nyrej

Now is the time to work closely with your energy supplier to lock in prices for your building

September 08, 2008 - Owners Developers & Managers

Over this past labor day weekend we have all been glued to our television sets watching the potential destruction that Gustav could have inflicted on weary New Orleans. Many watched from a humanitarian point of view, while those of us in the oil and natural gas industry also watched with interest as to how the hurricane could disrupt the supply of oil and gas from the gulf coast. As it turned out, the cities and the drilling platforms were well prepared for Gustav and very little damage was done. The energy markets breathed a collective sigh of relief and crude fell over $5 and natural gas fell 8.5% as well.

Prices have been in a technical down trend since July and broke support levels on September 2. Technical targets on crude are now $100 per barrel and $6.20 per dekatherm on natural gas. Supplies were disrupted by hurricane Gustav, but not by as much as previously thought. Refineries have been cutting back on gasoline production this summer as crack spreads have hovered in the $5-$7 range. It costs many refiners that much to make gasoline. With no profit margins and a backward-dated market refiners don't want to produce at full capacity as gasoline is their main product.

The economic slowdown in the U.S. and Europe caused demand destruction so that even with supply shocks, the system is able to shrug this off. Last week's gas inventory number was much higher than expectations. Demand in the Northeast has also been weak due to the mild weather. Hot weather spurs electricity production to meet air conditioning needs. In the absence of 100 degree heat, demand is down. Last week's inventory report showed a record injection of 102 bcf, last year there was an injection of 39 bcf and the 5 year average is 57 bcf for the same week. This week should be another above average injection, pushing prices further down.

OPEC will meet on September 9 to discuss its output. As we hit $147 per barrel on July 11, Saudi Arabia increased its output to quiet the political voices pressuring it. This effort was successful and prices are lower. However, OPEC has seen that even in its slow economic time, $100 per barrel oil strikes a good balance between producers and consumers. It is expected that they will quietly defend the $100 per barrel price point. Oil, being a dollar denominated commodity is also benefiting from a strengthening U.S. dollar.

Many industry watchers had thought that China was hoarding oil to meet an increased demand during the Olympics. With the Olympics over, China's demand has returned to normal and in fact might be below pre-Olympic levels. India's economy is also showing signs of weakness. Demand in both countries is being watched closely for signs of strengthening.

As a building owner, what should you do? Now is the time to work closely with your energy supplier to determine when the best time to lock prices is for your building. Many of our customers are getting updates every day. When prices meet owner's budgets, many lock without looking back. If you can meet or beat last year's fuel costs, we consider it a winning proposition. This is plausible in gas buildings. In oil buildings, we recommend acting on part or all of your supply needs in the $100-$105 range.

Craig Rosenman is vice president of Stuyvesant Fuel Service Corp., Bronx, N.Y.