



Market madness

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By: [James E. Guyette](#)
LP Gas

A marginal year? Not this time around.

When the worldwide recession drove down the cost of oil from \$147 per barrel to \$37, it took propane's pricing right along with it. Although some parts of the country endured more bottlenecks than a brewery, as spring approaches many marketers appear to be on tap for a profitable tally this year – with the proviso that overtime and other overhead needs to be tabulated along with the prospects of actually collecting the money.

“At least on paper, it looks like retail margins have been pretty high,” says economist Neil Gamson at the Energy Information Administration (EIA). The average consumer cost of \$2.55 per gallon during the winter of 2007-08 dropped only 20 cents this year, he reports. “The wholesale price dropped a lot more.”

“It was a 70 percent drop at its peak,” according to consultant Marty Lerum at Propane Resources. “This is the highest fall in prices that we’ve seen in history. The margins were 20 percent higher than what you would get in flat-year pricing with normal weather conditions.

“The retail prices held; they didn’t come down as fast as the market because the market fell so precipitously,” Lerum says.

“It’s a real plus for the industry, no doubt about that,” he continues, posing a pointed question marketers are likely to face going forward: “How much am I going to get? You’ll be hearing a lot about collections in the coming months. You’ll have people who have lost their jobs, and they will have a hard time paying.”

Another upcoming issue could be mainstream media accounts challenging local pricing disparities and the impact on consumers’ heating bills, although the preliminary homeowner cost figures are less than last year’s.

The EIA’s annual household heating expense estimates for 2008-09 declined when compared to 2007-08, reflecting lower average-per-gallon pricing.

This year; last year

- Nationwide, \$1,586; \$1,681
\$2.23 per gallon (minus 5.6 percent)
- Northeast, \$2,267; \$2,287
\$2.57 per gallon (minus .09 percent)
- Midwest, \$1,705; \$1,770
\$1.98 per gallon (minus 3.6 percent)

- West, \$1,323; \$1,627
\$2.31 per gallon (minus 18.6 percent)
- South, \$1,304; \$1,304
\$2.40 per gallon (minus 3.4 percent)

Consumption in 2008-09 saw an upswing, according to the EIA, when compared to last year's figures:

- Nationwide average, plus 3.7 percent
- Northeast, plus 7.3 percent
- Midwest, plus 3.2 percent
- West, minus 6.8 percent
- South, plus 7.1 percent

"Each community and pricing can be different," stresses consultant Dale Delay, president of Cost Management Solutions in Houston. "It takes a while in the market for the street price to come down to be more reflective of the wholesale price of gas."

For some marketers, "as the wholesale price of gas dropped and the street price remained high, that guy probably got the best margin he'll see in his life. Some companies did exceptionally well because they got the benefit of a lower cost of goods and a higher street price," Delay points out.

But the windfall was not across the board.

"Many marketers had worked hard to protect consumers from climbing prices by locking in winter supply. Unfortunately, those retailers trying to protect their customers were the most hurt by this market," Delay explains.

EIA economist David Hinton concurs.

"This was one of those exceptionally unusual years where the prices were higher in the summer and then fell during the consumption season," he says. "It's a Catch-22. A lot of people were locked in to high-priced propane before the heating season," he notes, while others delayed filling their tanks because of the cost.

"It caught everyone off-guard. Too many people were requesting fill-ups at one time, and the system can't handle that demand all at once," says Hinton, who still encourages the industry to pursue pushing pre-buys.

"Try to get these folks to fill up in the summer so you can distribute the demand," he suggests. Offer incentives to get people signed up early. "You want to keep your trucks running all year round – not just for a three- or four-month period."

This year the supply system was severely stressed in some parts of the country, invoking memories of the shortages seen in 1989. "That's when we began collecting weekly data," Hinton recalls, adding that by mid-February the nation's LPG stocks were sitting at above-average levels.

Weathering the storm

They say it was a "perfect storm" that engulfed the Northeast this year. Brutal supply shortages created logistical logjams in a series of calamities, including trouble on the high seas. Pipelines on allocation, railcar delays, long drives in the trucks and seemingly endless transport backups at the terminals were the norm.

With the industry waiting for its ship to come in, so to speak, an Algerian-flagged propane vessel collided with another in the Mediterranean Sea. "The Algerians got the shipping off schedule, and then we heard they had production problems," recounts Harry Hanger, manager of supply, risk management and marketing for Atlantic Energy. "Then it got cold here, and it got cold in Europe."

The fabled British stiff upper lip was frosted in ice crystals as London saw a rare six-inch snowfall.

Wags suggested that the freak winter storm accomplished what the Blitzkrieg failed to do – bring England's capital to its knees. A pattern of colder-than-normal temperatures overseas squeezed waterborne supplies bound for the United States.

The industry here had been slow to stock up. "In the summer the prices were sky high, so they cut back on the purchases they made and kept their tank inventories lower than usual," according to Hanger.

Large-volume users in the past "would stash propane around as a cushion, but over the last three years they have suffered economically for doing that," Hanger explains. "I saw some of the majors shutting down facilities that they used to have as backup."

Buyers also were shifting to the cheapest sources, such as direct refinery and pipeline plans rather than spreading the contracts around to include rail- and ship-based cargos, he says.

"They need to diversify their supply sources more broadly, but this season they didn't do it to save a few pennies. That works well in a warm winter, but if it's 'normally cold' it's going to create severe logistical problems," Hanger contends.

Lerum rues the lack of pre-season railroad activity among some marketers. "They were going to save four cents a gallon by not taking a tank car, and it turned around and bit them," he points out. "The big mistake was not paying for insurance – tank cars from Canada. They had a problem with one of the ships, and that pushed them over the edge."

Hanger, however, was able to hang on quite nicely. "I've been able to meet all my contracted volumes because my ships have hit right," he notes.

"We've gotten the winter that we all wanted; the furnaces are humming," observes James K. Renaldo, director of sales and marketing for Niagara Energy LLC in New York. Yet, because of the industry's infrastructural shortcomings, "we're losing our credibility," possibly putting the brakes on various initiatives aimed at fostering additional LPG load, such as promoting propane as a viable motor vehicle fuel.

"We can't support that kind of volume," he laments. "We can barely get gas to our core heating customers."

Amid the turbulence throughout New England, some marketers were so strapped for propane that they were filling customers' tanks with just 50 gallons – enough to keep the heat flowing until a follow-up delivery was possible.

"A lot of local storage facilities ran out, and you just can't move that stuff around very quickly," says Hinton. "All the supply sources pretty much dried up overnight, and they had to bring it in from the Midwest."

Hundreds of big rigs were rolling to and from Ohio, Wisconsin, Kansas, South Carolina and Texas to supply the Northeast's propane needs, prompting an array of hours of service exemptions for the drivers.

A snapshot of Jan. 20 from the U.S. Department of Energy reveals that New England's normal three-to-five-day winter stock availability had shrunk to a one-to-three-day level. The TEPPCO and Dixie pipelines were on allocation; at one point some 80 transports were backed up at the Selkirk, N.Y., terminal.

On the griddle

Kentucky endured a "storm of the century" that smothered the Bluegrass State's lushness with four inches of freezing rain topped by an additional layer of snow, resulting in fallen trees across roadways, electrical poles snapped in two and massive power outages. Single-digit temperatures added to the misery. Given the infrastructural restraints inherent in a disaster zone, there was a huge demand for propane among those who were able to get it.

Emergency response officials urged residents to leave the area if they had the means to evacuate. The Jan. 27 onslaught left some 700,000 people without electricity; about 130,000 still remained in the dark on Feb. 16.

“It’s been devastating,” says Tod A. Griffin, executive director of the Kentucky Propane Gas Association. “The power grid had to be rebuilt from the ground-up, and there was no cell phone service.” Propane-powered generators were in top demand. “The warehouses are picked clean. Most of our hardware stores have been selling generators like crazy – pallets of them,” Griffin reports. “The propane retailers have been selling small canisters like hotcakes.”

Kentucky’s LPG supply remained “pretty decent,” yet the main challenge was serving everyone in need.

“They could get the transports in, but the bobtails couldn’t reach the residents because the roads were blocked with fallen tree limbs and power lines. I had retailers who were filling cylinders for people who could make it to the plant. There were owners who didn’t have power at their own homes who were at the plant every day making sure their customers had gas,” Griffin says.

He observes that the marketers’ tenacious efforts to cope with the disaster amounts to good news for the industry.

And just as the Valentine’s Day flowers were beginning to wilt, the EIA was tossing a bouquet to the Propane Gas Association of New England for its actions toward alleviating the supply crisis in the Northeast. “The PGANE was keeping up with this,” says Hinton.

“The association has done a lot of work putting people who need gas in touch with people who have gas,” explains PGANE President Joe Rose, adding that “40 percent of the marketers in the Northeast are short-filling or skipping non-essential deliveries.” Homes using propane only for decorative fireplace logs and the like were “put on the back burner until there is enough gas to do that.”

Dealers forced into trucking LPG up from Texas were paying up to a dollar-per-gallon surcharge for the privilege.

“The prices are holding steady – marketers appear to be absorbing the additional cost to maintain the accounts,” Rose says. “Marketers who had good supply plans are going to have a good year. For the marketers who had weak supply plans, it’s going to cut into the bottom line.”

PGANE has scheduled an April 15-16 “Supply Summit” in Rhode Island to take stock of what happened. “We’re going to encourage all of our marketers to consider adding secondary storage at all of the bulk plants, and several marketers are considering adding rail sidings,” he notes. Inducing more summer fill-ups is also on the agenda, as is input from various state officials who assisted the industry in weathering this year’s storm.

“They all worked tremendously well together,” says Rose, “and it didn’t get out to the media or become apparent” to heating customers that supplies were stretched to the limit as marketers were “working hand-to-mouth” to get enough gas.

A ho-hum winter

No news was also good news in the Sooner State, which experienced a “ho-hum” winter this year in contrast to the crippling ice storms of 2007-08, according to Dan Fitzpatrick, associate director at the Oklahoma Propane Gas Association (OPGA).

“Most of the dealers I’ve talked to seem to be fairly happy with the amount of propane they’ve sold,” says Fitzpatrick, adding that the pricing volatility “wasn’t a major deal around here.” The phones remained relatively quiet among the OPGA membership. “Usually when things get bad we hear from them.”

Louisiana had delivery difficulties in neighborhoods that remained ravaged by Hurricane Gustav, but all in all it was a pretty warm winter, says Candace Garcia, associate director for the Louisiana Propane Gas Association.

In Florida, it was unseasonably cold enough to threaten the Sunshine State's citrus crops with frost, reports propane inspector Al Biddler with the Bureau of LP Gas Inspections at the Department of Agriculture and Consumer Services.

"I've seen the wind towers in the groves," he says. Marketers "seem to be quite happy; they sold a lot of product this year – better than previous years."

It was relatively warm in California, where the orchard wind machines were whirling less than what the Golden State has seen in the past when farmers were hit with fearsome freezes.

"A fair amount of them went ahead and made sure their tanks were full," says Robert Jacobs, vice president of retail operations at Delta Liquid Energy. "That 500-gallon tank is good for five [frost] events, but we encourage them to buy 1,000-gallon tanks" to ensure that the yields are protected. "That's a good safety measure, especially if the tank is placed way back in the grove where it's hard to access."

Owing to California's typically mild temperatures, residential customers account for just 60 percent of Delta's customer base, with the balance spread among agricultural, commercial and industrial LPG users.

"When the dust settles, we'll probably have fewer heating degree days than last year," says Jacobs. "Retail sales are down by volume this year because people are in a conservation mode; people are having a tougher time paying their bills, and they're saving money by using less energy."

At CoEnergy LLC in Oregon, "the revenues and gallons are not what we projected," reports member/manager Dave Ezell. "It's down an amount that's definitely noticeable. We don't know if people are going to conserve as a way of living or if this is just temporary due to the economy," he says.