

Petroleum Heat & Power Corporation Automates its Hedging Management & Reporting



THE CLIENT

Petroleum Heat & Power Corporation (PETRO) is a subsidiary of Star-Gas Partners, L.P., one of the Nation's leading distributors of propane gas and heating oil. Star Gas Partners, L.P., is a leading distributor of home heating oil, propane and deregulated natural gas and electricity. The Partnership is the nation's largest retail distributor of home heating oil and the nation's seventh largest retail propane distributor. Star, through its wholly owned subsidiary Total Gas & Electric, also sells natural gas and electricity in the Northeast, Mid-Atlantic and Florida.

THE CHALLENGE

Starting in June 2000, the Financial Accounting Standards Board, in its Rule 133 ("Accounting for Derivative Instruments and Hedging Activities"), began requiring increased disclosure of a company's derivative instruments. What's more, SFAS 133 broadened the definition of a derivative and ended its traditional off-balance-sheet treatment. Derivative gains or losses would have to be recognized in reported earnings. The fair value (marked to market) of derivatives or hedged positions, even those embedded in contracts, must be shown on the balance sheet and hedging efficiencies must be accounted for.

Until SFAS 133, PETRO had been relying heavily on spreadsheets and manual processes to manage its derivatives, hedging, deal process and accounting. Through six types of Excel spreadsheets, PETRO tracked its oil, propane, and natural gas hedging activities. PETRO felt that the process of managing the spreadsheets was becoming increasingly inefficient given their rapid growth and increased trade volume.

PETRO, faced with SFAS 133 compliance, looked at it as an opportunity to provide its staff with a solution that could not only meet the financial reporting and audit trail requirements, but vastly improve their hedging decision-making. Specifically, PETRO hoped to gain a means of more pro-actively reviewing and approving transactions as well as validating transactions within the bounds of their annual purchase budget and the requirements outlined in SFAS 133.

THE SOLUTION

PETRO engaged Praxinet to design, develop, and implement a new hedging activity reporting application that would enable its compliance with SFAS 133. After gathering PETRO's business requirements, Praxinet compared the features and functions of available packaged solutions to PETRO's stated requirements and performed a make vs. buy analysis. Ultimately, PETRO decided that a custom-developed, browser-based system would best meet the unique needs specific to its oil, propane, and natural gas hedging activities.

To break out the phases of development, Praxinet divided the application and its development into six major components that included:

- Budgeting – seasonal budgets for validation of hedging activities
- Hedging Activity – capture point for all hedging related data
- GAAP Reporting – reporting required by SFAS 133
- Sensitivity Analysis – see the “what-if” impact of price movements
- Internal Reporting – management reporting
- Administration – file maintenance and system administration

THE TECHNOLOGY

Microsoft SQL Server 2000
Active Server Pages, Javascript, and HTML
ActiveX Objects

Microsoft Windows 2000
Windows Scripting Host
Microsoft Excel Object

THE BENEFITS

The system Praxinet developed for PETRO supported all its financial reporting needs as required by SFAS 133. More importantly to PETRO, it provided its staff with the ability to analyze its hedging activity data with a broader scope and easy-to-use, centralized, dynamic, analysis capabilities connected to one database. By providing a process for rapid ad-hoc report generation and distribution, Praxinet significantly increased PETRO's analysis capabilities.

Praxinet effectively increased PETRO's business agility by providing information and reports with a single mouse click that had previously taken days to compile. PETRO now has the ability to respond to changes in the oil, propane, and natural gas commodity markets with unprecedented speed. As a result, the Finance and Purchasing departments felt better aligned through the new system. Now each could access the same information through the new system, which has led to better communication between the two.

Praxinet designed the solution to fit PETRO's immediate needs while providing needed flexibility for the long-term. “Automating the SFAS 133 requirements was an undertaking that we thought would be extremely difficult and cost prohibitive,” said Jay Palma, PETRO's Assistant Controller. “However, the team at Praxinet provided a seamless product that not only met the technical SFAS 133 requirements, but also our own internal needs as a business. Our experience with Praxinet was a pleasure and has led us to use them on a number of other projects.”

About Us...

Praxinet, Inc. provides consulting and software solutions that improve business performance across government and private enterprise. Praxinet leverages its core competencies in strategic consulting, Internet technologies, and business intelligence to enable its clients to manage their operations more efficiently and intelligently. Praxinet has designed and developed mission-critical solutions for major clients such as Avaya, Swiss Re, Pitney Bowes, GE, Star Gas Partners, Deloitte & Touche, PricewaterhouseCoopers, Citibank, Pfizer, Verizon, UPS, IRS, NH Dept. of Health & Human Services, and Tishman Speyer Properties.

For more information:

203.894.9000 x22
info@praxinet.com
www.praxinet.com

Praxinet Inc.

63 Copps Hill Road, Ste. 200
Ridgefield, CT 06877