



Davidson Oil

Preparing for the Volatility of the Fuel Market

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The effects of a fuel supply shortage are far-reaching. Looking at the big picture, the major oil companies hit the emergency alert system implementing contingency plans, while the market goes into a frenzy often hiking up the prices of fuel. However, in a more personal response, business owners respond simply by evaluating how these shortages will impact their business and livelihood. When fuel supplies are unavailable, a gas station may not be able to meet the demands of its customers, a transport fleet may not be able to make deliveries on time, and a rancher may not be able to use equipment to harvest crops. And in all cases, the cost of fuel can rise, fuel delivery lead times become long, and efficiencies decrease.

Over the years, Davidson Oil has managed supply and logistics through a number of regional shortages of diesel fuel, including our current situation. The current low inventories have increased the price of diesel products for all fuel suppliers and providers in the Amarillo, Lubbock, Midland/Odessa, and Big Springs, Texas and Albuquerque, New Mexico areas. The lower-than-anticipated fuel inventory results from the refinery in Borger, Texas undergoing maintenance. Repairs to its diesel hydrotreater – a component of the refining process that removes impurities from the fuel – are expected to be completed by mid-April. With limited fuel leaving the refinery, suppliers are regulating marketers on the amount of fuel they can obtain, and ultimately deliver, from the fueling terminals in Borger, Amarillo, and Lubbock. Meanwhile, Davidson Oil is no stranger to fuel supply variations and is working with its customers to implement proven contingency plans to help minimize downtime and avoid losses.



Forecasting or preparing for fuel shortages can be difficult for a business owner given the unpredictability of the petroleum industry. However, there are a few factors one should consider in anticipation of low supplies.

First, it helps to understand the big picture, as there are various factors that can play into a fuel supply shortage. The journey of fuel begins when crude oil is extracted from the ground and a refinery processes it into a consumable fuel. Then, it is transported to terminals around the country where additives are introduced. Once the fuels are engineered to a major oil company's specifications, the fuel is picked up by trucks and delivered to its various end-user locations. Each touchpoint can

experience a problem that can interrupt the next step of the process – whether it be low levels of crude oil being excavated or required improvements on the technologies and equipment at the refinery or the terminals. While these are situations out of the control of a business owner, a broad understanding of the process helps to set expectations when delays arise. Additionally, he or she is prepared with the right questions to ask in anticipation of other potential delays in subsequent steps.

Another way to help safeguard one's business against the financial impact of a fuel shortage is to utilize resources that help anticipate the rise and fall of fuel costs. Contracting with providers like Davidson Oil guarantee a price point predicted by industry-wide fuel indices. When fuel supply is high and prices are low, some business owners have a false sense of security that they are getting the best fuel price by shopping around. And while it occasionally may prove beneficial, gambling with the volatility of the petroleum industry can lead to higher operational costs and a negative return on investment. Furthermore, establishing a contract with Davidson Oil can help minimize fuel delivery lead times during a shortage. While not eliminating the delay entirely, a contracted customer becomes prioritized to the front of the fuel delivery line so that he or she can continue operations with minimal downtime. Without this guarantee, non-contracted customers are subject to uncertain, lengthier wait times.

Regardless of the fuel industry's volume or price ebbing and flowing, two-way communication between the business owner and its fuel provider is another way to prepare for a fuel shortage. Davidson Oil has a team of experts responsible for the logistics of fuel supply and delivery. Every day customers can receive an email or text with a daily market update on the price of fuel to help them better forecast their fuel needs. And in the event of a fuel shortage, they implement emergency logistics to evaluate a back-up supply, assess the affected customers, identify revised lead times and pricing, including additional transportation fees as applicable, and communicate a proven plan back to the customer. During a stable fuel economy or a volatile fuel shortage, business owners should be equally proactive in fuel requests with their providers. Better forecasting of his or her inventory and demand, as well as advanced notification to the supplier, can yield lower downtimes and improved operational costs.



Fuel shortages are inevitable and the duration varies. The current situation out of Borger, Texas is expected to continue for the next several weeks. And with warmer weather approaching for planting and travel, customers can expect the demand for fuels to increase. While Davidson Oil has the experience and resources to help mitigate fuel shortages with their proven solutions, it is equally important that business owners assess their current state and prepare for the future. Now is the time for business owners to protect their livelihood by evaluating the benefits of a fuel contract with Davidson Oil, remain in close communication with your representative, and look ahead to a more stable market.