

HOW BEST TO SURVIVE THE NEW GENERATION OF FUEL PRICES

As we prepared our 100th issue of the En-Pro Advisor we continued to be reminded that not since the oil embargo of the Seventies and the Iran-Iraq war have crude oil prices stayed so high for so long. Worse, there are no reasons to believe prices are going to come down in the foreseeable future ... no matter how efficient we become in conserving oil nor how much more of it is discovered.

The demands of the marketplace continue to grow and will only get stronger as China, India, Russia and other nations put more and more cars on the road and will continue to have impact on crude prices.

Add to those the shortage of refineries that seriously exacerbates the crude supply situation, along with hurricanes, floods, OPEC, the increasingly difficult political situation in Venezuela, oil company greed, the greed of nations, unstable political conditions in Africa plus a host of other factors and it is clear that most of us are going to have to learn to live with high oil prices. We are not going to get up some fine morning and find that oil has dropped to \$25.00 a barrel. It is just not going to happen.

How bad is it? The chart below shows the direction of crude oil futures since the start of the millennium and clearly oil prices have steadily been increasing since 2004 barring only a few brief and un-dramatic declines.

NYMEX Crude Oil Futures



Nevertheless, there are things any company can do to avoid the worst affects of high crude prices. While some appear to be common sense, others are perhaps less obvious and involve carefully considered strategies followed by equally carefully considered actions. Following are the types of recommendations and strategies we are able to provide to clients on a day-to-day basis that help them cope and maintain a competitive edge.

- **Price Hedging:** Notwithstanding that the chart shows crude prices steadily rising, the chart also shows periodic price volatility that can create opportunities for companies to enter into lucrative fixed price contracts. For example, to keep our clients fully informed we monitor - on a day-to-day basis - all the fundamentals of the petroleum fuels market. Keeping track of factors such as finished product and crude oil inventories, refinery runs, shutdowns, refinery utilization, individual supplier issues, geo-political events, refining margins, historical comparisons etc., allows us to recommend that our clients take advantage of lucrative opportunities.

It is critically important to know which players in the marketplace have hedging or fixed price arrangements available because not all of them do. Once you know what is available you can evaluate which are worth pursuing and which are not. They will vary by region and their competitiveness will vary as well, so knowing who to deal with is equally as important. You should also assess your individual risk tolerance to determine what percentage hedge makes the most sense for you. Remember, hedging is in itself an added risk, so timing and execution are essential. Make sure you take the time or acquire the resources to stay on top of these opportunities. If you don't, your competitors likely will and this can give them a significant competitive advantage. At the same time if you do hedge and do so for the wrong amount or at the wrong time, you could be in a far worse position so be very, very careful in what you hedge and when you hedge it.

- **Fuel Surcharges:** You may have to implement them if you are not already adding fuel surcharges. Nobody likes to pay fuel surcharges but nobody likes going broke either so you may have almost no alternative. Your customers will not like it but it may be essential for you to add them on so be sure to do it fairly and equitably. To do that you need to stay on top of fuel costs and market indicators on a weekly basis. It is critically important that you have a base-point from which to justify any surcharges you are able to charge. We provide many clients with the fundamental market indicators on a regular basis so they have an unbiased objective source of information from which to base their fuel surcharges. And, if necessary, they can use this information with their customers to demonstrate why a surcharge is necessary.
- **Conservation:** These may seem obvious but it is surprising how often they are overlooked. Often because they are simple they can get overlooked. Actions such as reducing vehicle speeds, minimization of engine idle time, ensuring proper tire pressures and maintaining a vehicle engine so it's properly tuned will all lead to much improved fuel usage and lower costs. It is amazing just how much fuel can be wasted in heavy traffic when an engine is not in tune.
- **Multi-Supplier Arrangements:** Not always, but often it is advantageous to have more than one fuel supplier. By having more than one, especially if you use a cardlock program, you can direct drivers to the network that is most competitive that week (and it does often change weekly). Cardlock supply remains extremely competitive and the various suppliers will be very aggressive to ensure they maintain their market share.

Remember that cardlock rates are not "posted" at the stations so individual customers and various suppliers do not know what others are charging. This makes it increasingly probable that large differences in price can and do exist from one supplier to the next. One major piece of information we offer our clients is a regular cardlock pricing report which outlines the best price offering by supplier and by region. This report allows major transportation firms to not only negotiate lower rates but also to direct drivers accordingly. At En-Pro we believe a dual-supplier arrangement is often essential in order to use your volume as leverage and remain competitive in the volatile marketplace.

- **Know the Regional Players:** In many regions there may be fuel suppliers that use fuel as a lost leader in order to secure other business. Whether that other business is food, lodging or other services, you should be aware who those players are and then take advantage of them for the low-price fuel offerings.
- **Bear in mind the cost of transportation:** Just as with all major goods, it costs more to ship fuel to remote areas than to closer ones. Therefore if your vehicles are using a lot of fuel try and buy it in a major urban centre. It is certain to cost you less that it will in the back-woods.

While we do not want to appear to sound like Chicken Little about future crude oil prices we are concerned that if prices continue to rise, at some point they will have even more adverse impacts on all companies no matter their businesses or where they are located. In the short run this makes it imperative that companies today take every advantage of every opportunity to minimize the impact of high crude prices.

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