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Tenaska Marketing Stays in the Top 10 by Doing the 'Hard Stuff'

Anybody can trade natural gas at Henry Hub, according to Tenaska Marketing Ventures (TMV) President Fred Hunzeker. The challenge, he said, is to solve the "hard-to-meet needs" of the wholesale gas customers.

"Can you trade at some remote location?" asked Hunzeker. "Can you do a short notice kind of thing?"

TMV's success, he said, is its ability to answer in the affirmative to both queries.

The marketing affiliate of Omaha-based Tenaska opened its doors in 1991 to complement the power developer's power and natural gas facilities. But in the past 15 years, it found a niche, and today is one of the Top 10 gas marketers in North America. Wholesale gas sales last year topped 4.3 Bcf/d. In the last three months of the year, TMV averaged 5 Bcf/d in sales, a 22% hike from the same period of 2005.

Tenaska ranked eighth in IPI's 4Q2006 gas marketer rankings, with the top three places for large volume sales going to the producer triumvirate of BP, ConocoPhillips, and Shell (see NGI's full 4Q2006 rankings). But TMV comes out on top with the customers. It is a perennial leader in Mastiogale's customer satisfaction surveys.

"How we've done this is pretty simple," Hunzeker told NGI. "We listen to customers and have them tell us what they need, and then we do that. It's not that difficult, really, versus the other approach, which would be to go to the customer and convince them to buy what you're selling. We like to go in and find out what the customer needs and figure out how we're going to help them get that."

TMV is able to "rank highly with these customers because we do the hard stuff for them," he said. "We're there for them on the physical side, which is when somebody needs a short amount of gas, or odd lots or weird locations, things like that. That's the hard thing to do. That's why it takes a long time to build that physical platform that allows you to do that."

In 2002, as many of its competitors were downsizing or closing their doors, TMV was moving in the opposite direction, branching out and opening two offices.

"You can talk about the marketing side, or you can talk about the power development side, but what happened [during the period leading up to Enron Corp.'s collapse] was inappropriate, unbridled risk taking," said Hunzeker. "There's been books written about what all caused that, but at the end of the day, power development portfolios or energy marketing were taking large risks and all of the mark-to-market accounting was allowing them to not recognize the risks, and Wall Street was encouraging them to do that...

"What kept Tenaska out of it, really just a big part of it, was our private ownership," he said, "which leads us to be very conservative. We have a logical and structured approach to taking risks and evaluating those risks. We never built a power plant that did not have a long-term off take contract. We run our marketing business in a similar fashion. We never have positions out there that are either directional price risk positions or even basis location price risk positions."

TMV is "not in the business to bet on the direction of markets win or lose...and we built our entire business around finding the needs of the customer, whether that be a long-term power off-take contract or a management fuel supply deal on the gas side. Where we build the risk is to look at it as identifiable and quantifiable. We put a box around that, and we make that deal so that risk completely presents itself."

The marketing affiliate "has never viewed risk as a profit center," which sustained it through some particularly tough years for its competitors, Hunzeker noted. The company's strategy "actually became quite an advantage for us because we were able to expand and hire people and increase the market share with our customers during the time when many of our competitors were getting out of the business."

Now, TMV is "actively moving gas" on 105 pipelines spread across North America. Its 100 energy traders operate from offices in Omaha, Dallas, Denver and Calgary, taking care of the physical gas needs for customers across the United States, into Canada and buying and selling gas at the Mexican border.

"Our goal is more bottom-line focused," he said. "We care about our customers, and we're pleased with the value we can help them capture. As long as we can keep doing that, we're growing our bottom line, and we see where the volumes grow. There are no 'side' goals. We continue to see the next deal, solve the next problem."

From the looks of things, TMV may just be getting started. In early April, insurance giant AIG Financial Products (AIGFP) became a 50% joint partner in TMV for an undisclosed amount (see Daily GPI, April 4). The joint venture combines TMV's physical gas marketing expertise with AIG's financial capabilities. But it's strictly a financial play for AIG. Tenaska will continue to manage the affiliate, and TMV's management team — and its management philosophy — will remain in place.

"The temptation would be to go in and grow very fast, but we've seen that happen in many industries in the past, and many times that's a recipe for failure because the business will tend to grow faster than the infrastructure of the business that supports it," Hunzeker said. Because Tenaska is privately held, "you're spending your own money," so the tendency is to manage risks more conservatively. "We're thrilled to have AIG on board [but] there's no intent by either of the partners to change how we're doing business, or how we're interacting with customers."

The AIG deal will give TMV the ability to expand and "slowly add to and drill deeper down into some geographic areas, expand our volumes there, expand the kinds of things we can do." With its financial capabilities, "We'll be able to broaden our suite of products that we can offer to our existing and new customers..."

There are "areas where we want to go deeper and expand our footprint rapidly, [but] there are other areas where we are pretty mature," Hunzeker said. "It took a while to build the business. You see how long and how complicated a process it is to build a physical platform. There's a lot of moving parts, a lot of things you have to make sure fit together."

Hiring employees continues to be a challenge, he said.

"The really good people have always had jobs," he noted. "It's always been a challenge to attract the really good people to your organization, your foundation employees. That's been hard the last five years and it will continue to be hard. We've been on a growth curve since 2000-2001, and our plans are to continue to do that with slow, steady, disciplined expansion."

In any case, Hunzeker expects to see a lot of growth in the coming years.

"There's so much growth in the business right now," he said. "We wondered a couple of years ago if higher [gas] prices were going to typically reduce the business. I don't really think we've seen that. We continue to see residential, industrial, commercial gas continue to grow, electric generation continue to grow, lots of pipeline projects getting built...

"Everyone is changing and all are really growing, even in this environment of high prices," he said. "There is a whole lot of need out there for physical products and services that we provide. And now, with AIG, we also can show up on the doorsteps with an advanced suite of financial tools...to help our customers start solving other needs within their organization, other than just gas."

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