‘Consultative Wholesaler’ Encourages Customers to Plan and Avoid Speculation

Propane wholesaler Alliance Energy Services LLC (North Kansas City, Mo.) wants its nearly 300 customers in the Southeast, Midwest, and Northeast to manage timing risk and avoid speculating in the futures market when it comes to securing supply. Rather, the six-year-old company takes a “services” approach, incorporating risk-management strategies with a supply plan specific to each of its clients’ retail operations.

“We view ourselves as a consultative wholesaler who recognizes that no one knows with certainty where prices are going to go in the future,” observes Jason Doyle, president and founder. “The goal is to remove the guesswork, supply the customer with a strategic plan, and take a disciplined approach to helping our clients maximize profit and achieve their desired financial goals.”

Alliance Energy Services, launched in 2002, became a division of Markwest Hydrocarbon (Denver) from 2003-2006 before again branching out on its own. With a target market of primarily independent marketers and co-ops east of the Rockies, Alliance Energy also maintains extensive wholesale partnerships with producers and refiners in the Midwest and East.

Other partners include logistics suppliers, storage providers, pipeline operators, and transport carriers. Alliance leases storage at all the principal hubs and is a shipper on all the major common carrier pipelines originating in Conway, Kan.; Mont Belvieu; Hattiesburg, Miss., and Edmonton.

Doyle, whose professional background includes serving as a financial advisor, began his propane industry career in 1996 with the former LPG Services Group, run by John Sherman, future president and CEO of Inergy. LPG Services was eventually folded into Dynegy, now Targa. One of Inergy’s original employees in 1999, Doyle left the company in 2002 to strike out on his own and form Alliance Energy Services. “I enjoyed the entrepreneurial atmosphere at Inergy,” Doyle recalls. “It was while I was there that I decided I wanted to run my own business.”

Alliance Energy’s business model calls for close working relationships with its marketer customers, many of which, Doyle acknowledges, are independent, family-owned and -operated businesses with two or three generations of family members at the helm.

“Our focus is on planning for retail propane marketers in regard to supply and price risk management,” Doyle says. “Although our employees possess many years of industry experience and contribute opinions on propane price movement, our main focus is to help our customers understand and manage their individualized risk without letting opinions or biases influence their decisions. Together, with our customers’ assistance, we construct a plan that is tailored to their individual needs to help them manage this risk. This is especially important now because never have the markets been more volatile than in the past few years.”

Doyle adds that by instituting a good plan “going in,” from production to the end user, even plummeting prices such as those experienced in the markets recently are manageable. In fact, with the right model, this market can be beneficial to the customer. Such risk management plans emphasize cost averaging, understanding and utilizing the various price risk products, and managing a customer’s timing risk.

“Our typical customer certainly knows the dynamics of his or her company—sales, gallons, locations, storage, gallons by month, lifting ratios, area supply terminals, carriers, along with competition,” Doyle explains. “By sharing this information with us and working with us at this level, we are able to chart an owner’s goals, margin, [product] purchase price, and purchase programs. From there, we can determine the risks that need to be managed and design a supply plan that works in conjunction with the company’s business plan to help ensure fewer surprises.”

He emphasizes that Alliance’s goal isn’t to “over-communicate” in order to talk customers into something based on guessing where the market will go. Instead, the approach is to provide objective information while recognizing one immutable fact: marketers can count on volatility in the current energy markets. “It’s important to be cautious with pricing and credit requirements,” adds Doyle. “Obviously buying two-dollar propane carries more risk than 50-cent propane, and requires four times the credit line to buy the same amount.”

Doyle stresses that his company’s goal is to be the exclusive or primary supplier to its customers. “We’re not just out to do transactions. Therefore, we have to know more about our customers.” Alliance’s mission “is to advise an exclusive number of clients in the areas of supply, procurement, and price-risk management in order to provide consistent profitability and peace of mind. Our team is dedicated to personalized service and building a comprehensive plan to exceed expectations by anticipating client needs and presenting solutions in advance.”

Among Alliance’s 14 employees, the company has eight sales representatives, among them Kevin Harless, Midwest regional manager; Tom Schoeck, Midwest representative; Libby Breeding, Midwest representative; Heather Greene, Ohio Valley regional manager; Sam Knight, Ohio

The team at Alliance Energy Services primarily serves independent marketers and co-ops east of the Rockies. The company has extensive wholesale partnerships with producers and refiners in the Midwest and East. Other partners include logistics suppliers, storage providers, pipeline operators, and transport carriers.

Kevin Harless (left) is Alliance’s Midwest regional manager. At right is Jason Doyle, founder and president. Doyle was one of the original employees of Inergy when it was established in 1999. He notes that the entrepreneurial atmosphere at Inergy prompted him to start his own business.

Libby Breeding (left) is a Midwest representative at Alliance Energy. That territory is overseen by Keven Harless (right). Alliance is a shipper on the major common carrier pipelines originating in Conway, Kan., as well as Mont Belvieu, Hattiesburg, and Edmonton.

Valley representative; Jason Akers, Ohio Valley representative; and Sandi Geiger, Southeast representative.

Others on the Alliance Energy team are Rae Washburn, controller; Beth Gatewood, senior accountant, Frank Kidd, supply manager; Robert Rule, supply/risk management representative; Sherrisa Mashaney, accounts receivable specialist; Mary Davis, administrative assistant; and Cathy Lovins, accounting assistant.

"We point our customers to opportunities and caution about vulnerabilities," says Doyle. "A disciplined, planned approach means fewer sleepless nights for marketers by eliminating guesswork and speculation in a volatile futures market."

—John Needham

Relying on Market-Direction 'Experts' Can Be Dangerous

By Jason Doyle

In January 2008, I read an article that discussed two potential paths for oil prices. The *New York Times* interviewed several oil industry "experts," and asked them their opinions on ranges for crude oil price. Their consensus was that predictions were extremely difficult, but we could see either $150/bbl oil if the price kept going up, or we might see $50/bbl if crude headed lower.

As of mid-November, a mere 10 months after the article was published, we have seen both prices ($147.27 in July and $52.90 in November). Crude price is only one example of the extreme volatility that the markets are experiencing—there are many more. One needs only to look at his/her 401k statement to realize that we live in interesting times, not suited for the financially faint of heart.

As crude's price has moved dramatically, propane has followed. Last year, the industry thought $1.20/gallon was an unbelievably high price. This year, propane has ranged $1.20/gallon from its low to its high. In many territories, that volatility range represents twice a business's blended retail margin!

Propane marketers find themselves squarely in the middle of this volatility. Business owners are challenged to set competitive retail prices, develop risk-free customer programs, and be a steward of their company's bottom line in the most challenging price environment our industry has ever experienced.

Now is the time to be contemplating your business's programs for next year. Will you offer a fixed price program? Will you offer a cap price program? Will you offer a level pay budget plan? When will the letters go out? Could you move the planned date of the program mailing to coincide with your market buy point—whenever that may occur?

Now is the time to be tweaking your customer communications to more completely remove risk. Does your program letter allow you to offer a price "while supplies last?" Does it ask for money down? Does it ask for the customer to sign up for a specific quantity of gallons, and not just offer to fix a price for the season?

When propane's price was cheaper and its volatility was lower, these details were easily overlooked. The incremental gallon that the customer didn't need was often taken back and blended into the marketer's overall supply pool. Unfortunately, with extreme volatility and static retail margins, the marginal gallon no longer easily blends away. In this volatility, bottom line success is as much about how you manage the program with your customers as your market timing at your "buy-points."

In these remarkable times, marketers need to form plans and work with business partners that understand the complexities of the market and the nuances of the customer, striking the balance between market sense and common sense. On any given day you can find an "expert" who will give an opinion as to the direction of the markets. While they are often very well grounded in logic, relying too heavily on this information to make purchasing decisions, or formulate your marketing plan, can be more dangerous than ever.

As you begin to contemplate your programs for next season, even as we are just entering this one, consider the risks and missed opportunities that may have been exposed within this past year's price volatility. Seek solutions that will allow you to continue offering first-class products and services to your customers, while doing so in a way that can keep your risk managed and keep your company protected. Any business that is not making changes or taking on additional precautions, in times like these, is probably making a big mistake and, possibly, missing some great opportunities.

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