Diesel Prices Are Bringing Some Trucks to a Standstill

Soaring fuel costs are pushing drivers to pass up jobs and causing farmers anxiety over getting to market.

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John Telles has parked his truck.

His Peterbilt cab and 48-foot refrigerated Great Dane trailer aren't hauling cheese from the Central Valley to Minnesota. The rig isn't delivering groceries across the state or taking produce to market from California fields.

Telles said he and his truck are staying home in Pinole, Calif., about 25 miles northeast of San Francisco, until diesel prices fall or freight rates rise. "I won't haul," he said, "unless I can make a profit."

Diesel is often an afterthought when consumers and politicians are howling over high gasoline prices. But right along with gasoline, diesel prices have exploded throughout California in recent weeks. That has pushed up costs for truckers like Telles, as well as for railroads, construction companies and farmers, among others, and threatens the state's economic recovery.

For the first two months of the year, the average statewide retail price for diesel rose more than 26 cents a gallon to $1.939, a jump of more than 15%, according to figures from the Energy Information Administration, an arm of the U.S. Energy Department. On March 8, the statewide average fell about a penny, to $1.927, mirroring the slight pullback of gasoline prices.

Price surges for diesel have historically been less dramatic than for gasoline in California. Experts warn that both fuel markets are destined to see more volatility in the future.

"It's exactly the same situation for diesel as it is for gasoline," said Claudia Chandler, assistant executive director of the California Energy Commission.

For one thing, California diesel is — like the gasoline here — a special blend that is cleaner, more expensive to make and unlike that used in other states.

In addition, diesel production in the state comes from the same 13 refineries that produce California gasoline. The plants are working at capacity and can't make enough of either fuel to satisfy growing demand in California, Arizona and Nevada.

When refinery outages hit, they are just as likely to affect diesel production as gasoline output. Companies can also opt to make less diesel to maximize gasoline output, especially if profit margins are higher for gasoline.

Making a bad situation worse, a Bakersfield refinery that **Shell Oil** Co. plans to close Oct. 1 makes 6% of California's diesel fuel. Although Shell has said it would honor its supply contracts, the overall reduction has state officials nervous.

All this points to a rough road ahead.

"Almost everything you buy gets delivered by truck," said Mike Jackson, director of transportation technology at Tiax, a consulting firm in Cambridge, Mass. "So it can have a pretty big economic effect if the truckers are put in a bind, where they can't increase their prices and their costs go up."

Telles, for example, said fuel was costing him 36 cents a mile, on top of other operating expenses that total 65 cents a mile. He recently turned down a freight run that would have paid him $1 a mile.

Walt Unterseher, an owner-driver based in Carlsbad, Calif., passes on those kinds of jobs, too. His flatbed trailer, which gets a maximum of 6.5 miles per gallon, is parked.

"You can go into any truck stop and everybody is crying about the high cost of fuel and low freight rates," Unterseher said. "There's always somebody out there thinking, 'well, I've got to run,' but you can't run for nothing forever, it's going to catch up to you."

A fuel surcharge can help, if you can find a customer to pay it. Unterseher works for a company that instituted a fuel fee, but the company passes only a portion of that on to the drivers who buy the diesel.

Farmers take a hit on high diesel prices too. As with many truckers, some of California's farmers operate on thin margins, and profit can turn to loss with sharp moves in commodity prices or bad weather.

Bill Crivelli, who processes tomatoes and grows cotton and alfalfa hay, said he used as much as 20,000 gallons of diesel fuel a year, mostly to power his 10 tractors.

"It can be a big expense," he said. When the prices jump, "it reduces the amount of profit you're going to have."

In recent years, farmers who have fuel storage tanks have tried to buy diesel when prices were lower and hold it until it's time to rev up the tractors for planting or harvest. Crivelli, whose 1,100-acre farm is in the Central Valley town of Dos Palos, said he doesn't have any tanks. "I'm just at the mercy of the market."

Storing fuel can help hedge against diesel price run-ups, but the strategy can backfire too, said Chandler of the state energy commission.

"If there's one thing we're worried about with diesel, it's that there's this huge reserve out there of empty tanks," Chandler said. "When they pull supplies off the market, it ramps up the price, and it keeps the price up, because it creates an artificial shortage-type situation, even though there's not a supply shortage."

Crivelli said farmers are beginning to till their fields less often, which lowers overhead costs, reduces time in the fields and cuts diesel consumption.

"It reduces the number of trips with the tractor," he said. "That's really catching on and spreading here. The price of diesel's a big part of that."

Farmers feel the pain another way too. If fuel prices get too high, it becomes difficult to find enough truck drivers to haul the crops to market, forcing farmers to compete for transport or offer higher freight fees.

If diesel prices don't drop a lot soon, Telles will be one of those sought-after drivers.

"It's going to be very interesting to see what happens to those produce farmers," Telles said. "I'm not hauling cheap freight and paying high diesel prices. It'll rot in the field before I roll my truck."