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The Propane Price Insider

"Your Energy Price Watchdog"

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Trader's Corner

This week's Trader's Corner looks at how critical it is for propane retailers to be proactive in managing price volatility.

Should I be pre-buying my winter propane supply needs or not? That question is never very far from a propane retailer's thoughts. In fact, when we are not dealing with customer or employee issues, it may be the question we contemplate the most and sometimes feel the most ill-equipped to answer.

If prices are going to be higher, of course, the answer is yes. If prices are going to be lower, the answer is probably no. If we don't know, we simply keep the question looping in our mind. When we don't know the answer, our frustration and anxiety levels increase.

Unfortunately, none of us will ever know the answer to the question with certainty ahead of time. At the very best, we try and make educated decisions that improve our chances of being right and thus properly positioned for winter.

There are few ways to manage around a supply question we can't answer. The two dominate strategies managing around the unknowable question for retailers are polar opposites. The first is the most complicated, the most time-consuming, the hardest and probably the best. That

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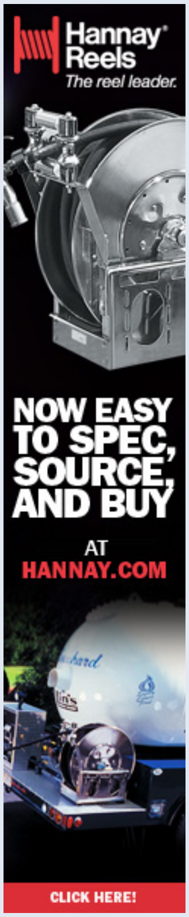


strategy involves moving as much of our customer base to fixed-priced, cap and budget programs as possible. That allows us to become margin focused, which we can control, and not price focused, which we can't control. There are several challenges with this strategy.

Perhaps the biggest is communicating with and educating our customers. Next there is the issue of managing so many pricing situations ... our accounts will hate us. Then there is the issue of figuring out the best way to match the cost of our supply with the commitments we have made to our customers to lock in our margins. But, the more we can push our organization in this direction, the less prominent the question of when to buy for winter becomes.

The other strategy is much easier and is actually more certain. We simply buy our supply at market prices during winter, add our margin and pass the price and the price risk to our customers. This is the bright, shiny, appetizing, low-hanging fruit that is in the center of the garden. It is easy to reach, easy to eat, but to think it doesn't have consequences would be a mistake.

Many of us may have been eating from this tree for a long time and with great success, too. Why should we even consider changing? Perhaps you shouldn't, but we will throw out a word that would be a reason to consider it … volatility.

From 1991 through 2000, the average spread between the highest-priced month and lowest-priced month of the year was 15.18 cents. From 2001 to present, the average spread has been 45.45 cents.

To be fair, the average price is markedly higher during those two time frames, so let's look at the percentage change. The average price in the early time frame was 35.81 cents and the latter 90.67 cents. So, from 1991 to 2000, price change was 42 percent of the average price. From 2001 forward, the price change or volatility has been 50 percent of the average price.

Increased volatility means increased surprises for customers. You know they rarely remember pleasant surprises. When retailers pass all of the price volatility to their customers in today's world, they are increasing the chances of a surprise that will drive a customer to look for alternatives.

If you are a buy-and-mark-up propane retailer, you will face competition from a retailer that is helping end-use customers manage volatility. When your customer has had enough of the volatility, he will call your competitor and you will lose him.

You may think you are avoiding risk with a buy-and-mark-up pricing strategy, but in today's world that is far from the case. Yes, we may buy wrong sometimes, but if we are consistently looking to buy when we can improve on what customers paid last year or in their recent

memory, it is unlikely we will surprise them enough to shock them into looking for alternatives.

Managing for volatility and offering programs that allow customers to have predictable pricing is not easy. It requires a lot of work, a lot of decisions and, yes, buying when we don't know if the purchase will be the best price of the year. But we believe strongly that in the long run more customers than you think will value predictability.

We may lose some customers that get offered a better price in those winters when prices are lower than they were during the summer. But we think it will take work by a competitor to get them even in that case if we have not shocked the customer. We are much more likely to lose a customer when we have shocked them with a high propane bill.

In summary, we can't know where propane prices will be this winter. But almost all of us have had an opportunity to buy propane that will provide customers with a lower or equal price to last year.

You don't know what prices will be this winter, but you do know what prices were in previous winters. If you get the opportunity to give the customer a better price than last year, take it. If you do, you will avoid shocking him and therefore greatly reduce the chances he will look for alternatives. At least you are controlling what you can control.

But, if you go into this winter with the plan to pass all of the volatility to your customers, just know you take a great risk. Yes, you avoided the risk of buying wrong, but you have not avoided the risk of losing a customer. In fact, we think you run a far greater risk.

If you want strategies and tools for managing volatility, we can help. We believe that stability and predictability are the most critical components in making your business secure -- even more important than buying at the lowest price every year.

At least stability and predictability are achievable goals. Buying at the lowest price every year has never been an achievable goal, and it never will be.

Funny thing is, when we are using the tools and disciplines to be stable and predictable, we almost always buy better than the guy who is trying to know the unknowable.

Call Cost Management Solutions today at (888) 441-3338 for more information about how Client Services can enhance your business, or drop us an e-mail at info@propanecost.com.

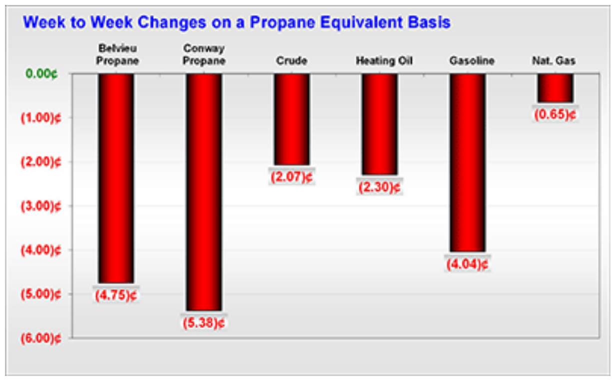
WEEK IN REVIEW

Crude crashed on Monday on euro zone worries, but

slowly reduced the losses through the remainder of the week.

Propane lost its fundamental support when the EIA reported an above-average build in propane inventory for week 29.

Neither propane nor crude recovered completely from the big losses last Monday, but they were both in a much more neutral pattern through most of the week. We still expect a lot of volatility, but at the moment the odds favor overall neutral pricing action this week.



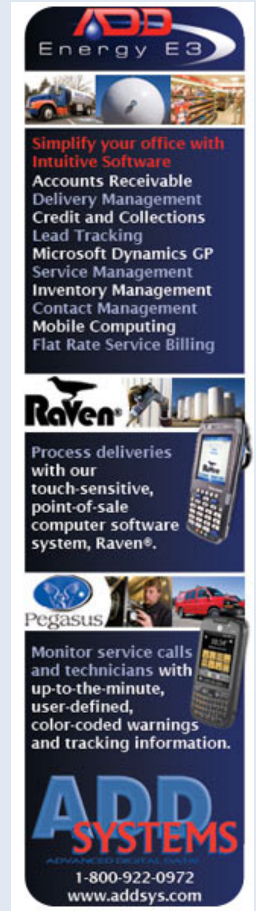
LAST WEEK'S DAILY HIGHLIGHTS

Monday: News that a second of Spain's regions was turning to the Spanish central government for help handling its fiscal shortfalls caused a sharp selloff in commodities and equities. Also, reports that the International Monetary Fund said it will no longer help Greece because it is not on track to meet debt-to-GDP ratio targets as required by lending agreements made matters worse. Conway propane outpaced an already sharply falling crude market to the downside, as traders bet the below-average inventory builds would not continue.

Tuesday: The slide in crude was abated following positive news on Chinese manufacturing, though U.S. and euro zone factory activity was weaker, countering the Chinese data. Conway propane managed to erase a small portion of its big Monday loss, but propane still felt weak.

Wednesday: The EIA reported propane inventories had a better-than-average build for week 29 of the year, causing propane prices to retreat and not follow gains in crude. Fundamental data from the EIA was not very supportive for crude either, but it moved higher on word the European Union's bailout mechanism might be given a banking license that would allow it to borrow from the European Central Bank and be better positioned to handle the sovereign debt issues facing the euro zone.

Thursday: Once again, crude gained on hopes moves would be made to help lower Spanish and Italian borrowing costs. Propane remained weak, however, with



both hubs drifting lower after bearish data from the EIA on Wednesday.

Friday: Weakness continued for propane as prices struggled even as crude gained and equities markets had a big day. A weaker dollar and investor hope moves will be made by European leaders to help Spain and Italy with rising debt cost supported crude.

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Cost Management Solutions LLC (CMS) is a firm dedicated to the analysis of the energy markets for the propane marketplace. Since we are not a supplier of propane, you can be assured our focus is to provide an unbiased analysis.

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The Propane Price Insider, an e-mail service that provides:

- Three Daily Price Flash Wires
- Periodic Option Quotes
- Wednesday Inventory Data Updates around 11 a.m. ET
- Evening Report with Executive Summary, Trader's/Hedger's Corner, Weather maps and complete review of energy prices that are based on Propane's Btu Equivalent

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Client Services

Many retailers simply don't have time to analyze the large amounts of data to make an informed purchasing decision.
We offer:

- Detailed market recommendations on hedge and pre-buy entry points
- Prompt market execution of hedging strategies
- Supply cost analysis and recommendation as to effective hedging strategies
- Because of the volume of transactions we place annually, we receive large volume consideration when we place your hedges

Visit us online at www.propanecost.com. Or e-mail info@propanecost.com.

Contact us today to see if you can benefit from having the Energy Price Watchdog working for you.

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