

Home Heating Q&A

What impacts the price of propane for consumers?

In recent years, virtually every fuel source has experienced an increase in price. Three main factors contribute to higher propane prices:

- Higher Crude Oil and Natural Gas Prices—Because propane is derived from both crude oil and natural gas, its price tracks the prices of those energy sources – particularly the cost of crude oil, since propane competes mostly with crude oil-based fuels for heating.
- Seasonal Weather Conditions—Colder temperatures during the winter months increase the demand for propane, particularly for home heating. This, in turn, reduces supplies and leads to higher prices. Propane retailers are prepared to meet the demand, but predictions of long-term weather trends are difficult.
- International Influences—The global propane market is constantly changing. New customers all over the world are turning to propane as a home energy source. As a result, there is increased competition for propane, which means higher prices.

Why are propane prices different in various areas of the country?

Propane prices vary in different parts of the country for two key reasons that are related to supply and demand: weather influences and location.

In the short-term, the demand for propane among residential and commercial customers is affected significantly by weather. Because weather conditions change rapidly, large and sudden shifts in demand can occur, creating imbalances that result in price movements.

These weather factors can also influence the propane distribution system. As with all energy sources, propane prices are influenced by the systems required to transport the energy source from where it is produced to where it is used, whether through pipelines, ships, or trucks.

Propane prices are also influenced by proximity of the customer to the supply. In an area such as the Gulf Coast, customers are close to major suppliers and shipping ports, so the effort needed to get propane to its customers is minimal. Those customers who live farther away usually pay higher prices when transportation costs are added.

Source: *Propane Prices, What Consumers Should Know*, Energy Information Administration, May 2006.

Are propane shortages expected?

According to September 2006 data from the U.S. Department of Energy, 9.4 million homes in the United States depend on propane, and 54 percent of those households (approximately 5 million) rely on propane as their primary heating fuel.*

Propane currently supplies about 4 percent of U.S. energy needs, but it has the potential to supply more. Fortunately, nearly 90 percent of U.S. propane supplies are produced at existing domestic facilities. Another 7 percent comes from Canada, making propane a very secure energy resource. With the world's largest propane storage capacity, the U.S. is well positioned to compete for growing supplies of propane being produced within the global energy market.

When faced with any challenges to demand, the industry moves quickly to ensure propane is available to its customers. In some instances, propane supplies are moved from areas of surplus capacity to areas of greater need. Regional storage capacity has been increased in some areas and pipelines improved to make sure supplies are available when needed. This advance preparation is just some of the work the propane industry is undertaking to ensure customers have the fuel they need year-round.

*Source: *Propane Prices: What Consumers Should Know*, Energy Information Administration, May 2006.

How is the propane industry helping consumers meet the challenges of increasing fuel costs?

Propane wholesalers and retailers work hard to protect consumers from "sticker shock." Many retailers purchase advanced supplies of propane at lower contract prices to protect themselves and their customers from the potentially higher seasonal prices. Plus, many propane retailers offer balanced billing payment plans that allow customers to spread their projected annual cost of propane over many months, spreading out the cost of seasonally higher bills. Retailers also encourage customers to consider filling their tanks before the start of the heating season, rather than waiting until it is empty. A regular delivery schedule can also help offset higher season pricing.

Propane retailers are just as worried as their customers are about rising propane prices. Historically, the wholesale prices paid by propane retailers increase at a faster pace than retail prices.

Do retailers make more profit during sudden price increases?

No. When wholesale propane prices rise, retailers don't see larger profits. The effect is similar to what happens to orange juice prices after an early season frost. The grocery stores don't make any extra money because they're paying more for the product too.

Are there steps that consumers can take to guard against winter price increases or to help lower their energy bill in general?

While the factors that contribute to higher fuel prices cannot be controlled by propane retailers or consumers, there are some simple steps customers can take to lower their energy bill year-round.

The industry encourages homeowners to save on energy costs by following this three-step energy plan:

- Explore fuel payment plan options to spread your projected annual costs over many months, balancing the costs of seasonally higher bills. Many propane companies offer a “fixed-price” option, and can “lock-in” a price. Call your propane retailer to see if such an option is available.
- Set up a regular delivery schedule with your retailer. Consider filling your tank before the start of the heating season rather than waiting until it is empty.
- The federal government is offering a tax credit of up to \$500 per home for qualifying energy-saving improvements made during the 2006, 2007, and 2008 calendar years. Credits are available for many home improvements, including high-efficiency heating and cooling equipment such as propane water heaters and furnaces. For more information visit www.energytaxincentives.org.

Customers can also lower their overall energy bills by making a few small changes in the home:

- Protect against drafts by caulking and weather-stripping around windows, doors, and other openings such as ducts, fans, and vents.
 - Inspect and tune-up your residential heating system regularly for efficiency. Contact your local propane retailer to inquire about a home heating system inspection. A properly working heating system is more efficient and will save you money.
 - Change your furnace filter monthly. Clean filters will help your heating system work more efficiently. If on a monthly payment plan, use receipt of your propane bill as a reminder.
 - Invest in a furnace thermostat timer that can save money by lowering your home’s temperature when you are not at home. You can cut annual heating bills by as much as 10 percent per year by turning your thermostat back 10-15 percent for eight hours per day.
 - Upgrade to an ENERGY STAR® rated furnace or boiler to reduce heating bills by almost 30 percent.
 - Switch to a propane water heater, which provides significant energy efficiency over an electric water heater. Over time, propane water heaters can cost one-third less to operate and recover hot water twice as quickly as electric water heaters.
 - When using a water heater, turn it down from the standard 120 degrees to 115 degrees. You could save more than 10 percent on your water-heating bill.
 - Increase your water heater’s efficiency by draining it every six months to remove lime deposits and sediment.
 - Wrap your water heater in an insulating blanket to improve efficiency.
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- Install flow-restricting showerheads. You can reduce hot water usage by up to 50 percent without affecting shower pressure.

- Run washing machines and clothes dryers with a full load.
- Close vents and doors in unused rooms. Make sure your attic and basement are properly insulated.
- Vacuum the dust off the refrigerator coils (found in the back or underneath the unit) every three months. It takes less energy to cool that way. Check the gaskets around the door and make sure it shuts tight.

Are there state or federal government energy assistance programs available?

Yes. The U.S. Department of Energy sponsors a weatherization assistance program to help eligible households permanently reduce their energy bills by making their homes more energy efficient. Application information is available on the Internet at www.eere.energy.gov/weatherization/apply.html

Additionally, the federal government sponsors the Low-Income Home Energy Assistance Program (LIHEAP). Administered for consumers by state governments, this program can help qualified low-income households meet their energy needs. For more information about LIHEAP, call toll-free at 1-866-674-6327, send an email to energyassistance@ncat.org, or go to www.acf.hhs.gov/programs/liheap.

Are there other websites that can provide assistance or tips on dealing with prices?

Yes. Here is a list of several websites that may be able to provide you with more information regarding energy prices and supply:

Department of Energy:

Home Energy Saver: <http://hes.lbl.gov>

Energy Efficiency and Renewable Energy: www.eere.energy.gov/consumer

Energy Star: www.energystar.gov

Alliance to Save Energy: www.ase.org

Propane Education & Research Council: www.usepropane.com

National Propane Gas Association: www.npga.org

For additional information on propane prices, see the May 2006 Energy Information Administration's *Propane Prices: What Consumers Should Know* brochure at: <http://www.eia.doe.gov/bookshelf/brochures/propane06/propane.html>