ASSESSMENT OF ALTERNATIVE METHODS OF SUPPLYING PROPANE TO MICHIGAN IN THE ABSENCE OF LINE 5

Prepared for

National Wildlife Federation

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London Economics International LLC (“LEI”) was funded by the National Wildlife Federation (“NWF”) with a grant from the Charles Steward Mott Foundation (“CS Mott”) to examine alternatives to Enbridge Energy, Limited Partnership (“Enbridge”) Line 5 for supply of propane to consumers in the State of Michigan. Enbridge Line 5 provides natural gas liquids (“NGLs”) from which propane is extracted, directly to a facility in Michigan’s Upper Peninsula, and to facilities in Ontario that then supply propane to Michigan’s Lower Peninsula. LEI’s assessment assumes that Line 5 would not be in use for the transport of oil and NGLs across the Straits of Mackinac.

LEI finds that, with strong recent and projected growth in supply of NGLs from the United States, and with flat to declining demand for propane in Michigan, the prospect of persistent propane supply shortages in Michigan is unlikely, even if Enbridge Line 5 ceased to operate. Event-driven supply interruptions or weather-driven shortages such as experienced in 2014 during the Polar Vortex winter, will likely occur on occasion, as they have in the past. But with the prospect of plentiful supplies relative to demand, the main concern with the potential absence of Enbridge Line 5 is the delivered cost of alternative sources of propane.

With this focus on the cost of alternatives, LEI’s key findings are that the lowest-cost alternative options to Enbridge Line 5 would be truck or rail from Superior, Wisconsin (“WI”). LEI estimates the price increase to consumers in the Upper Peninsula would likely be about $0.05 per gallon. This small price increase would be lost in the noise of typical propane price volatility.

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1 Introduction and executive summary

1.1 Enbridge Line 5

The State of Michigan is considering options for ongoing operations of the Enbridge Line 5 liquids pipeline, which traverses Michigan’s Upper Peninsula and Lower Peninsula. Line 5 begins in Superior, WI and terminates in Sarnia, Ontario (“ON”). The pipeline’s capacity is 540,000 barrels per day.\(^1\) It transports light crude oil, light synthetic crude, and NGLs, which include propane.

Enbridge Line 5 was built in 1953. The pipeline runs for 645 miles from Wisconsin, under the Straits of Mackinac, through Michigan to Sarnia. The 30-inch diameter pipeline splits into two 20-inch diameter lines where it crosses the Straits of Mackinac for 4.5 miles (see Figure 1).

![Figure 1. Enbridge Line 5](http://www.enbridge.com/~/media/Enb/Documents/Brochures/Brochure_Line5.pdf)

LEI was engaged to assist in understanding the current and potential future role of Enbridge Line 5 from the perspective of Michigan propane consumers. More specifically, the CS Mott Foundation and NWF wished to understand the degree of reliance on Enbridge Line 5 by Upper Peninsula consumers for the supply of propane and if there are alternative viable options; and understand the potential impact on Lower Peninsula consumers.

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In this report, LEI provides an independent view of whether and to what extent Enbridge Line 5 is needed for Michigan propane consumers; and what would be the cost impact on consumers if Enbridge Line 5 into Michigan did not exist.

A report by Dynamic Risk Assessments, Inc (“Dynamic Risk”)—funded by Enbridge Energy and overseen by the State of Michigan—also estimated the potential impact on Michigan propane consumers. LEI did not perform a comprehensive critique of the Dynamic Risk report, which covers a wide variety of issues in addition to the impact on propane consumers. However, Dynamic Risk provided specific assumptions about the elements of pipeline, rail, and trucking costs for propane, which LEI compared to publicly-available data and then used to evaluate the impact on the cost per gallon of propane. Dynamic Risk’s assumptions and their resulting estimates for the cost of alternatives to Enbridge Line 5 provide useful comparisons to LEI’s, and we refer to Dynamic Risk’s assumptions and results in this report.

1.2 LEI’s approach

To provide a foundation for understanding the cost of alternatives to Enbridge Line 5, LEI began by laying out the facts that describe the Michigan propane market (supply, demand, storage, transportation, and prices) in the context of the relevant broader US propane market (see Section 2). This provides a deeper understanding of the most important issues for propane supply in the Upper Peninsula and the rest of Michigan.

Then LEI analyzed the cost of propane supply, particularly to the Upper Peninsula, with and without Enbridge Line 5 (see Section 3). LEI took a three-step approach to this. First, LEI examined publicly-available data sources for reported prices at propane trading hubs, published pipeline tariffs, and public reports of rail and truck shipment costs. Second, LEI reproduced the cost calculations provided by Dynamic Risk to understand to what degree Dynamic Risk’s cost results (in dollars per gallon of propane) depended on their assumptions about key elements of cost. Third, LEI substituted publicly-available data for key cost elements, and applied the Dynamic Risk methodology, to arrive at new estimates of the additional cost per gallon to propane consumers if Enbridge Line 5 did not exist. LEI also examined several alternatives not considered by Dynamic Risk.

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1.3 Key findings and conclusions

LEI’s key findings were:

1. There is no shortage of propane in the United States; supply is growing faster than demand;

2. The least expensive alternative supply options are pipeline transportation to Superior, WI combined with either trucking from Superior to Rapid River or rail from Superior to Rapid River. The cost of these two options could be nearly identical. They could add an estimated $0.11 per gallon to the cost of propane supply in the Upper Peninsula (see Figure 2). An econometric analysis of propane demand in Michigan shows that this cost increase would translate into a $0.05 per gallon increase in consumer propane prices in the Upper Peninsula;

3. Although more expensive options are available, as shown in Figure 2, it would not make sense to assume that these would be chosen instead of the least expensive option, except under emergency conditions. Even if rail or trucking from Kincheloe to Rapid River was free, the total cost of using the Kincheloe route would be higher than the route from Edmonton through Superior;

4. In the Lower Peninsula, the impact on the cost of propane may be negligible; and

5. A price increase of $0.05 per gallon is small compared with the usual volatility of weekly propane prices. Michigan prices swung from $0.86 per gallon to $3.50 per gallon over the past few years. The small price increase from using alternatives to Enbridge Line 5 would be lost in the noise of typical price volatility.

<table>
<thead>
<tr>
<th>Market hub</th>
<th>Edmonton, Alberta</th>
<th>Conway, KS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hub price, 2017</td>
<td>$0.53</td>
<td>$0.53</td>
</tr>
<tr>
<td>Mode of transportation</td>
<td>Pipeline</td>
<td>Pipeline</td>
</tr>
<tr>
<td>Cost of transportation</td>
<td>$0.078</td>
<td>$0.064</td>
</tr>
<tr>
<td>Terminal</td>
<td>Superior, WI</td>
<td>Superior, WI</td>
</tr>
<tr>
<td>Mode of transportation</td>
<td>Rail</td>
<td>Truck</td>
</tr>
<tr>
<td>Cost of transportation</td>
<td>$0.126</td>
<td>$0.124</td>
</tr>
<tr>
<td>Total cost</td>
<td>$0.61</td>
<td>$0.720</td>
</tr>
<tr>
<td>Difference</td>
<td>$0.11</td>
<td>$0.11</td>
</tr>
</tbody>
</table>

Figure 2. Estimated weighted average annual cost of propane supply to Rapid River (all costs in $ per gallon)
1.4 Roadmap to this report

This report begins by describing the propane market in Michigan, neighboring states, and the United States, trends in propane consumption, sources of supply, use of storage, transportation modes, and wholesale and retail prices; these are presented in Section 2 of this report. In Section 3, LEI examines the cost of propane supply and delivery to the Upper Peninsula, and Lower Peninsula, of different supply sources and transportation routes. In Section 4, LEI uses econometric analysis to estimate the impact of higher supply costs on residential consumer prices. LEI’s conclusions and implications are in Section 5. Details of LEI’s econometric analysis can be found in Appendix A (Section 6).
2 Understanding the Michigan propane market

2.1 What is propane?

Propane is a hydrocarbon classified as a liquefied petroleum gas (“LPG”); LPGs in turn are a subset of natural gas liquids (“NGLs”). Propane is one of the NGLs that come to the surface during field production of natural gas. The produced natural gas (methane and NGLs) is sent to a gas processing plant near the point of field production, which separates the NGLs from the methane to produce pipeline-quality natural gas (mostly methane, sometimes with a small amount of ethane) in a gaseous state. The leftover NGLs can then be transported or stored in their liquid state. For propane, a second stage of processing, called fractionation, separates the propane from the other NGLs. Unlike natural gas processing, which occurs near the point of field production, fractionation often occurs closer to markets, after the NGL stream has been shipped to market hubs.

Propane produced from natural gas drilling therefore requires two stages of processing: 1) natural gas plant processing, to separate NGLs from methane, and 2) fractionation, to separate the propane from the other NGLs. Companies involved in this process often combine fractionation and transportation into a single service for wholesale buyers of propane. Such companies also usually also operate natural gas processing plants in the field. Propane can also be extracted from refinery gas streams during the crude oil refining process.

Propane is used for space and water heating, cooking, crop drying, as fuel for vehicle engines, and for refinery operations.

2.2 Propane demand in Michigan

The Michigan residential sector has the highest consumption of propane of any residential sector in the United States, according to the Energy Information Administration (“EIA”) (see Figure 3).\(^5\) EIA reports that Michigan residential propane demand ranged from 0.83 million gallons per day to 1.02 million gallons per day (303 million gallons per year to 372 million gallons per year) for 2013-2017.\(^6\)


\(^6\) EIA. “Prime Supplier Sales Volumes of Propane (Consumer Grade).” April 2, 2018.
The State of Michigan estimates propane is used as a primary heating fuel in about 320,000 households in the state. This translates into annual average consumption per household of 1,037 gallons per year if residential consumption of 0.91 million gallons per day (the 2013-2017 state-wide average, per EIA) is divided by the 320,000 households. Other sources of information are consistent with this; one source notes that a typical Michigan household using propane consumes 500-1,200 gallons per year.

2.2.1 Propane demand in Michigan has been falling

Consumption of propane in Michigan has generally been falling since the 1980s (see Figure 4). Propane use for heating in Michigan is being displaced by electricity, which is estimated to have increased by almost 30 percent from 2009 to 2016. Gas used for heating remained stable during this time.

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2.2.2 The residential sector consumes much of the propane used in Michigan

The EIA reports that in Michigan, the residential sector consumes about 80 percent of all the LPGs (propane, ethane, and olefins) used in the state (see Figure 5). EIA does not provide a sectoral breakout for propane specifically; but, as mentioned above, EIA reports state-wide average 2013-2017 propane consumption to be 0.91 million gallons per day. Comparing to the 1.2 million gallons per day for LPGs in 2015 in Figure 5 implies that propane makes up about 75 percent of LPGs used in Michigan. The residential sector does not have much direct use for ethane or olefins, so it is safe to assume that the residential consumption shown in Figure 5 is all propane.12

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2.2.3 **Upper Peninsula propane consumption**

Unlike Michigan state-level consumption data which is provided by the EIA, there are no official figures for annual consumption of propane in the Upper Peninsula versus Lower Peninsula.

- The Michigan Propane Gas Association reported that 460 million gallons of propane was consumed in Michigan in 2015, of which 430 million gallons was in the Lower Peninsula. This leaves 30 million gallons (about 6.5 percent of the Michigan total) consumed in the Upper Peninsula. These estimates include all sectors, not just the residential sector.

- The US Census Bureau estimates that in the 15 counties in the Upper Peninsula, 22,050 households used bottled, tank, or LP gas (“LPG”) as the primary source of heating fuel in 2016. If the typical Michigan household consumes 500-1,200 gallons per year, as

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13 Note that the Michigan Propane Gas Association’s estimate of propane consumption in Michigan in 2015 is higher than EIA’s estimate.


noted above\textsuperscript{16} then the 22,050-household residential sector consumes 11 million to 26.5 million gallons per year.

The estimates all indicate that Upper Peninsula propane consumption is small compared with Michigan over all.

2.2.4 Propane demand in the United States is flat to declining

Falling propane consumption is not unique to Michigan. Consumption of propane in the United States was lower in 2017 than in 2010 (see Figure 6). At the same time, US production (to be discussed in more detail in Section 2.3) has been on the rise, resulting in US domestic demand accounting for a smaller share of US production.

![Figure 6. EIA’s US propane consumption, and consumption as share of production](image)

Source: EIA\textsuperscript{17}

2.2.5 US propane demand is seasonal

Propane is consumed seasonally, because much of it is used for home heating. Propane is produced year-round as that is the most efficient way to produce it, therefore seasonal storage has played an important role in meeting wintertime demand. US wintertime demand of 61


millions of gallons per day (the weekly average during the months of December 2016, and January and February 2017) was somewhat lower than total US production of 75 million gallons per day on average in 2017.\textsuperscript{18}

\textbf{Figure 7. United States seasonal propane demand as share of US production}

![Graph showing seasonal propane demand as share of US production. Source: EIA\textsuperscript{19}]

\textbf{2.2.6 Michigan propane demand is also seasonal}

In Michigan as in the United States more broadly, propane demand is much higher in the winter than in the summer (see Figure 8). The colder-than-normal winters of 2013/14 and 2014/15 are evident in the spikes in demand during those winters, compared winter 2015/16 and 2016/17.


2.2.7 Number of Upper Peninsula households using propane is unlikely to increase

The number of Upper Peninsula households using LP gas (including propane) has not changed in many years (see Figure 9). The total number of households in the Upper Peninsula (whether or not they are users of propane) decreased by one percent from 2010 to 2016, according to the US Census Bureau. LEI believes the number of households in the Upper Peninsula which use propane is unlikely to rise in the future.

Figure 9. Number of Upper Peninsula homes heated with propane and other fuels


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2.3 Sources of propane supply

The United States and Canada have both seen substantial growth in oil and gas production, driven by prolific and cost-effective shale oil and gas plays (and, in Canada, the oil sands). This is boosting production of NGLs, including propane.

2.3.1 United States propane production is rising

Annual propane production in the United States is increasing and reached a record 1.2 million barrels per day in 2017 (see Figure 10). EIA forecasts a 9 percent increase in propane production in 2018, and projects long-term growth at a slower pace, with production rising to 1.6 million barrels per day in 2030.22

![Figure 10. Outlook for US propane production from natural gas processing](image)

Source: EIA NGPL production

Note: Michigan is included in the East region

2.3.2 Propane supply from states near Michigan is set to increase

Michigan is part of the US refined product Petroleum Administration for Defense District ("PADD") 2 (see Figure 11). PADDs are an administrative concept, developed by the federal government during World War II to help manage fuel rationing. Thus, PADDs do not represent physical boundaries between markets. However, PADDs are useful to help keep track of supply, demand and transportation issues and trends for refined products and other petroleum liquids, including propane.

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23 Ibid.
NGL production in PADD 1 and PADD 2 has been increasing strongly and EIA expects it to keep rising (see Figure 12). PADD 1 includes Pennsylvania, with huge growth in NGLs associated with shale gas production. PADD 2 includes Ohio, also with strong growth in shale gas; Kansas, which is the location of an important storage and trading hub for propane; and North Dakota, which has seen strong growth in tight oil production.

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25 Ibid.
Canada’s National Energy Board’s (“NEB”) expects NGL production to increase, though not at the fast rate of supplies expected from the United States. Propane production in Alberta increased in 2017 by 11 percent. The NEB 2017 outlook projects Canadian propane production to increase somewhat in the long term (see Figure 13).

Figure 13. NEB outlook for Canadian NGL production

![Graph showing NEB outlook for Canadian NGL production]


2.4 Propane transportation

Propane can be transported by various means including pipelines, rail, and trucking. In pipelines, propane sometimes travels with other NGLs, and is separated at a fractionation plant near final end-users. Sometimes it is shipped in dedicated propane pipelines. Propane can also be transported in water-borne vessels, which facilitate exports from the United States to markets overseas.

2.4.1 Pipelines are the option traditionally favored for transporting large volumes

Pipelines are usually the lowest-cost form of transportation for propane and NGLs. For this reason, pipelines are the most widely-used transportation for propane between PADDs within the United States.

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2.4.2 Cochin pipeline taken out of propane service

In April 2014, the 95,000 barrels per day Cochin pipeline, which shipped propane from Alberta to the US Midwest was taken out of service for southbound propane shipments (see Figure 14). That stretch of the pipeline was re-configured to ship light condensate petroleum liquids northbound from Milford, Illinois to Alberta. After the conversion, rail imports of propane from Canada to the Midwest increased from 5,700 barrels per day in 2013 to 28,400 barrels per day in 2017.

![Figure 14. Cochin pipeline and related propane transportation infrastructure in 2014](https://www.eia.gov/petroleum/heatingoilpropane/workshop/2014/pdf/propanesupply.pdf)

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28 EIA Propane Movements by Pipeline, Tanker, Barge and Rail between PAD Districts, and Propane Movements by Pipeline between PAD Districts.


2.4.3 Utopia pipeline could supply additional propane to Michigan

In January 2018, the Utopia project, which could support expanded propane deliveries into Michigan, entered service (see Figure 15). The Utopia project converted the eastern portion of the Cochin pipeline to transport up to 50,000 barrels per day (expandable to 75,000 barrels per day) of ethane and ethane/propane ("E/P") mix from gas processing plants in Ohio to Windsor, ON. It is reported to be flowing ethane only at the current time, with a capacity of 50,000 barrels per day.31 If it were expanded to 75,000 barrels per day, it could in theory supply additional propane to Michigan. This could expand propane supplies to the Lower Peninsula.

**Figure 15. The Utopia pipeline project**

![Image of the Utopia pipeline project](https://www.kindermorgan.com/business/products_pipelines/utopia/)


2.4.4 Propane by rail to US Gulf Coast for export has increased

Shipments of propane by rail have increased dramatically from the Marcellus area (Pennsylvania and Ohio) and the Bakken region (North Dakota) (see Figure 16). Oil and gas production from these regions has run ahead of the pipeline capacity needed to ship NGLs to market hubs such as Mont Belvieu, Texas and Conway, Kansas. As can be seen in Figure 16, these two hubs are important destinations for propane from the Marcellus and Bakken regions.

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2.4.5 US exports of propane surged beginning in 2013

With strong growth in supplies and flat-to-declining demand, exports of propane from the United States began growing rapidly in 2013 (see Figure 17). Most of these exports originated from the US Gulf Coast.

Figure 16. US and Canadian propane shipments by rail

![Map of US and Canadian propane shipments by rail]

Source: EIA

Figure 17. US propane exports

![Graph showing US propane exports]

Source: EIA


33 EIA. “4-Week Avg U.S. Exports of Propane and Propylene (Thousand Barrels per Day).” <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=w_eplpzd_eex_nus-z00_mbbld&f=4>
2.5 Propane seasonal storage

As noted previously in Section 2.2.5, propane demand in the United States varies greatly by season. Propane storage facilities are used to match seasonal demand with year-round production.

2.5.1 Michigan propane storage capacity

Michigan has above-ground propane and propylene storage capacity of about 9 million barrels (378 million gallons).\(^{34}\) Michigan also has large volumes of propane storage capacity in underground rock formations and caverns.\(^{35}\)

![Figure 18. Stocks of propane and propylene in the US, PADD 2, and Michigan](source)

Source: EIA\(^ {36}\) Note: Vertical axes are different scales

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\(^{34}\) EIA Stocks of Propane/Propylene dataset (maximum recorded stock volume)

Michigan’s capacity accounts for about one-quarter of PADD 2’s 32 million barrels (1,344 million gallons) of propane and propylene capacity, which in turn is about 20 percent of total propane and propylene working and net available shell storage capacity in the United States (see Figure 18). Storage capacity at Rapid River is reported by Dynamic Risk to be 1.26 million gallons of NGLs; Michigan Public Service Commission data reports one million gallons.37

2.6 Propane transportation into Michigan

Propane is imported into Michigan from outside the state through two pipeline systems: Enbridge Line 5, and the Sarnia Downstream System (“SDS”) operated by Plains Midstream Canada (see Figure 19). SDS carries propane from Sarnia, Ontario to the Michigan border near Detroit.

![Figure 19. Selected liquids pipelines in Michigan](https://www.eia.gov/petroleum/heatingoilpropane/workshop/2014/pdf/michigan.pdf)

Source: Bloomberg


2.6.1 Enbridge Line 5 propane deliveries

Enbridge Line 5 transports about 3.4 million gallons per day of NGLs out of Superior, WI and into Michigan. At Rapid River, MI, about 0.081 million gallons per day (about 29 million gallons per year) are extracted. Much more propane is delivered in the winter than in the summer (see Figure 20).

**Figure 20. Propane deliveries to Rapid River, Enbridge Line 5, 2015 and 2016**

Source: Dynamic Risk, Appendix C

2.6.2 Propane deliveries from Sarnia nearly match Lower Peninsula demand

After Rapid River, there are no further propane or other NGL withdrawals from Line 5 in Michigan. All the remaining NGLs are transported across the Lower Peninsula and delivered to Sarnia, Ontario for fractionation. According to Enbridge, these deliveries amounted to an average of 3.321 million gallons per day of NGLs in 2015/16. Sarnia also has rail links with

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38 Dynamic Risk. “Final Report: Alternatives Analysis for the Straits Pipelines.” Appendix C, P. C-3. Prepared for the State of Michigan. October 26, 2017. Dynamic Risk notes on page PR-7 of its Final Report that “Enbridge obtained permission from shippers to release publicly the historical and gross throughput of Line 5 on a monthly an annual basis showing deliveries and withdrawals of oil and NGLs at various points on Line 5…. Portions of the volume data were cleared for release in June 2017 and are provided in Table C-1 of Appendix C.”


western Canada which supply NGLs;\textsuperscript{41} and the Sarnia region is connected by rail to the US Marcellus natural gas region.

Sarnia’s fractionation capacity is reportedly 4.79 million gallons per day with an 84 percent capacity utilization rate, which amounts to throughput of 4.02 million gallons per day.\textsuperscript{42} Based on this, the NGL shipments on Enbridge Line 5 in 2015/16 accounted for about 83 percent of the throughput of the fractionation plant at Sarnia.

An average of 1.08 million gallons per day of propane from Sarnia was shipped to the US border at Detroit through the SDS system from 2015-2017.\textsuperscript{43} The 1.08 million gallons per day is about 90 percent of the 1.2 million gallons per day average annual consumption of the Lower Peninsula (based on Michigan Propane Gas Association consumption estimates for 2015). If consumption is lower than 1 million gallons per day, as EIA data shows, then SDS provides more than the equivalent of all the propane used in the Lower Peninsula.

2.7 Drivers of wholesale and retail propane prices in Michigan

2.7.1 US propane prices are connected to North American natural gas prices and global oil prices

Propane prices in the Unites States reflect the global price of crude oil, as represented by the price of Brent crude, a widely-used global benchmark price (see Figure 21). As one source explains “depending on market conditions, produced propane may be sold, consumed as fuel (in the refinery) or transformed to other refined products within the refinery.”\textsuperscript{44} This is one reason that propane’s price can rise and fall with the price of crude oil. The price of crude oil in turn is determined by continental as well as global supply and demand events.

Another reason for the connection to Brent crude oil prices is that, with propane supplies growing faster than demand, the United States is exporting increasing volumes of propane. Most exported propane originates from the US Gulf Coast, but the US Northeast has begun exporting NGLs, to provide an outlet for growing Marcellus-area supplies. This expanding connection to the global market means that propane prices in North America can be influenced by global propane prices, which in turn are influenced by global oil prices.


\textsuperscript{44} Gas Processing Management Inc. “Canadian Propane Supply and Demand through 2055.” January 2018. P. 14.
The cost and supply of natural gas plays an important role in propane prices. The price of natural gas in the United States is determined mostly by supply and demand in the North American continent, rather than global gas supply and demand. With strong growth in natural gas supplies in the United States, continental gas prices declined dramatically after 2008, and the availability of NGLs increased. This reduced the price of NGLs such as propane. Before 2010, propane prices were nearly identical to crude oil prices; but starting in about 2011, a gap has appeared between Brent crude oil prices and United States propane prices, with US propane usually selling at a discount to Brent crude.

Figure 21. Prices of Brent crude oil, Henry Hub gas, and Mont Belvieu propane

![Chart showing the prices of Brent crude oil, Henry Hub gas, and Mont Belvieu propane from 2000 to 2018.]

Source: EIA Europe Brent Spot Price FOB, EIA Propane Wholesale/Resale Price, EIA Henry Hub natural gas price

2.7.2 Wholesale prices in Michigan usually track PADD 2 prices closely

The average wholesale price of propane in Michigan usually tracks the PADD 2 price closely (see Figure 22). The average wholesale price of propane in Michigan was about $0.76 per gallon for winter (November-March) 2016/17, and $1.04 per gallon for winter 2017/18.
Michigan wholesale prices averaged one percent higher than in Wisconsin in 2017. However, in 2018 Michigan prices were seven percent higher than the PADD 2 average. This may have been related to an unusual January and February 2018 price increase at Sarnia, Ontario.\footnote{Based on the higher spot FOB propane prices from Bloomberg at Sarnia, Ontario, observed in early 2018.}

EIA data, which begins in 2016 for Michigan wholesale prices, shows the wholesale price of propane in Michigan was an average of $0.06 per gallon higher than the PADD 2 average in 2016/18 (see Figure 23). Other PADD 2 locations include Kansas, the location of the Conway propane supply hub; Ohio, home of the prolific Marcellus supply region; and North Dakota, home of the Bakken supply region. These low-wholesale cost areas contribute to slightly lower PADD 2 average wholesale prices compared with Michigan.

Source: EIA. Wholesale propane excluding taxes, from Weekly Heating Oil and Propane Prices (October - March)
2.7.3 Recent residential propane prices in Michigan were about $2 per gallon

Propane prices to residential consumers in Michigan were about $2 per gallon for the winter of 2017/18, about $1 more than wholesale price (see Figure 24). Part of the total residential price of propane in Michigan is a four-percent sales tax on propane (classified by the State as an “unregulated fuel”) used in the residential sector. Propane sales for any other use are charged a six-percent sales tax, with some exemptions.

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46 Michigan Department of Treasury. https://www.michigan.gov/treasury/0,4679,7-121-44402_44415_44416-7217--00.html
Figure 24. Wholesale and residential winter 2017/18 propane prices

Source: EIA Weekly Heating Oil and Propane Prices (October - March)
3 Cost of propane supply with and without Enbridge Line 5

With strong growth in supply of NGLs in the United States, and with flat to declining demand for propane in Michigan, indeed, in the United States overall, the prospect of persistent propane supply shortages in Michigan is unlikely. Weather-driven or event-driven supply interruptions, such as experienced in 2014 during the Polar Vortex winter, will likely occur on occasion, as they have in the past. But with the prospect of plentiful supplies relative to demand, the main concern with the potential absence of Enbridge Line 5 is the delivered cost of alternative sources of propane.

LEI took a three-step approach to examining the cost of alternative supply sources and transportation routes to the Upper Peninsula.

1. **LEI examined public supply and transportation cost data.** To the extent public data were available, LEI compared them to the cost assumptions that underpinned the analysis conducted by Dynamic Risk. Section 3.1 provides a review of those costs. LEI found that some of Dynamic Risk’s assumptions were consistent with publicly-available data, and others were not.

2. **LEI replicated Dynamic Risk’s computations.** Using Dynamic Risk’s own assumptions and their cost model, LEI replicated Dynamic Risk’s calculations of the cost of alternatives to Line 5. This step ensured that we understood Dynamic Risk’s methodology and used their model correctly (but does not imply we agree with their assumptions). This is presented in Section 3.2.

3. **LEI tested the reasonableness of Dynamic Risk’s results.** LEI used the publicly-available data from Step 1 in the Dynamic Risk model (see Section 3.3) and calculated the results. LEI concluded that Dynamic Risk’s pipeline and trucking cost estimates were consistent with public sources of data, but the rail cost estimates were higher than supported by public sources. LEI calculated alternative rail transport costs.

LEI did not perform precisely the same analysis for the impact on Lower Peninsula costs, as the region is less reliant on Enbridge Line 5. However, we provided a qualitative view on the impacts on propane costs in the Lower Peninsula, in Section 3.3.5.

3.1 Step One: LEI examined data from publicly-available sources

LEI examined a broad array of public data sources to collect information on the key determinants of the cost of propane supply in Michigan.

3.1.1 Propane prices at supply hubs

Propane prices are published for hubs where large volumes are traded: at Mont Belvieu in Texas, Conway in Kansas, Sarnia in Ontario, and Edmonton in Alberta. Prices tend to be higher during winter and lower during summer (see Figure 25). Prices at Edmonton are lower than at the other hubs because supplies in Alberta are abundant, demand is much less than supply, the distance to markets is long, and transport capacity to the rest of North American is tight.
Figure 25. North American wholesale propane prices by market hub

Source: Bloomberg (spot FOB prices for Edmonton, Sarnia, and Conway) and EIA (Mont Belvieu, propane spot price FOB)

3.1.2 Transportation cost data

Pipeline tariffs for transportation of propane or NGLs are publicly available. Rail and truck costs have many elements which are not publicly available and are not simple to estimate, but some cost information is available in the public domain. This section covers key elements of pipeline, rail, and trucking costs for propane.

3.1.2.1 Costs by pipeline

Propane contracted for delivery via a pipeline usually pays for transportation costs at a published tariff for a specific route, with a receipt point near where the propane or NGLs are produced, to a delivery point where they are fractionated if needed and stored for distribution.

For transportation to Michigan, the transportation tariff for NGLs (including propane) on Enbridge’s system from Edmonton, Alberta to Rapid River, MI, is $20.5562 per cubic meter, or $0.078 per gallon.47 This is based on Enbridge’s 2011 Competitive Tolling Settlement (“CTS”) that came into effect in 2011 and expires in June 2021.48

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From Sarnia to the US border in Michigan (the end of the SDS line) the propane transportation pipeline tariff effective in 2016 was $0.008 per gallon.49

3.1.2.2 Elements of rail costs

Railroads offer tariffs in the form of "walk-up" rates which apply to the equivalent of a last-minute transaction. Most shippers do not pay walk-up rates. Instead, they pay discounted rates by providing their own equipment such as tanker cars, and/or committing to shipping large or fixed volumes.

Pressurized tanker cars are an important piece of the kit required to transport propane or other NGLs. The cost to lease such tankers is reported to range from about $100 per car per month to about $500 per car per month in 2017, down from a range of $100-$750 per car per month in 2016 (see Figure 26).

Rail cars may also be used to store propane. A distributor may find it cost-effective to buy propane in the summer when it is cheap and store it in a railcar until the winter. The cost to store a loaded rail car is reported to range from $10-$15 per rail car per day (about $300-$450 per month), while the cost to store an empty car is reported at about $3 per car per day (about $90 per month).50

49 NEB. “Plains Midstream Canada ULC Tariff (via the Sarnia Downstream Pipeline System).” Issued March 01, 2016.

Figure 26. LPG railcar lease rates, 2016 and 2017

Lease rates, 2016

Lease rates, 2017

Source: Energy Transport Insider

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3.1.2.3 Elements of propane trucking costs

Two important components of the cost of trucking propane are the driver’s salary and the cost of diesel fuel.

Public data for the hourly pay for a propane truck driver is reported to range from about $14 per hour to about $21 per hour not including benefits, bonuses, or commissions (see Figure 27). In comparison, Dynamic Risk assumed an hourly wage rate of $35 per hour, but might have included benefits, bonuses and commissions (they did not specify).

Figure 27. Hourly wage for propane delivery truck driver, not including benefits, bonuses, or commissions

Source: PayScale

Public data for the retail price of diesel fuel in PADD 2 including taxes was $2.00 to just under $3.00 per gallon in 2016/17 (see Figure 28). This compares to the $3.00 per gallon assumed by Dynamic Risk.

Figure 28. PADD 2 retail price of No. 2 diesel, ultra-low sulfur (0-15 ppm), including taxes

Source: EIA

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As discussed in more detail in Section 3.3, LEI used this public information to test the reasonableness of Dynamic Risk’s cost estimates.

3.2 Step two: LEI replicated Dynamic Risk’s propane supply cost results

Dynamic Risk calculated the impact on the cost of propane of several alternatives to Enbridge Line 5. Dynamic Risk concluded that the Upper Peninsula could face cost increases in the range of $0.10-$0.35 per gallon (based on winter months only). LEI replicated this analysis and arrived at a similar low end of the range. However, as LEI discusses in Section 3.3, high-cost options would not be adopted if low-cost options are available, and therefore should not be used to assess impacts on consumers.

To perform their analysis, Dynamic Risk examined several transportation and supply alternatives from three different hubs (see Figure 29).

![Figure 29. Dynamic Risk’s alternatives to Enbridge Line 5 for Upper Peninsula propane supplies](source: Dynamic Risk Appendix J)

Dynamic Risk relied on extensive and detailed cost assumptions and analysis, which they supplied in Appendix J of their Final Report. LEI will be referring to these assumptions, so we reproduced them for the reader’s convenience (see Figure 30 for rail cost assumptions and Figure 31 for trucking cost assumptions).


Figure 30. Dynamic Risk assumptions for alternative supply of propane – rail cost analysis

<table>
<thead>
<tr>
<th>General</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of Propane per Railcar</td>
<td>31,500</td>
<td>gal</td>
</tr>
<tr>
<td>Terminal Load/Unload Time</td>
<td>24</td>
<td>h</td>
</tr>
<tr>
<td>Operating Hours Per Day</td>
<td>24</td>
<td>h/d</td>
</tr>
<tr>
<td>Railcar Lease Cost</td>
<td>$3,000</td>
<td>Monthly</td>
</tr>
<tr>
<td>Railcar Storage Cost</td>
<td>$1,000</td>
<td>Monthly</td>
</tr>
<tr>
<td>Freight Charge</td>
<td>$10.00</td>
<td>$/bbbl</td>
</tr>
<tr>
<td>Transload Cost</td>
<td>$700</td>
<td>$/Railcar</td>
</tr>
<tr>
<td>Incremental Overhead</td>
<td>0.30</td>
<td>Man Years</td>
</tr>
<tr>
<td>Incremental Storage</td>
<td>270,000</td>
<td>gal</td>
</tr>
<tr>
<td>Capital Cost Storage Tanks (90,000 gal)</td>
<td>$350,000</td>
<td>$/Unit</td>
</tr>
<tr>
<td>Capital Cost Transload Equipment</td>
<td>$100,000</td>
<td>$/Unit</td>
</tr>
<tr>
<td>Useful Life (Storage Tank/Transloader)</td>
<td>20</td>
<td>Years</td>
</tr>
<tr>
<td>Amortization Rate</td>
<td>15%</td>
<td>Per Annum</td>
</tr>
<tr>
<td>Cost of Overhead</td>
<td>$80,000</td>
<td>$/Annun</td>
</tr>
<tr>
<td>Terminal Specific</td>
<td>Transit Time (h)</td>
<td>Cycle Time (h)</td>
</tr>
<tr>
<td>Kincheloe, MI</td>
<td>72</td>
<td>192</td>
</tr>
<tr>
<td>Owen, WI</td>
<td>36</td>
<td>120</td>
</tr>
</tbody>
</table>

Source: Dynamic Risk Appendix J

---

3.2.1 Replicating Dynamic Risk’s methodology and assumptions

As mentioned above, the purpose of Step 2 was to ensure LEI performed the cost calculations in the same way that Dynamic Risk did. Once that was established, LEI could then change key assumptions and examine the impact on the bottom line.

3.2.1.1 Replicating pipeline shipping costs

LEI compared the pipeline costs used by Dynamic Risk to the published tariffs for Enbridge Line 5 and SDS. Dynamic Risk’s assumptions were consistent with the published tariffs ($0.078

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per gallon for Enbridge Line 5 and $0.008 per gallon for SDS). There was therefore no need for LEI to perform further calculations to replicate pipeline shipping costs.

### 3.2.1.2 Replicating rail shipping costs

For the cost to ship by rail, LEI first examined Dynamic Risk’s results for the cost to ship by rail from Edmonton to Kincheloe; these costs include monthly railcar lease and storage costs, monthly freight costs, monthly transloading costs, and other costs. Dynamic Risk did not provide the numerical data for these results, but they did provide a visual representation in the Final Report, as Figure 4-4, page 4-10 and in Appendix J, as Figure J.2.1 (reproduced as Figure 32 below, for the reader’s convenience).

Dynamic Risk noted that their estimated transport costs by rail from Edmonton to Kincheloe were in the range of $0.12 to $0.50 per gallon (Final report, Section 4: Alternative 6, page 4-10). However, it is clear from the figure that accompanied the discussion that the range is more like $0.28 to $0.50 per gallon. If their Figure (reproduced as Figure 32 below) is correct, the Dynamic Risk text appears to contain an error.

![Figure 32. Dynamic Risk’s Edmonton to Kincheloe rail cost estimates](image)

LEI used this visual representation (and the $0.28 to $0.50 range) as a “target” for our replication of the Dynamic Risk analysis.

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LEI replicated these costs by using monthly propane deliveries to Rapid River (from Appendix C, pages C-2 and C-3). LEI cannot confirm the exact level of monthly propane deliveries Dynamic Risk used in its analysis, but we think it is reasonable to assume that their monthly estimate would be close to actual deliveries reported by Enbridge. Dynamic Risk said it reduced these deliveries by five percent to derive propane production volumes from the NGL flow data provided by Enbridge. To match Dynamic Risk’s methodology, LEI did the same. LEI then calculated the monthly freight charge by using the $10 per barrel charge used by Dynamic Risk (see Figure 30 above), converting it to dollars per gallon, and multiplying it by the number of gallons of propane delivered.

LEI replicated the railcar lease cost by multiplying Dynamic Risk’s monthly costs per car ($3,000, see Figure 30 above) by the number of railcars assumed by Dynamic Risk (39 cars, see Figure 30 above).

To replicate monthly storage costs, LEI first estimated the number of cars that would be in storage each month (Dynamic Risk did not provide this number). In December, January, and February we assumed no cars would be in storage, i.e., we assumed all 39 railcars would be needed for deliveries. For the other months, we scaled down the 39 cars based on the quantity of propane delivered in the month relative to the quantity delivered in December, January, and February. For example, if propane deliveries in April were only half the level of monthly deliveries in December, we assumed that half the railcars would be in storage in April. We then multiplied the number of cars in storage by the $1,000 per car storage cost assumed by Dynamic Risk (see Figure 30).

To replicate monthly transloading costs, LEI multiplied the monthly transloading fee of $700 per car by the number of cars in the fleet which were assumed to be operating in a given month (i.e., 39 less the number of cars assumed to be in storage) and by the number of trips the cars needed to make.

To replicate “Other operating costs,” LEI calculated monthly overhead and incremental overhead costs; for incremental overhead costs we assumed a 2,000-hour work year and a labor cost of $30 per hour.

To replicate “Other capital costs,” LEI assumed a 20-year asset life for storage tanks and transloading equipment (the same as Dynamic Risk); used the same capital costs as Dynamic Risk; assumed two units of transloading equipment (one for each end of the journey) would be needed, and three storage tanks (to accommodate the assumed 270,000 gallons of storage), and the same 15 percent discount rate that it appears Dynamic Risk used, to arrive at net present value of the capital. LEI assumed deliveries of 30 million gallons per year for 20 years, to arrive at an average annual fixed cost recovery charge of $0.0055 per gallon.

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61 Transloading refers to transferring cargo from one mode of transportation to another (such as railcar to truck) or transferring cargo from one vehicle to another. Source: UPDS. “How Transloading Works.” <https://web.archive.org/web/20160603200116/http://www.upds.com/customers/attachments/transload/transload_works.pdf>
LEI added all the monthly costs and divided by the monthly deliveries to Rapid River. We arrived at an average of $0.32 per gallon to ship by rail from Kincheloe to Rapid River for the time period covered by the Dynamic Risk analysis (see Figure 33 and Figure 34, which is a visual representation of the data in Figure 33). This is very close to Dynamic Risk’s $0.31 per gallon estimate of the incremental rail cost for the same route.  

As can be seen in Figure 34 in comparison to Figure 32, LEI’s total monthly freight charges were nearly identical to Dynamic Risk’s, which indicates LEI replicated Dynamic Risk’s approach for that cost component almost perfectly. LEI’s estimates of monthly storage and transloading costs appear to be slightly different from Dynamic Risk’s, which probably reflects slightly different assumptions for the number of cars in service versus in storage in a given month.

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**Figure 33. LEI’s replication of Dynamic Risk’s costs for rail shipping from Edmonton to Kincheloe (numerical data)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Propane deliveries to Rapid River (gallons)*</th>
<th>Freight charge</th>
<th>Number of rail cars in fleet</th>
<th>Railcar lease cost</th>
<th>Railcar storage cost</th>
<th>Transloading cost</th>
<th>Overhead plus incremental overhead cost</th>
<th>Fixed capital recovery</th>
<th>LEI replication of cost per gallon</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Jan</td>
<td>3,843,224</td>
<td>$915,053</td>
<td>39.0</td>
<td>$17,000</td>
<td>$0</td>
<td>$85,405</td>
<td>$8,167</td>
<td>$21,138</td>
<td>$0.30</td>
</tr>
<tr>
<td>2015</td>
<td>Feb</td>
<td>4,005,346</td>
<td>$953,654</td>
<td>39.0</td>
<td>$17,000</td>
<td>$0</td>
<td>$92,762</td>
<td>$8,167</td>
<td>$22,029</td>
<td>$0.30</td>
</tr>
<tr>
<td>2015</td>
<td>Mar</td>
<td>2,925,207</td>
<td>$696,478</td>
<td>39.0</td>
<td>$17,000</td>
<td>$9,316</td>
<td>$49,477</td>
<td>$8,167</td>
<td>$16,089</td>
<td>$0.31</td>
</tr>
<tr>
<td>2015</td>
<td>Apr</td>
<td>1,934,913</td>
<td>$460,694</td>
<td>39.0</td>
<td>$17,000</td>
<td>$19,365</td>
<td>$21,648</td>
<td>$8,167</td>
<td>$10,642</td>
<td>$0.33</td>
</tr>
<tr>
<td>2015</td>
<td>May</td>
<td>1,369,246</td>
<td>$326,011</td>
<td>39.0</td>
<td>$17,000</td>
<td>$25,105</td>
<td>$10,841</td>
<td>$8,167</td>
<td>$7,531</td>
<td>$0.36</td>
</tr>
<tr>
<td>2015</td>
<td>Jun</td>
<td>1,174,500</td>
<td>$279,643</td>
<td>39.0</td>
<td>$17,000</td>
<td>$27,081</td>
<td>$7,976</td>
<td>$8,167</td>
<td>$6,460</td>
<td>$0.38</td>
</tr>
<tr>
<td>2015</td>
<td>Jul</td>
<td>1,377,026</td>
<td>$327,863</td>
<td>39.0</td>
<td>$17,000</td>
<td>$25,026</td>
<td>$10,964</td>
<td>$8,167</td>
<td>$7,574</td>
<td>$0.36</td>
</tr>
<tr>
<td>2015</td>
<td>Aug</td>
<td>1,509,282</td>
<td>$395,353</td>
<td>39.0</td>
<td>$17,000</td>
<td>$23,684</td>
<td>$13,171</td>
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<td>$8,301</td>
<td>$0.35</td>
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<td>$17,000</td>
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<td>$8,158</td>
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<td>Oct</td>
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<td>$503,835</td>
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<td>$17,000</td>
<td>$17,526</td>
<td>$25,892</td>
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<td>Nov</td>
<td>2,341,471</td>
<td>$557,493</td>
<td>39.0</td>
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<td>$15,239</td>
<td>$31,701</td>
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<td>$12,878</td>
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<tr>
<td>2015</td>
<td>Dec</td>
<td>3,851,004</td>
<td>$916,906</td>
<td>39.0</td>
<td>$17,000</td>
<td>$0</td>
<td>$85,751</td>
<td>$8,167</td>
<td>$21,181</td>
<td>$0.30</td>
</tr>
<tr>
<td>2016</td>
<td>Jan</td>
<td>4,286,673</td>
<td>$1,020,637</td>
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<td>$17,000</td>
<td>$0</td>
<td>$95,259</td>
<td>$8,167</td>
<td>$23,577</td>
<td>$0.30</td>
</tr>
<tr>
<td>2016</td>
<td>Feb</td>
<td>4,300,476</td>
<td>$1,023,923</td>
<td>39.0</td>
<td>$17,000</td>
<td>$0</td>
<td>$95,566</td>
<td>$8,167</td>
<td>$23,653</td>
<td>$0.29</td>
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<td>2,458,419</td>
<td>$585,338</td>
<td>39.0</td>
<td>$17,000</td>
<td>$14,053</td>
<td>$34,946</td>
<td>$8,167</td>
<td>$15,521</td>
<td>$0.31</td>
</tr>
<tr>
<td>2016</td>
<td>Apr</td>
<td>2,906,134</td>
<td>$691,937</td>
<td>39.0</td>
<td>$17,000</td>
<td>$9,509</td>
<td>$48,834</td>
<td>$8,167</td>
<td>$15,984</td>
<td>$0.31</td>
</tr>
<tr>
<td>2016</td>
<td>May</td>
<td>1,898,273</td>
<td>$451,970</td>
<td>39.0</td>
<td>$17,000</td>
<td>$19,737</td>
<td>$20,836</td>
<td>$8,167</td>
<td>$10,441</td>
<td>$0.33</td>
</tr>
<tr>
<td>2016</td>
<td>Jun</td>
<td>843,231</td>
<td>$200,769</td>
<td>39.0</td>
<td>$17,000</td>
<td>$30,443</td>
<td>$4,111</td>
<td>$8,167</td>
<td>$4,638</td>
<td>$0.43</td>
</tr>
<tr>
<td>2016</td>
<td>Jul</td>
<td>645,724</td>
<td>$153,744</td>
<td>39.0</td>
<td>$17,000</td>
<td>$32,447</td>
<td>$2,411</td>
<td>$8,167</td>
<td>$5,551</td>
<td>$0.49</td>
</tr>
<tr>
<td>2016</td>
<td>Aug</td>
<td>1,013,375</td>
<td>$240,804</td>
<td>39.0</td>
<td>$17,000</td>
<td>$28,757</td>
<td>$5,914</td>
<td>$8,167</td>
<td>$5,563</td>
<td>$0.40</td>
</tr>
<tr>
<td>2016</td>
<td>Sep</td>
<td>1,249,788</td>
<td>$297,569</td>
<td>39.0</td>
<td>$17,000</td>
<td>$26,317</td>
<td>$9,032</td>
<td>$8,167</td>
<td>$6,874</td>
<td>$0.37</td>
</tr>
</tbody>
</table>

Weighted average: $0.32

*Deliveries reduced by 5 percent per month to be consistent with Dynamic Risk’s calculations.

---

LEI’s replication of Dynamic Risk’s results does not imply that LEI agrees with Dynamic Risk’s assumptions. It simply confirmed that LEI understood Dynamic Risk’s approach and used Dynamic Risk’s assumptions correctly.

3.3 Step three: LEI calculated propane transportation costs using public data

For the final step, LEI substituted public data into the Dynamic Risk models, and calculated the results.

For the rail analysis, LEI’s research of public sources discussed in Section 3.1 above indicated that LPG tanker car lease costs were considerably less than $3,000 per car per month assumed by Dynamic Risk. Costs for 2016-2017 ranged from $100-$750 per car per month, depending on supply and demand conditions and length of lease (see Figure 26 previously). Railcar storage costs (for empty cars) was reported at $90 per car per month; storage of loaded cars was reported at $300-$450 per car per month.

LEI performed the same analysis as described above but substituted $750 per car per month for the railcar lease cost (Dynamic Risk assumed $3,000) and $450 per car per month storage cost—assuming cars are stored loaded (Dynamic Risk assumed $1,000 per car per month). This resulted in an average cost of $0.27 per gallon (see Figure 35), which was $0.05 per gallon lower than the $0.32 per gallon estimated by LEI using Dynamic Risk’s assumptions. The lower lease cost per rail car shifted the cost per month downward, while the lower storage cost flattened the summer peak in cost per gallon.
LEI performed the same calculations for the rail cost from Conway, KS to Owen, WI. We calculated the cost per gallon assuming lease costs were $750 per car per month and storage costs were $450 per car per month. LEI’s assumptions based on the public data resulted in costs of $0.15 per gallon, a reduction of $0.03 per gallon compared to LEI’s replication of Dynamic Risk’s results.

3.3.1 Trucking costs

For the cost of trucking propane to Rapid River, Dynamic Risk reported a winter average cost of $0.06 per gallon (Kincheloe to Rapid River), $0.09 per gallon (Owen to Rapid River), and $0.11 per gallon (Superior to Rapid River) (see Figure 37). LEI replicated Dynamic Risk’s trucking

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analysis in the same manner as we did for their rail analysis. On an annual average basis, LEI calculated that trucking costs were $0.09 per gallon from Kincheloe to Rapid River, $0.12 per gallon from Owen to Rapid River, and $0.14 per gallon for Superior to Rapid River. LEI’s annual averages are somewhat higher than Dynamic Risk’s wintertime averages, because fixed costs are spread over fewer volumes in the non-winter months.

<table>
<thead>
<tr>
<th>Route</th>
<th>Dynamic Risk estimate (November-March average)</th>
<th>LEI replication of Dynamic Risk's results using Dynamic Risk's assumptions (annual average)</th>
<th>LEI trucking cost using public data (annual average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kincheloe to Rapid River</td>
<td>$0.06</td>
<td>$0.09</td>
<td>$0.08</td>
</tr>
<tr>
<td>Owen to Rapid River</td>
<td>$0.09</td>
<td>$0.12</td>
<td>$0.11</td>
</tr>
<tr>
<td>Superior to Rapid River</td>
<td>$0.11</td>
<td>$0.14</td>
<td>$0.12</td>
</tr>
</tbody>
</table>

LEI’s replication of Dynamic Risk’s results does not imply that LEI agrees with Dynamic Risk’s assumptions. It simply confirmed that LEI understood Dynamic Risk’s approach and used Dynamic Risk’s assumptions correctly.

LEI’s analysis of publicly available data showed different values to those used by Dynamic Risk: 11,000-gallon truck volume (Dynamic Risk assumed 10,400 gallons); and recent (winter 2017/18) diesel fuel prices somewhat below Dynamic Risk’s $3.00 per gallon). Public data for driver wages was lower than the $35 per hour used by Dynamic Risk, but did not include benefits, bonuses, or commissions. LEI assumed an average pay of $17 per hour (from Figure 27), a 2,000-hour working year, $18,000 per driver per year for health insurance, and $8,000 for bonuses and commissions, for a total cost of $30 per hour. Substituting public data (11,000-gallon truck, $2.90 per gallon diesel price, and a wage cost of $30 per hour) into the Dynamic Risk model reduced the cost per gallon for each of the routes by about $0.01 per gallon (see Figure 37 above).

3.3.2 The cost of rail from Superior to Rapid River

LEI also estimated the cost of transportation on a hypothetical new rail connection and transloading facilities at Rapid River. We used the same analytical framework and cost assumptions we used for the analysis of the other rail options and adjusted for the distance between Superior and Rapid River (which impacts transit time and therefore the number of railcars needed). We included the cost of storage and offloading equipment using the same


65 https://www.indeed.com/q-Propane-Delivery-Driver-Class-B-CDL-Tanker-Hazmat-jobs.html
assumptions as Dynamic Risk. The one important element of cost which is not publicly available is the freight rail charge. Canadian National Railway Company (“CN”) currently serves this route but does not have a published tariff for LPGs. LEI calculated that, assuming a freight rate of up to $4.00 per barrel ($0.095 per gallon), rail from Superior to Rapid River would be within a fraction of a cent of trucking. This $4.00 per barrel would likely be the highest price a railroad could charge—it if were any higher, it would lose the propane business to truckers.

3.3.3 Upper Peninsula propane costs could increase $0.11 per gallon on an annual average basis

LEI combined the transport costs we estimated based on public data with cost of supply at alternative sources, to arrive at the total cost of propane at Rapid River. On a weighted average annual basis, the cost of propane at Rapid River was lowest, at $0.61 per gallon, if delivered by Enbridge Line 5 from Edmonton (see Figure 38). The next lowest-cost options are the combination of pipeline to Superior, and thence by rail or truck to Rapid River, with an incremental cost of $0.11 per gallon (including variable costs, overhead, and capital costs). A rail carrier may choose to charge a freight rate lower than $4.00 per barrel, in which case the incremental cost could be lower than $0.11 per gallon.

<table>
<thead>
<tr>
<th>Market hub</th>
<th>Edmonton, Alberta</th>
<th>Conway, KS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hub price, 2017</td>
<td>$0.53</td>
<td>$0.53</td>
</tr>
<tr>
<td>Mode of transportation</td>
<td>Pipeline</td>
<td>Pipeline</td>
</tr>
<tr>
<td>Cost of transportation</td>
<td>$0.078</td>
<td>$0.064</td>
</tr>
<tr>
<td>Terminal</td>
<td>Superior, WI</td>
<td>Superior, WI</td>
</tr>
<tr>
<td>Mode of transportation</td>
<td>Rail</td>
<td>Truck</td>
</tr>
<tr>
<td>Cost of transportation</td>
<td>$0.126</td>
<td>$0.124</td>
</tr>
<tr>
<td>Total cost</td>
<td>$0.61</td>
<td>$0.720</td>
</tr>
<tr>
<td>Difference</td>
<td>$0.11</td>
<td>$0.11</td>
</tr>
</tbody>
</table>

*Figure 38. Estimated weighted average annual cost of propane supply to Rapid River (all costs in $ per gallon)*

66 By using the propane price at Edmonton rather than a value for NGLs at Edmonton, LEI implicitly assumed fractionation costs are included in the supply hub price, though the fractionation does not occur until the NGLs arrive at Rapid River.

67 LEI also analyzed the cost of trucking from Sarnia to Rapid River, using the same assumptions used for the other trucking options. This route requires crossing the Straits, which is not favored by NWF. In any case, the cost of that option was $1.00 per gallon ($0.82 per gallon supply cost plus a $0.18 per gallon trucking cost) which made it clearly out-of-the-money.
3.3.4 Other alternatives cost more

In theory, there are a wide variety of options for supply sources and routes to the Upper Peninsula. In practice, any viable alternative would have to be cheaper than the Edmonton-Superior alternatives, otherwise suppliers would not invest in it—they would not be able to beat the cost of the Edmonton-Superior route. For example:

- **Expanding storage at Kincheloe:** Dynamic Risk noted that propane storage exists at Kincheloe, which receives propane by rail from Alberta.\(^68\) LEI’s analysis summarized in Figure 38 shows that that even if rail or trucking from Kincheloe to Rapid River was free, the total cost of using the Kincheloe route would be $0.80 per gallon, which is more expensive than the Edmonton-Superior route. Therefore, LEI did not examine the option of expanding storage at Kincheloe—it cannot compete economically with the Edmonton-Superior route.

- **A new 4-inch diameter pipeline from Superior:** LEI was asked to examine whether a new, smaller pipeline dedicated to transport of propane to the Upper Peninsula would be economically viable. LEI modeled a 4-inch (internal diameter) pipeline running 290 miles from Superior Wisconsin, to Rapid River. Even if the cost of abandoning Line 5 in the Upper Peninsula is excluded, and even if operating and maintenance costs are excluded, the cost of this option was very expensive. At an assumed capital cost of about $2 million per mile,\(^69\) a length of 290 miles from Superior to Rapid River, a 40-year period to cover return of capital, and a four percent discount rate, the cost would be $0.86 per gallon. This is expensive because the volume of propane needed in the Upper Peninsula is too small to support the capital cost of dedicated pipeline.

- **Using existing Line 5 far below capacity:** Apart from any engineering and operational problems, this would involve a large increase in transportation costs per gallon. Pipeline tariffs are designed to recoup investment and are agreed under a regulatory process. Propane demand in Rapid River is less than 4,000 barrels per day even in high-demand months, less than one percent of the 540,000 barrels which is the basis of the current tariff. Continued operations would require a very large increase in the tariff, given the small volume of propane and large pipeline capacity.

LEI concluded that the Edmonton-Superior route which relies on pipeline service to Superior and trucking or rail transport to Rapid River, is the lowest-cost alternative and therefore the most likely market response if Enbridge Line 5 did not exist.

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3.3.5 Lower Peninsula may have negligible cost impact

For the Lower Peninsula, the loss of the delivery of NGLs to Sarnia may have a negligible cost impact. Enbridge Line 5 is the main source of NGLs to Sarnia as noted in Section 2.6, but it is not the only source. Sarnia is located close to cheap sources of NGLs from the Marcellus shale. Dynamic Risk noted that “(w)ith the potential availability of low cost ethane and additional propane from Marcellus and Utica, the Sarnia area petrochemical industry is able to source alternate feedstock supplies for their respective plants given the well-developed infrastructure and logistics available in the region as well as proposed new pipelines.”

Dynamic Risk estimated the cost impact at $0.06 per gallon (on Sarnia supply costs), and also noted that the producers would probably absorb some of this cost increase. LEI examined Dynamic Risk’s assumptions and calculations and found that, assuming Dynamic Risk’s assumption of a stand-alone rail rate of $6.49 per barrel from Superior to Sarnia (which we could not verify) and the other assumptions (which we could verify), that the $0.06 per gallon could be accurate, assuming the NGLs had to come from Edmonton through Superior.

However, there is no obvious reason why the 4 million gallons per day of NGLs processed at the Sarnia fractionation plant would have to be sourced from Edmonton via Superior. Sarnia is closer to the Marcellus supply region than it is to Superior. If Sarnia needed additional supplies of NGLs, rail transport from Ohio through Michigan might be cheaper because the distance is shorter, and pipeline transport costs might be lower still. So, if Line 5 were not in service, Sarnia could still receive NGLs, and still provide propane via SDS to Michigan.

Also, in terms of propane rather than NGLs, the potential future expansion of the Utopia pipeline could increase the quantity of propane shipped into the Lower Peninsula. This could potentially add 25,000 barrels per day, which coincidentally is the equivalent of the 25,000 barrels per day currently shipped from Sarnia on SDS. The tariff for this has not been established (as the expansion is not under way, it is only proposed) so costs are not known. LEI examined several recent tariff filings and found a range of $0.064 per gallon to $0.089 per gallon for propane transportation by pipeline, which gives a general indication of the potential cost. The supply cost of propane in the Marcellus region is not widely available or publicly reported, so LEI could not estimate the total cost of propane supply plus transportation, to compare it to the $0.828 per gallon total from Sarnia.

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72 Blue Racer NGL Pipelines, Inc. “Local pipeline tariff. FERC oil tariff.” December 2015; Tri-Sates NGL Pipeline, LLC. “FERC oil tariff.” January 2016; and Mid-America Pipeline Company.

73 Adding the $0.008 per gallon rate on SDS to the average propane cost at Sarnia of $0.82 (from January 2016-December 2017) totals $0.828 from Sarnia to Detroit.
4 Impact of a cost increase on consumer prices

The cost increases will not be borne entirely by consumers in the Upper Peninsula of Michigan. LEI found that $0.05 per gallon of the $0.11 per gallon cost increase would be borne by consumers in the form of a price increase. The remaining $0.06 per gallon would be borne by producers and suppliers in the form of lower margins.

4.1 Cost increase is shared by suppliers and consumers

To estimate the shares of the cost borne by suppliers versus consumers, LEI used econometric analysis of propane supply and demand in Michigan. LEI focused on the impact of prices on supply and demand; there are drivers other than price that can affect supply and demand, and econometric analysis isolates these, so that we can examine the impact of prices alone. Detailed information about the econometric methodology, the drivers tested, data LEI used, and the results are available in Section 6 (Appendix A).

LEI used the econometric analysis to create supply and demand curves for propane in Michigan (see Figure 39). The orange dots represent Michigan propane supply as it relates to the price of propane; as prices rise suppliers are willing and able to supply more propane, so the orange trend has an upward slope. The blue dots are Michigan demand for propane as it relates to price. It has a downward slope in relation to propane prices, because as prices rise consumers are less able or willing to buy propane. The market-clearing residential price, where (orange) supply and (blue) demand meet, is $2.284 per gallon (see Appendix A for calculations).

The grey line shows the supply of propane if the cost goes up $0.11 per gallon. This added cost shifts the supply curve upward: at any given quantity, the cost is $0.11 per gallon more. However, the new market-clearing price is not $2.394 (i.e., $2.284 + $0.11) per gallon. It is lower than that. This is because the demand curve is not perfectly vertical—it has a downward slope, because, as mentioned above, people want less propane when it costs more. The new market-clearing price, where supply and demand meet, is $2.337 per gallon, which is $0.053 per gallon higher (see Appendix A for calculations).
Figure 39. Supply and demand for propane in Michigan, 2008-2018

Based on data for January-March and October-December
5 Conclusions and implications

Without access to propane from Enbridge Line 5, consumers would seek the next-least-expensive alternative; and suppliers would not attempt to serve the market using a supply route that costs more than the cheapest option. The cheapest option is rail or trucking from Superior, WI. LEI estimates this would add about $0.11 per gallon to the weighted average annual cost of propane.

It would not make sense for consumers to choose the other alternatives unless there were some interruption in pipeline service to Superior, or road or rail access from Superior to Rapid River was closed off. Thus, it does not make sense to assume that the impact of the loss of Line 5 would be a $0.35 per gallon “upper bound,” as Dynamic Risk argued. The upper bound would only be relevant if the lower-cost alternatives did not exist. The upper bound cost impact under normal operating conditions would be $0.11 per gallon, the cost at which the two lowest-cost alternatives would compete to supply the market.

5.1 Consumers would pay for part of the cost increase, but not all of it

The demand for propane in Michigan, like demand for most goods and services in most places, is “downward-sloping.” This means that consumers will buy less of something when its price goes up. LEI’s econometric analysis shows that, of an $0.11 per gallon cost increase, the residential price of propane would increase $0.05 per gallon.

5.2 The price increase would be lost in the noise of typical price volatility

Each week, the price of propane varies widely compared with its monthly average. For Michigan, weekly prices of propane have been as low as $0.86 per gallon even in the winter, and as high as over $3.50 per gallon (see Figure 40). This wide variation is often referred to as price volatility and is typically measured as the standard deviation of prices. For Michigan residential propane prices, the standard deviation of weekly prices for 2008-2018 was about $0.58 per gallon. This is much larger than the $0.05 per gallon price increase estimated for the Upper Peninsula from using an alternative to Enbridge Line 5.

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5.3 New supplies, but no surprises

LEI’s economic analysis of supply options assumes that the need to transition to a new supply option, and the timing of this need, would be known in advance. This gives the industry time to plan. The Polar Vortex and surprises such as pipeline outages drive up prices precisely because they are unexpected. But if Enbridge Line 5 were not operating, ideally regulators and stakeholders would establish a timeline so that the industry can create new supply and transportation routes.

If Enbridge Line 5 did not exist, consumers should not expect shortages of supply under normal conditions (i.e., assuming the railroads are running, and highways are open). Consumers should continue to expect the price of propane to reflect supply and demand, weather conditions, and volatility, as it has for many years.
6 Appendix A: Details of econometric analysis of propane supply and demand

Econometric estimation is a technique based on statistical analysis of historical data. If enough data is available, econometric analysis allows isolation of the individual impacts of prices and of other drivers (known as regressors, or explanatory variables) on demand for a good; or similarly, on supply of a good.

6.1 Econometric model specification

LEI used a standard formulation of a system of demand and supply equations, which includes the price of the good as an explanatory variable for both demand and supply.

6.1.1 Demand model

The price of a good is a driver of demand, in that a higher price would probably reduce demand and a lower price would increase demand, so economists include price an explanatory variable in any demand model. Propane is used for heating, so the weather (measured as number of heating degree days (“HDD”)) is likely to be an important driver. Propane is also used for drying crops, a seasonal activity which typically happens in October. Finally, demand for propane could increase over time, or it could fall over time, depending on other factors such as adoption of other heating fuels, or a rising population. We do not necessarily know what these time-dependent factors might be, but we can include an explanatory variable which tracks an underlying trend over time and discover whether it tends to increase or decrease demand. If there is no impact over time, the econometric results would indicate that, too. This model is shown in Figure 41.

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Regressors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity demanded</td>
<td>Price, HDD, October, time</td>
</tr>
<tr>
<td>Quantity supplied</td>
<td>Price, time</td>
</tr>
</tbody>
</table>

6.1.2 Supply model

The price of propane is an incentive to supply it. A rising price would, all else equal, encourage more supply, while a lower price would induce less supply. Availability of propane could increase over time, or it could fall over time, depending on a variety of factors such as NGL

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75 A heating degree day is defined as the difference in the average temperature on a given day from 65 degrees Fahrenheit. For example, a day in which the temperature averaged 30 degrees would account for 35 heating degree days.
production and demand from refineries. Just as for propane demand, we do not necessarily know what these time-dependent factors might be, but we can track the trend over time and discover whether it tends to increase supply, decrease supply, or has no impact on supply. The supply model is also shown in Figure 41.

### 6.2 Data used in the econometric analysis

LEI used data from the EIA and the US National Oceanographic and Atmospheric Administration (“NOAA”) (see Figure 42). The EIA price and consumption data are available for Michigan as a whole, but not for the Upper Peninsula separately; LEI used Michigan-wide data for the econometric analysis.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Source</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential propane prices</td>
<td>EIA, Weekly Michigan Propane Residential Price (Dollars per Gallon)</td>
<td>converted to monthly prices to match consumption</td>
</tr>
<tr>
<td>Michigan propane consumption</td>
<td>EIA, Michigan Propane All Sales/Deliveries by Prime Supplier (Thousand Gallons per Day)</td>
<td>monthly data</td>
</tr>
<tr>
<td>Michigan heating degree days</td>
<td>NOAA, heating degree days, ftp://ftp.cpc.ncep.noaa.gov/htdocs/degree_days/weighted/legacy_files/heating/statesCONUS/</td>
<td>monthly data</td>
</tr>
</tbody>
</table>

LEI created the variable for October by using a “1” if the observation was in October, and “0” if not. This standard formulation is known as a “dummy variable.” The time trend regressor equals “1” in 2008, and subsequent years are “2”, “3”, “4”, etc. All the data values are shown in Figure 43. All data was for 2008-2018, for the months of January-March and October-December (except for 2018, for which only January data was available). This provided a sample size of 61 observations, which is enough observations to support statistically significant results.76

LEI computed the logarithms of consumption, price, and HDD and used those values in the econometric model. This widely-used formulation provides a straightforward way of interpreting the estimated coefficients: they are the elasticities of demand, as in “a one-percent change in the price of propane is associated with an x-percent change in demand.”

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76 The more observations in a sample of data, the more likely it is that the sample represents reality. Statistical significance refers to whether the results of the econometric analysis are likely to closely match reality.
Figure 43. Data used in econometric analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>MI residential price (2016 $ per gallon)</th>
<th>MI heating degree days</th>
<th>Time trend</th>
<th>October dummy</th>
<th>Consumption (gallons per day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>1</td>
<td>2.71</td>
<td>1205</td>
<td>1.00</td>
<td>0</td>
<td>1,778,000</td>
</tr>
<tr>
<td>2008</td>
<td>2</td>
<td>2.71</td>
<td>1257</td>
<td>1.00</td>
<td>0</td>
<td>2,047,300</td>
</tr>
<tr>
<td>2008</td>
<td>3</td>
<td>2.72</td>
<td>1066</td>
<td>1.00</td>
<td>0</td>
<td>1,329,100</td>
</tr>
<tr>
<td>2008</td>
<td>10</td>
<td>2.73</td>
<td>511</td>
<td>1.00</td>
<td>1</td>
<td>1,087,000</td>
</tr>
<tr>
<td>2008</td>
<td>11</td>
<td>2.67</td>
<td>824</td>
<td>1.00</td>
<td>0</td>
<td>1,074,800</td>
</tr>
<tr>
<td>2008</td>
<td>12</td>
<td>2.65</td>
<td>1239</td>
<td>1.00</td>
<td>0</td>
<td>1,680,900</td>
</tr>
<tr>
<td>2009</td>
<td>1</td>
<td>2.59</td>
<td>1521</td>
<td>2.00</td>
<td>0</td>
<td>1,945,900</td>
</tr>
<tr>
<td>2009</td>
<td>2</td>
<td>2.58</td>
<td>1085</td>
<td>2.00</td>
<td>0</td>
<td>1,525,300</td>
</tr>
<tr>
<td>2009</td>
<td>3</td>
<td>2.54</td>
<td>911</td>
<td>2.00</td>
<td>0</td>
<td>1,055,000</td>
</tr>
<tr>
<td>2009</td>
<td>10</td>
<td>1.97</td>
<td>556</td>
<td>2.00</td>
<td>1</td>
<td>972,100</td>
</tr>
<tr>
<td>2009</td>
<td>11</td>
<td>2.14</td>
<td>669</td>
<td>2.00</td>
<td>0</td>
<td>1,171,600</td>
</tr>
<tr>
<td>2010</td>
<td>1</td>
<td>2.31</td>
<td>1176</td>
<td>2.00</td>
<td>0</td>
<td>1,654,000</td>
</tr>
<tr>
<td>2010</td>
<td>2</td>
<td>2.56</td>
<td>1296</td>
<td>3.00</td>
<td>0</td>
<td>1,554,700</td>
</tr>
<tr>
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<td>10</td>
<td>2.31</td>
<td>395</td>
<td>3.00</td>
<td>1</td>
<td>633,900</td>
</tr>
<tr>
<td>2010</td>
<td>11</td>
<td>2.41</td>
<td>758</td>
<td>3.00</td>
<td>0</td>
<td>878,400</td>
</tr>
<tr>
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<td>12</td>
<td>2.50</td>
<td>1246</td>
<td>3.00</td>
<td>0</td>
<td>1,516,000</td>
</tr>
<tr>
<td>2011</td>
<td>1</td>
<td>2.55</td>
<td>1397</td>
<td>4.00</td>
<td>0</td>
<td>1,528,400</td>
</tr>
<tr>
<td>2011</td>
<td>2</td>
<td>2.59</td>
<td>1156</td>
<td>4.00</td>
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</tr>
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<td>2011</td>
<td>3</td>
<td>2.59</td>
<td>1023</td>
<td>4.00</td>
<td>0</td>
<td>1,061,500</td>
</tr>
<tr>
<td>2011</td>
<td>10</td>
<td>2.61</td>
<td>420</td>
<td>4.00</td>
<td>1</td>
<td>656,000</td>
</tr>
<tr>
<td>2011</td>
<td>11</td>
<td>2.65</td>
<td>654</td>
<td>4.00</td>
<td>0</td>
<td>972,600</td>
</tr>
<tr>
<td>2011</td>
<td>12</td>
<td>2.69</td>
<td>980</td>
<td>4.00</td>
<td>0</td>
<td>1,138,100</td>
</tr>
<tr>
<td>2012</td>
<td>1</td>
<td>2.65</td>
<td>1116</td>
<td>5.00</td>
<td>0</td>
<td>1,164,700</td>
</tr>
<tr>
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6.3 Econometric analysis

LEI estimated the demand and supply equations separately. We then used the results of the econometric analysis to calculate the impact of a $0.11 per gallon cost increase on the market-clearing price.

6.3.1 Econometric results, demand

LEI’s econometric results showed that, for the demand model, the impact of a one-percent increase in price was to reduce quantity demanded by 0.29 percent (see Figure 44). This relationship defines the downward slope of the demand curve. For every one percent increase in HDD in a given month, demand increased by 0.88 percent. The impact of the time trend was negative: each year, Michigan demand declined by 0.01 percent. The impact of October was positive: 0.26 percent more propane would be used in October than in the other months, independently of price, time, or HDD.

<table>
<thead>
<tr>
<th>Demand model</th>
<th>Estimated coefficient</th>
<th>Standard Error</th>
<th>t-Statistic</th>
<th>P value</th>
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<td>-2.24</td>
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<td>0.07</td>
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<tr>
<td>Time trend</td>
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<td>0.05</td>
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<td>October</td>
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<td>0.07</td>
<td>3.73</td>
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</table>

Note that “ln” refers to the natural logarithm of the regressor.

The results are statistically significant. The measures of statistical significance LEI used in this analysis are the well-known t-statistic and P value. The t-statistic is the difference between the estimated coefficient and zero (i.e., its value under the null hypothesis “H₀”), divided by its standard error (see Figure 44). A t-statistic with an absolute value which is 2 or greater (given our 61 observations) indicates that we can be 95 percent confident that the estimated coefficient is accurate.

The P value is the probability of erroneously rejecting H₀ when it is true. For example, the P value of 0.03 in Figure 44 for the estimated coefficient on price indicates that there would be

77 For our study, zero is the hypothesized value—i.e., we test the estimated coefficient against zero, which would be its value if the driver (for example, price) had no impact on demand. This is referred to as the “null hypothesis” or “H₀.”
only a 3 percent chance of making that mistake. This means that we can be 97 percent sure that the estimated coefficient for price is accurate.

6.3.2 Econometric results, supply

LEI’s econometric results showed that, for the supply model, a one percent increase in price increased quantity supplied by 0.54 percent (see Figure 45). This relationship defines the positive slope of the supply curve. The P value indicates that the estimated coefficient for price is significant at 98 percent.

The impact of the time trend was not statistically significant in a model that LEI tested which included the time trend, so we left time out of the final supply model.

Figure 45. Econometric results, supply

<table>
<thead>
<tr>
<th>Supply model</th>
<th>Estimated coefficient</th>
<th>Standard Error</th>
<th>t-Statistic</th>
<th>P value</th>
</tr>
</thead>
<tbody>
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<td>Intercept after cost increase:</td>
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6.3.3 Impact of cost increase

When supply is equal to demand, the market is said to “clear.” LEI solved for the market-clearing price (where the supply and demand curves intersect):

\[
\text{ln(quantity demanded)} = 8.27 - (0.29 \times \text{ln(price)}) + (0.88 \times \text{ln(HDD average value)}) - (0.01 \times \text{time average value}) + (0.26 \times \text{October average value})
\]

\[
\text{ln(quantity supplied)} = 13.54 + (0.54 \times \text{ln(price)})
\]

Setting supply equal to demand and solving for the market-clearing price results in a price of $2.284 dollars per gallon.

If the cost to supply propane goes up $0.11 per gallon, the supply curve shifts upward by $0.11 per gallon, resulting in a new intercept of 13.52. The set of equations now has a new intercept for the supply curve:

\[
\text{ln(quantity demanded)} = 8.27 - (0.29 \times \text{ln(price)}) + (0.88 \times \text{ln(HDD average value)}) - (0.01 \times \text{time average value}) + (0.26 \times \text{October average value})
\]

\[
\text{ln(quantity supplied)} = 13.52 + (0.54 \times \text{ln(price)})
\]

Again, we set supply equal to demand and solve for the market-clearing price. The new price is $2.337 per gallon, $0.053 per gallon more than the old price.