

EMERGENCY MEETING

On Thursday June 26, 2008, VFDA Executive Director Matt Cota testified at an emergency meeting of the Vermont Joint Fiscal Committee. The topic of the meeting was the possibility of a heating fuel crisis. VFDA advocated for help extending lines of credit to fuel dealers in the event of severe winter weather. You can read media reports on the hearing at www.vermontfuel.com

The reason VFDA spends so much energy trying to reduce excessive speculation is because high prices continue to have a negative impact on fuel dealers. Why does this matter? Because three quarters of Vermonters are dependent on us for heat. In the current environment, the doubling in the wholesale price of heating fuels over the last 16 months has forced retailers to seek a two or three fold increase in their line of credit. Meanwhile, payments for deliveries made during this past winter are slow coming in. In addition, consumption will continue its downward trend, due to increases in both efficiency and price. The biggest concern is not the number of gallons sold, but the cash required to obtain the gallons needed to heat Vermonters homes. Ten years ago the average heating fuel company in Vermont (2.5 million gallons) needed \$1.25 million to purchase oil for the winter. At current prices that company will now need \$10 million to purchase the same amount of oil. Many dealers are having to put up personal property in order to extend their credit or sell off assets in order to maintain their cash flow. Wholesale suppliers require payment in ten days or withdraw the money electronically out of the dealer's checking account when the fuel is picked up at the terminal. Since dealers are paid in 30 or 60 days (or longer) they'll need the bank to cover the gap. This problem will be most acute during the coldest winter months. A heating fuel company sells 20% of its annual volume in January (500,000 gallons). In order to obtain this oil from a wholesaler, the company will need \$2 million in cash. \$2 million dollars in one month. These aren't multi-state operators. A 2.5 million gallon company has five truck trucks. These are locally owned second or third generation family companies where the name on the side of the truck is quite often the guy in the truck or the woman answering the phone in the office.

If dealers can't get their lines of credit extended from their wholesaler or their bank during these months, they will face delivery problems. When a dealer goes to the bank and asks for an increased line, banks typically look at their receivables and advance 80%. That won't be enough in many cases. This is where Vermont Economic Development Authority (VEDA) or similar entity could step in and be helpful. If a bank decides to advance the 80%, VEDA could play a key role in guaranteeing the rest. If a bank decides that the company doesn't have its house in order and shouldn't be advanced any money, VEDA would play no role. Under this vetting process, VEDA would be helping small family businesses get through the difficult months when cash flow is tight. These are good companies that simply need an additional boost to their credit line to make it through the winter. If the bank can meet the dealer halfway, VEDA could guarantee the other half. At \$1 million per company that would require \$50 million to guarantee these credit lines. VFDA has had preliminary discussions with VEDA and the Department of Public Service and it is my sincere hope that these discussions continue.

Alternatives

Oil has garnered the headlines but it is certainly not alone. The price of nearly all commodities--energy, gold, wheat, etc.--has increased substantially, in part due to the decline in the dollar and the movement of investment money out of sub-prime mortgages and into commodities. Between January and June this year, the December 2008 natural gas contract increased by 83%. Electric rates have increased more than 50% in the last two years and that will likely intensify, since Northeast is heavily reliant on gas for electricity generation. A cord of wood now costs an average of \$200. The price may surpass \$300 on strong demand. Worldwide trade of wood pellets has reached three million tons. Many of our members sell and install pellet stoves (both central heat and warming stoves) and are now in distribution business. Pellet fuel is competitive because they're made with shavings and sawdust. However, there is a limited amount of this bi-product. Chopping down trees and grinding them into pellets doesn't make economic sense at this point. The current pellet production method has created an imbalance of supply and demand, with dealers waiting months for delivery. Even without the supply issues, the distribution system for pellets is in its infancy. Deliverable liquid fuels will still be needed by roughly 75% of Vermonters this winter.

Vermont Utilities Speak Out: DON'T SWITCH!!!

Avram Patt of the Washington Electric Cooperative is urging Vermonters not to resort to electric heat. According to Pratt, electric heat will typically end up costing the customer more and will ultimately make their situation worse. In addition, portable electric space heaters and other temporary heat sources may present safety hazards in addition to higher costs. If there is significant increase in the use of electricity for heat or hot water, it will lead to an increase in utilities' peak power costs and lead to higher electric rates. The message is clear: fuel switching is a bad idea.

The Vermont Fuel Dealers Association is holding three events before the upcoming heating season:

VFDA Open House Luncheon & Seminar

When: Tuesday August 19th Noon-3:30

Where: VFDA's new office and education center, 250 Main Street, Montpelier

Join us for our open house luncheon and seminar for managers and front office staff for a credit, collections & customer service seminar.

Keynote Speaker: Assistant Attorney General Julie Brill

VFDA at Visions Happy Hour

When: Monday, September 8th 5:00

Where: Connolly's Pub, Boston Logan Hilton

Join us for a cocktail at the premier heating fuel event in New England

VFDA Fall Golf Outing & Dinner

When: Thursday September 18th 1:00 tee time, Dinner 6:00

Where: Crown Point Country Club, Springfield, VT

A fundraiser for the VFDA's political action committee--the Heat PAC

Sponsorship Opportunities Available. Contact Samm DeCoteau at samm@vermontfuel.com or 802 223-7750