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How the high price of oil is hitting home

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People needing a private ambulance may face longer waits. Bakers are getting frosted over the soaring price of flour. And don't even talk to retailers who fear that rising pump prices could turn stocked stores into lonely outposts.

As oil nears \$100 a barrel, the great engine of the U.S. economy keeps rumbling forward, but the sputtering sounds are all around us.

Prices of food, especially fresh vegetables, are spiking. The price of oil, which has nearly doubled from \$51 a barrel in January, now makes the cost to retailers of shipping produce from California greater than the price they pay for it.

With low-test gasoline well over \$3, people are flocking to an underused resource: mass transit. Train riders from Philadelphia's suburbs grew about 5 percent during July 1 to Oct. 31 from a year ago despite fare increases over the summer, a SEPTA spokesman said. The bump is mostly due to higher gasoline prices.

Gasoline "is not going to affect me at all. I take SEPTA," said Brooks Harrison of West Philadelphia on Black Friday as he lugged his morning's purchases into 8th Street Music on Arch Street.

The biggest increases may be yet to come. Fuel-driven price increases from utilities to airlines can take months to arrive. Milton Hunt of Philadelphia, who leases a Lincoln Town Car for limousine service at \$600 a week, said his business relied on regular customers who paid a set price. "If I change that price, that's a good way to lose a customer," he said. "I have to take it on the chin and keep going."

Even as ever-more-costly crude oil courses through the economy, many executives are hitting back, finding opportunity in the price run-up by developing more efficient technology.

The higher prices should make alternative fuels more economical, said Ross Stewart, a.k.a. Capt. Ross, commander of one of the fleet of Ride the Ducks, which offers tours in eight cities, including Philadelphia.

"That will get us off this oil kick," he said. "The higher price of gas will cause people to become more irritated and will steer them toward investing in solar, nuclear and wind energy and renewables."

Why oil is rising

Petrol's confounding climb may stem more from fear than reality.

Supply is plentiful. No lines snake around gasoline stations as they did during previous oil-price shocks.

Among the factors now making oil traders twitchy are the possibility of war with Iran, the falling U.S. dollar, and the buying habits of hedge fund operators, who often invest in commodities, such as oil.

Stephen Schork, editor of the daily Schork Report energy newsletter published in Villanova, said hedge funds were "buying all [the oil options] they can now," hoping the prices will rise.

Big funds are betting that people will adjust and keep buying gasoline.

"Everyone thought demand would pull back at \$2 a gallon, but it didn't," Schork said. "It soared above \$3 for a time after [Hurricane] Katrina, and demand remained strong." He asked: Is the point at which demand will fall "\$4? Is it \$5? We don't know."

Oil prices also are rising from tensions with Iran and its neighbors, said Shawkat Mammoudeh, a Drexel University economist who has studied the oil industry for nearly 30 years.

The weak dollar, which hit an all-time low against the euro Friday, is another factor. "When the dollar goes down, oil producers want to compensate," Mammoudeh said.

Even in its inflated state, oil accounts for a smaller percentage of family incomes than it did in the 1980s, Mammoudeh said.

Those hardest hit now include poor people and many elderly on fixed incomes, he and others said.

Brian Ford, retail analyst at Ernst & Young L.L.P. in Philadelphia, estimates that a person who makes \$40,000 a year and spent \$700 last year on gasoline will fork over \$1,100 for gasoline in the next year.

That person will respond by cutting "the extra outfit, the extra gadget, whatever that discretionary spending is," Ford said.

Richer food

Talk about some pricey dough.

Flour prices have risen "catastrophically" over the last six months, said David Braverman, owner of LeBus Bakery in King of Prussia, which supplies 450 wholesale customers, including many Philadelphia-area restaurants.

Oil is one factor. As its price has risen, so has demand for corn, a key component for making the alternative fuel ethanol. Increased demand for ethanol has given farmers more incentive to plant corn instead of wheat.

Michael Franzone, owner of First Choice Food Distributors, worries that fuel costs will drive some of his restaurant customers out of business.

"Something's got to give in this country," he said. "People are only going to pay so much for a product. . . . Everybody's already buying less."

Opportunities beckon

Soaring oil prices are spurring innovation.

UPS Inc. now spends one-third of its \$3 billion annual capital budget on information technology, and much of that focuses on using less fuel. Over the first nine months of this year, the effort saved about \$735 million in fuel costs.

An example: Because left turns require waits that use more fuel, UPS computers design routes with concentric circles that require mostly right turns.

UPS, which has a major air hub and ground operations in Philadelphia, has shaved 28.5 million miles a year by redesigning its routes, spokesman Norman Black said.

Trucking companies and major railroads also are responding.

More 18-wheelers are now bought with automatic transmissions that shift more fuel-efficiently than drivers can.

Norfolk Southern, one of three freight railroads serving Philadelphia, is investing in a system that monitors a train's weight and terrain, telling the engineer when to speed up or slow down for best fuel efficiency, spokesman Rudy Husband said.

An innovator on a smaller scale, Rosemarie Boucher is a sales representative for an Indiana furniture-maker who drives about 21,000 miles a year. Two years ago, the price of fuel made her trade in her Lexus SUV for a Toyota Prius Hybrid.

Boucher, of Merchantville, covers a territory from Washington to Upstate New York. She makes sure to fill up in New Jersey before getting to New York state, to gain from her home state's low fuel prices.

"I find myself working a little more at home," she said. "Cold calling . . . used to be one of the adventures of life on the road, but now I have more appointments before I go out."

Rising crude costs represent a "net plus" for alternative energy, said Brent Alderfer of Iberdrola Renewable Energies USA, a wind firm based in Radnor.

With several wind farms already up in Pennsylvania, the company is building more facilities in Illinois, Iowa, Texas and Colorado. Iberdrola is on pace to order 1,000 newly built wind turbines a year over the next five years. Crude prices have speeded that expansion, Alderfer said.

Airline tickets

Airfares are rising, and crude prices are a part of it. Industry analysts now say fuel accounts for 20 percent to 30 percent of airline costs.

Every \$1 increase in the price of a barrel of oil adds about \$470 million a year to U.S. carriers' costs.

But domestic airlines are getting more efficient. They used about 19.6 billion gallons of jet fuel in 2006, slightly less than the peak consumption year of 2000. The Air Transport Association, the big carriers' trade group, said the reduction came from newer, more fuel-efficient planes and carriers' efforts to trim fuel use.

Strong demand has allowed carriers to raise fares regularly this year.

Wailing retailers

Retailers are bracing for "a very, very difficult retail environment - perhaps the most difficult we've seen in a generation," said Steve Wishner, senior vice president of finance for Charming Shoppes Inc., which operates 2,425 stores including Lane Bryants and Fashion Bugs.

Fancy destination restaurants and discount stores are being especially hurt - as are consumers in the car-dependent Midwest and South, said Michael McNamara, vice president at MasterCard Advisors in Purchase, N.Y., which tracks U.S. retail spending.

Wal-Mart Stores Inc. has cut holiday prices to prevent a repeat of last year's tepid Christmas shopping season.

Consumers in the Northeast and West Coast cities, with shorter driving distances and better public transit, do not seem as affected, McNamara said.

High-end consumers are still spending. Rich people will not typically stop buying unless the stock market goes down, he said.

Energy firms

Higher crude-oil prices are not a windfall for all energy companies.

Sunoco Inc., the biggest player in the Philadelphia-area refinery complex that supplies the majority of the energy to the Northeast, worries along with consumers when crude-oil prices soar.

Unlike fully integrated big oil companies that find oil, then refine and market it, Sunoco just buys crude from others, refines it, and markets the gasoline and other products.

"We have to pay whatever the price," said Gerald T. Davis, Sunoco's media-relations director.

As oil prices rise, Peco Energy, the state's largest utility, faces skyrocketing costs of running its fleet of more than 2,000 vehicles, spokesman Michael Wood said.

A 10 percent rise in the prices of gasoline and oil costs a half-million dollars, Wood said.

But, he acknowledged, as oil prices rise, the cost of natural gas and other fuels, like propane, will likely go up, too.

As a regulated utility, Peco can pass natural gas supply cost increases to customers on a quarterly basis. Peco's 1.6 million electricity customers can rest easy. Their rates are capped through 2010.

Ambulances in distress

People who run diesel or gas-guzzling ambulances are feeling the pinch. The City of Philadelphia, which has not raised its base rate since 2004 and its mileage fee since 2005, is considering an ambulance rate increase, Fire Commissioner Lloyd Ayers said. Higher fuel costs are hitting the city's entire fleet, from trash trucks to fire engines.

Eric McEntyre, director of operations for Medstar EMS ambulance, said with gas now costing \$4,000 a month, he has cut back on overtime, office workers, and the number of crews at certain times. The firm has also cut starting pay.

Rather than have crews roam the city as needed, Medstar now tries to keep them on standby in smaller regions. The result, McEntyre said, is that response times for emergencies and other unscheduled trips have increased.