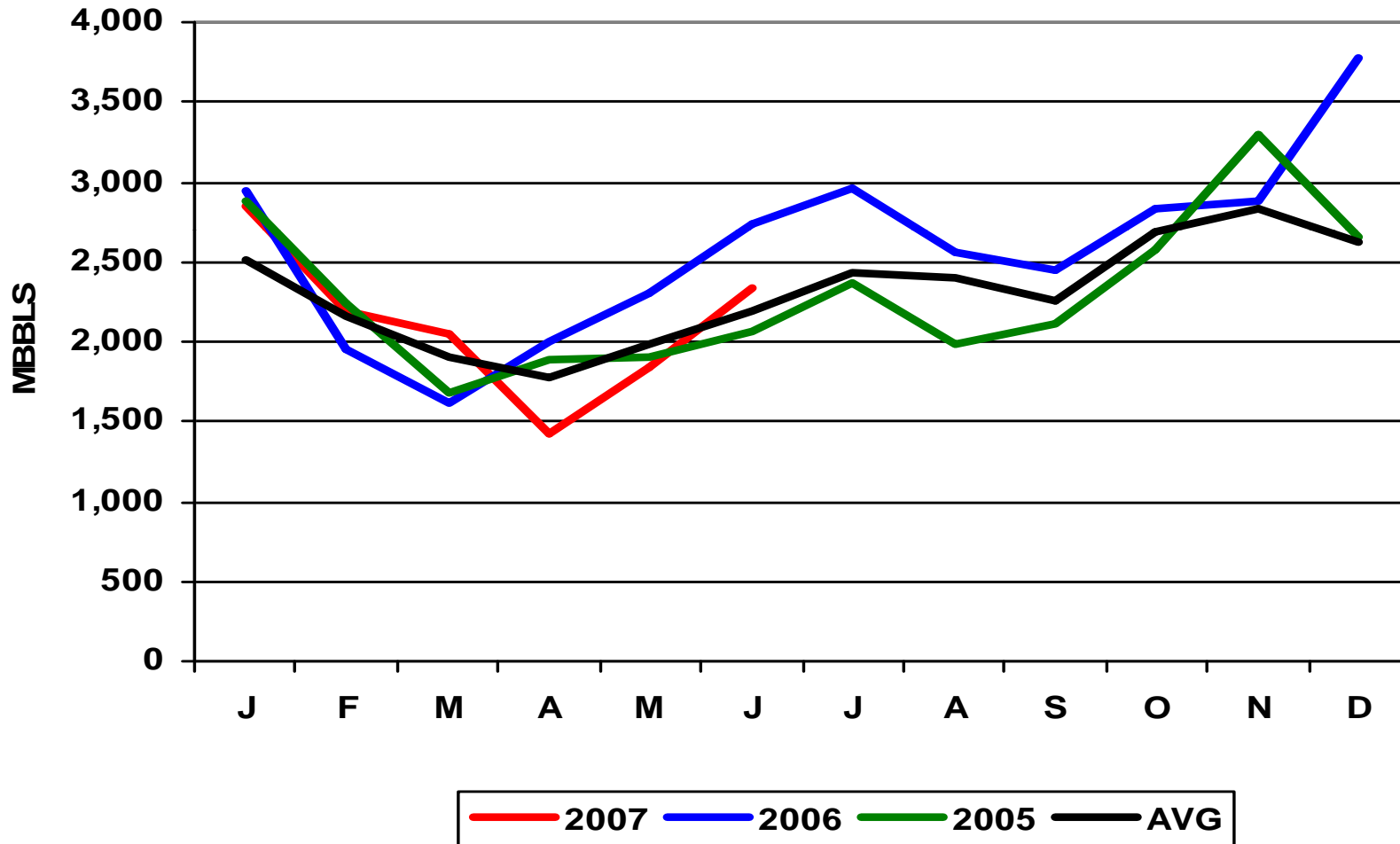




Source: Purvin & Gertz

Recent Inventory Gains Have Pushed Stocks to “Near-Average” Levels

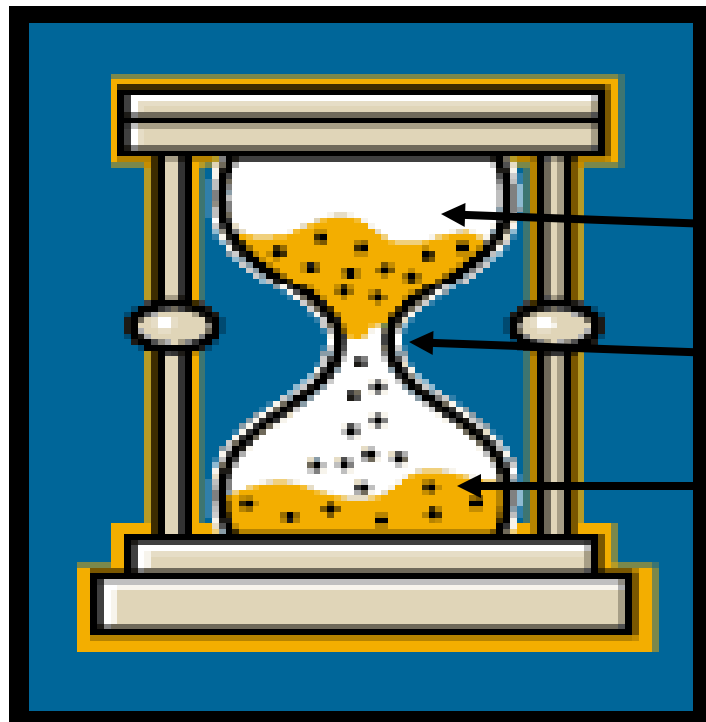




- *Excludes Historic TEPPCO Mont Belvieu Inventory*

- **Tertiary storage is reported to be at low levels:**
 - **Propane pricing** – Still high due to crude prices
 - Anticipating price drops, homeowners and retailers appear reluctant to build inventory
 - **Economic Factors** – Retailers face accounts receivable issues coming out of 2006/2007 season
 - Retailers are hesitant to increase outstanding receivables by filling the tanks of customers' with outstanding balances

Tertiary Storage needs to be filled going into heating season and be kept full during the season in order to optimize US logistic infrastructure

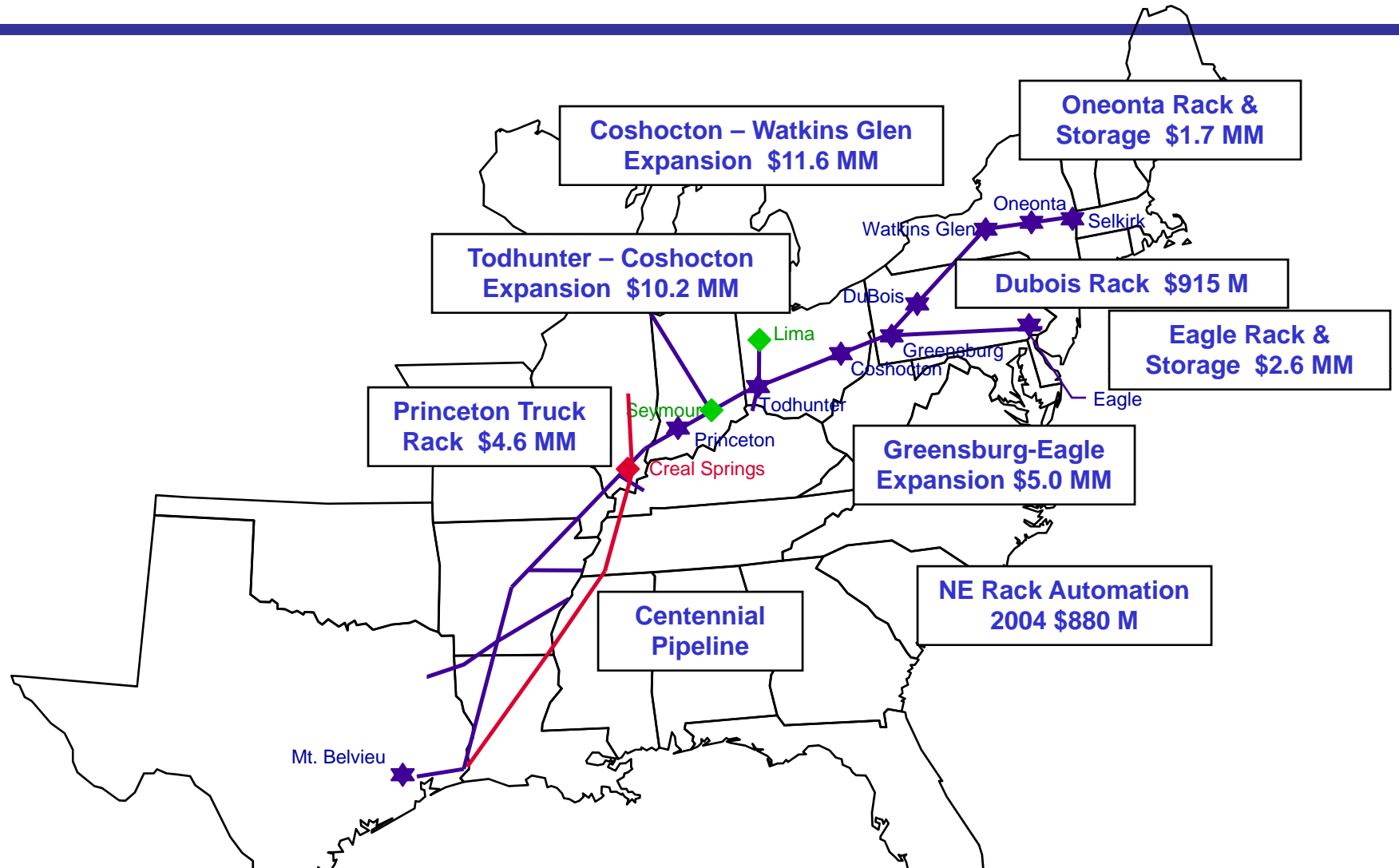


Estimated Storage Capacities*

Primary Storage – 124 MMB

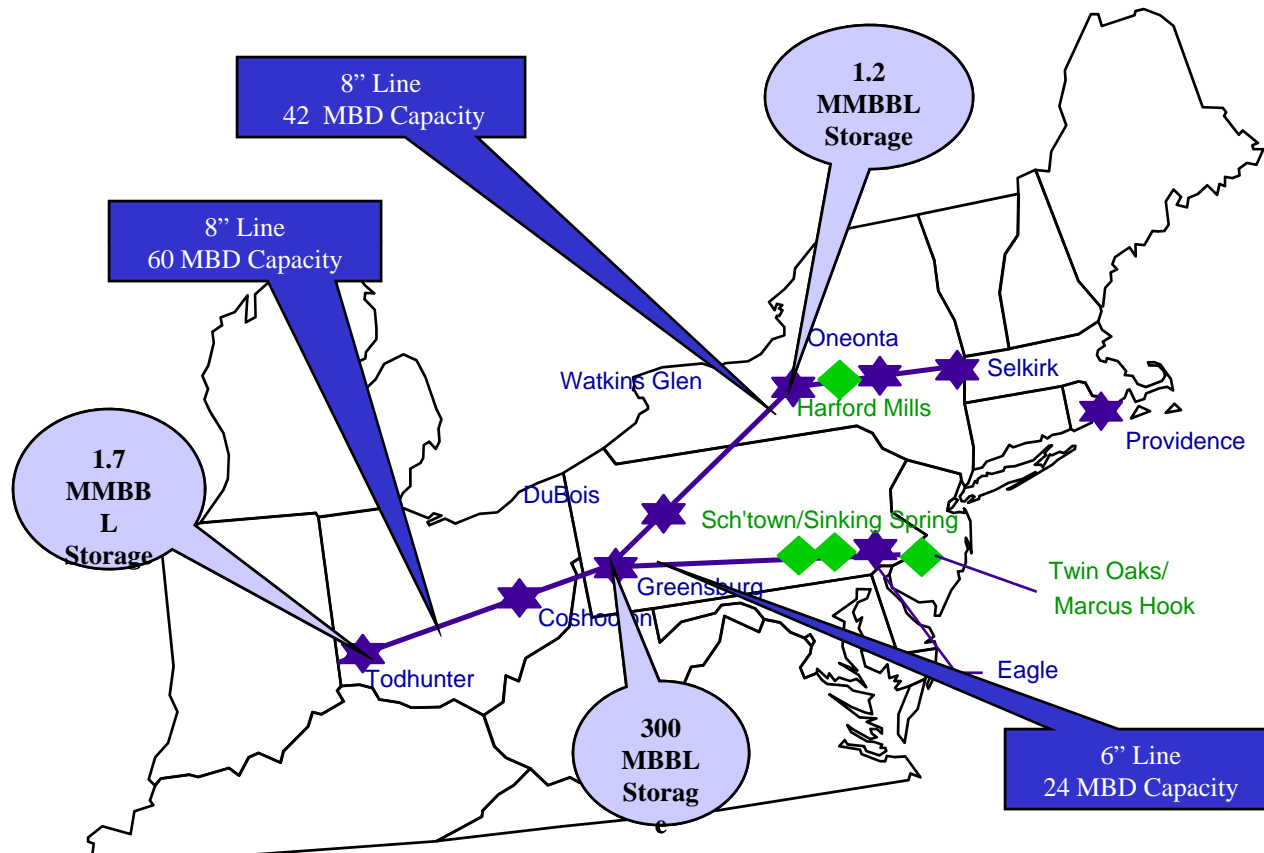
Secondary Storage – 23 MMB

Tertiary Storage – 140 MMB



TEPPCO is committed to improved reliability and customer satisfaction

N.E. deliverability linked to pipeline capacity & inventory



Secondary and Tertiary storage need to be full prior to the winter season giving primary storage time to replenish prior to peak season demand

Concern:

- Entering the heating season with low secondary and tertiary inventory levels may cause an early depletion of primary inventories resulting in peak season strain on the total logistic system.

Direction Needed:

- Pre-season movement of inventory away from primary storage will:
 - Permit restocking of primary storage
 - Reduce early season strain on the distribution system.
 - Pipeline
 - Terminal
 - Trucking

- Monitoring secondary and tertiary storage levels in your states in conjunction with state Propane Associations.
 - Highlight & support importance of secondary and tertiary inventory build
- Regional coordination of waiver of restriction on drivers' hours of operation

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