

July 2009

OIL & ENERGY

OIL HEAT • PROPANE • DIESEL FUEL • BIOFUELS

2009 Hedging Survey

Could the Market Take Flight Again?

*Experts Offer Strategies to
Minimize Risk After
Last Year's Wild Ride*

Q&A: TD Bank Chief Economist Joel Naroff

Making Profits in an Uncertain Market

The Best Price Programs to Increase Cash Flow

Common Sense Tips for Supply Purchases

Publication of the New England Fuel Institute
Volume 11/Issue 7



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RGGI RAISES MORE THAN \$100 MILLION IN CO2 AUCTION

The states participating in the first-in-the-nation cap-and-trade system for greenhouse gases conducted their fourth regional auction of carbon allowances in June, raising \$104.2 million.

All of the nearly 31 million allowances for the 2009 vintage sold at a price of \$3.23, according to the Regional Greenhouse Gas Initiative (RGGI).

In a parallel offering, the RGGI states also auctioned allowances for the second three-year control period beginning Jan. 1, 2012. All of the 2,172,540 allowances for the 2012 vintage sold at a price of \$2.06, with 13 entities submitting bids to purchase 1.5 times the available supply of 2012 allowances.

The states have now auctioned more than 110 million allowances and raised a total of \$366.5 million since the first RGGI auction in September 2008. The states are investing RGGI proceeds in energy efficiency, renewable energy, technology development and other consumer benefit programs. Overall, the states are investing the vast majority of proceeds in energy efficiency and renewable energy.

NEFI AUCTION RAISES \$3,000 AT EXPO

The New England Fuel Institute's (NEFI) silent auction at the 2009 North American Heating and Energy EXPO raised approximately \$3,000 for the Petroleum Marketers Association of America Small Business Committee Political Action Committee (PMAA SBA PAC).

The PAC co-chairs, Sam Bell and Gary Harris, send their appreciation to NEFI and NEFI's members for contributing to the organization's efforts.

NY LEGISLATURE WANTS ULTRA-LOW SULFUR HEATING OIL IN 2011

A measure supported by the New York Oil Heating Association (NYOHA), Oil Heat Institute of Long Island (OHILI) and Empire State Petroleum Association (ESPA) that would require all heating oil used within the state of New York to contain 15 parts per million (ppm) of sulfur after July 1, 2011, has passed the New York State Assembly. The bill allows the governor to issue a waiver to temporarily suspend the mandate if state officials determine there is inadequate supply. The bill awaits consideration in the state senate.

HIGHWAY BILL TO INCLUDE WET-LINES REGULATIONS

The House Transportation Committee released an outline of the goals the chairman hopes to meet in the 2009 highway bill. The outline, which lacks specific language, includes new regulations for cargo tanks with external piping known as wet-lines. The committee believes wet-lines are a danger because 30 to 50 gallons of gasoline stored in that piping poses a hazard. The committee is considering a requiring a purging system in new trucks, which could cost thousands of dollars to heating oil dealers. The New England Fuel Institute (NEFI) has joined the Petroleum Marketers Association of America's (PMAA) in opposition of this requirement.

THE DIFF.

Spot Prices (Cents/Gallon) as of June 19, 2009*

New York Harbor No. 2 Fuel Oil / Heating Oil	New York Harbor No. 2 Diesel Low Sulfur	U.S. Midcontinent No. 2 Diesel
178.58	180.08	187.30

*Figures taken from Energy Information Administration's "This Week In Petroleum."

THE BAROMETER

Comparing Heating Oil to Other Financial Products

	June 19, 2009	One Year Ago
No. 2 Fuel Oil/New York (cents/gallon)	178.58	380.16
Crude Oil (dollars/barrel)	\$71.66	\$133.99
10-year Treasury Bill	3.82%	4.16%
30-year Mortgage	5.43%	6.42%
Dow Jones Average	8,608.58	11,842



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NEFI Action Center: From Washington 10

Mark S. Morgan, Esq., New England Fuel Institute (NEFI) Regulatory Counsel, and Jim Collura, NEFI Vice President for Government Affairs, review two recent legislative and regulatory victories for NEFI that will make spill prevention and inventory reporting less burdensome.

Mastering the Market 12

With our annual survey of the top hedging companies and wholesalers in the industry, dealers can gain a better understanding of where experts think this season's prices might be headed—and how to get the most value from hedging.

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NEFI's 2009 North American Heating and Energy EXPO had record-breaking attendance thanks in part to the Energy Summit and technical sessions. We review some of the advice given on topics as varied as biofuels, carbon taxing and offering the best customer service.

Bioheat®: Challenges with Regulations Creating Inaction 22

Paul Nazzaro of Advanced Fuel Solutions writes that until the government offers clear rules and guidelines for energy providers to follow, biofuel adoption among dealers will be slow. For more information, contact (978) 664-5923 or paulsr@fuelsolution.com.

Visions of the Future 24

The latest National Association of Oil Heating Service Managers (NAOHSM) conference presented attendees with a look at upcoming equipment with a focus on efficiency, while also offering help to the next generation of Oilheat technicians.

Signs of Optimism Seen by Dealers 26

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After the most volatile year of oil price gyrations most dealers can remember, we asked TD Bank's chief economist Joel Naroff where he expects energy prices may go in the near future, whether inflation will become a problem and how businesses can best survive the downturn.

Biz Tip: Sure Profits in an Uncertain Market 29

Betsi Bixby of Meridian Associates gives home heating companies five tips to help increase profits despite the economy. For more information, see www.askmeridian.com.

Your New Banker: Your Customers 30

Matthew J. Ide, managing director of RenRe Energy Advisors Ltd., reviews some of the most common price programs that dealers offer and details how to pick those that can best improve a company's cash flow. Ide can be reached at mji@renre.com or (832) 592-0076.

Biz Tip: Why Benchmarking is Essential for Survival 32

Joe Ciccarello of Gray, Gray & Gray defines "benchmarking" and outlines why it's an important task for any business. Ciccarello can be reached at (781) 407-0300 or jjcicarello@gggcpas.com.

Oil Market Stance: Dollars and Sense 33

With the recent market rally in energy prices, Mark Skaparas of Hedge Solutions gives some common sense tips for dealers to think about before making any big supply purchases. Skaparas can be reached at mark@hedgesolutions.com or (508) 721-7604.

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Joe Rose, Propane Gas Association of New England president, writes that supply could always be an issue for dealers, but that having the proper plan in place can pay off if there are any disruptions during the season.

Weather Trends: El Nino Could Keep Northeast Cool 42

John Bagioni of Fax-Alert Weather Service says the unseasonably cool temperatures across the Northeast may persist through the summer, with hot periods arriving, but staying brief. Bagioni can be reached at johnbag@comcast.net.

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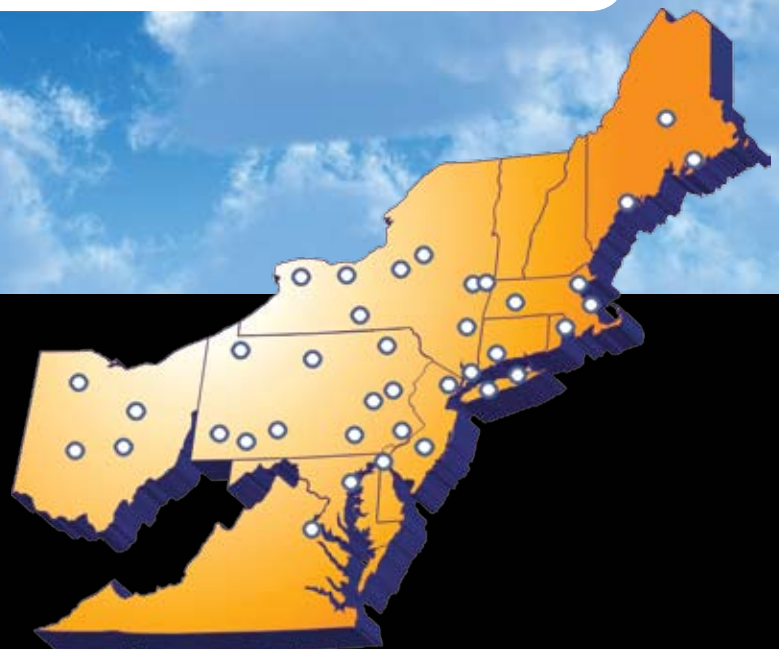
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SPCC Compliance Date Extended to November 2010

The Environmental Protection Agency (EPA) has announced an extension of the July 1, 2009, compliance date for revising and implementing Spill Prevention, Control, and Countermeasure (SPCC) plans for petroleum bulk plants. The new deadline for SPCC compliance with the latest revisions to the rule is Nov. 10, 2010.

The New England Fuel Institute (NEFI) has fought for this extension and other provisions so that petroleum bulk plant owners and operators will see costs for SPCC regulation kept to a minimum.

Under the final rule, owners or operators of a petroleum bulk plant facility in operation on or before Aug. 16, 2002, must maintain their existing SPCC plan, make any necessary amendments to the plan and fully implement it by Nov. 10, 2010. The owner or operator of a facility that came into operation after Aug. 16, 2002, but before Nov. 10, 2010, is required to prepare and implement an SPCC plan on or before Nov. 10, 2010.

The EPA believes that an extension of the compliance date is appropriate because it provides the owner or operator of a bulk facility the opportunity to fully understand and take advantage of all of the regulatory amendments offered by revisions to the SPCC rule promulgated in December 2008. Those amendments, a legacy of the final days of the Bush administration, are currently under regulatory review ordered by President Barack Obama. The regulatory relief provisions are not considered controversial and unlikely to change when the final review is completed in November.

House Panel Approves Massive Climate Change Bill

In May, the U.S. House Energy & Commerce Committee approved a massive 1,000-plus page bill that would, among many other things, create a national cap-and-trade program by 2012 in order to drastically reduce greenhouse gas emissions. The goal would be to reduce them to 17 percent of 2005 levels by 2020, and 83 percent by 2050. The bill would cap emissions by major polluting industries, including power producers, refiners and manufacturers, and turn carbon into a traded commodity that is estimated to exceed \$2 trillion in five years.

Among the many concerns outlined in a letter to Chairman Ed Markey, D-MA, the bill's co-author and chairman of the Energy & Environment Subcommittee, the New England Fuel Institute (NEFI) and the Massachusetts Oilheat Council (MOC) questioned the wisdom of putting the fate of the planet's climate "in the hands of Wall Street traders."

The letter articulated many notable efforts on the home heating fuel industry to achieve the overall goals of the bill, including reduced emissions and decreased demand for foreign energy. The industry, NEFI and MOC said, has concerns with the bill but is ready and willing to work with policymakers to meet common goals.

The bill does include a measure sponsored by Rep. Murphy, D-CT, that would direct 1.5 percent of free emissions credits to states, with the instruction that they redirect funds through existing or new state programs to Oilheat, propane and kerosene consumers in the form of weatherization, efficiency upgrades and fuel assistance rebates. NEFI tried unsuccessfully to include a clause that would have

prohibited the use of these funds for fuel switching/conversion, and other modifications to the measure, and will continue to try to add these measures to future versions.

The bill has been referred to eight other committees that may stall or even block the legislation. Rep. Collin Peterson, D-MN, lead sponsor of a NEFI-endorsed commodities reform bill and chairman of the House Agriculture Committee, opposes the bill. The Senate has not yet finished work on its version of legislation to address climate change.

Industry Brings Top Priorities to Lawmakers in 'Day On The Hill' Event

On May 14, industry representatives from around the country met with their Congressional delegations in this year's "Day on the Hill."

Among the New England state associations that participated in the event were the Independent Connecticut Petroleum Association (ICPA), Maine Oil Dealers Association (MODA), the Massachusetts Oilheat Council (MOC), Oilheat Institute of Rhode Island (OHIRI) and the Vermont Fuel Dealers Association (VFDA).

Among the most vital heating fuel issues brought to Washington:

NORA Reauthorization

When the National Oilheat Research Alliance (NORA) was passed into law in 2000, it included a so-called "sunset provision" that would require its reauthorization every five years. This second "sunset" date is fast approaching and industry groups, including NEFI, are advocating heavily for NORA's renewal. The 2009 reauthorization bill would strengthen NORA by allowing for gradual board-approved increases in the amount of the check-off, expand the definition of heating oil to include bio-blends, set the "sunset" at every 10 years instead of five, and other important technical changes. Sens. Jack Reed, D-RI, and Olympia Snowe, R-ME, and Congressman Peter Welch, D-VT, are expected to champion NORA reauthorization this year.

Reform of Commodity Futures Markets

In the U.S. House of Representatives, NEFI has joined coalition allies to endorse a bill introduced by Agriculture Committee Chairman Collin Peterson, D-MN, that would close many

remaining loopholes and expand transparency requirements, speculative limits and anti-manipulation measures to all trading environments and platforms. The Senate will likely introduce a measure this summer.

A Cleaner Future

"Day on the Hill" participants also told members of Congress and their staff of the great strides being made with respect to fuel quality and efficiency. The industry is moving aggressively toward a lower sulfur standard, and when blended with biofuel, the result is a high-quality, cleaner-burning fuel that meets governments' goal of both caring for the environment and the climate, and reducing dependence on foreign oil. Participants also advocated for a "technical correction" of the 90 percent AFUE standard for oil-fired boilers that was approved as part of the 2009 stimulus bill, so that more heating oil consumers can take advantage of the expanded home efficiency tax credit.

NEFI EXPO Surpasses Attendance Milestone

The viability of the independent fuel dealer industry for heating oil, propane and biofuels was in strong evidence in Boston this June at the industry EXPO and concurrent Energy Summit hosted by the New England Fuel Institute (NEFI).

A surge of attendees and exhibitors from throughout the Northeast and Mid-Atlantic region, Canada and overseas establishes NEFI's biennial trade show and conference as the premier event of its kind.



While data is being tallied, there's little question that this year's event exceeded the record attendance of over 8,000 visitors to the EXPO in 2007. The Energy Summit commenced with a standing-room-only audience for Tom Kloza's keynote address. Kloza, the well-known publisher of the Oil Price Information Service (OPIS), spoke about the extreme volatility in the



energy market within the last year—and why it probably won't end anytime soon.

The EXPO floor of the Hynes Convention Center was packed with more than 350 exhibitors from a wide spectrum of industries, including fuel wholesalers, equipment manufacturers and financial and environmental services. Thousands of attendees from all across the country—and beyond—filled the floor throughout the two-day show.

The Energy Summit's business and technical sessions were very well attended, with an overflow audience at most of the presentations. Attendees and exhibitors alike had praiseworthy remarks about NEFI's 2009 EXPO, calling it one of the most impressive and rewarding shows held on behalf of the independent heating fuel distribution and related service marketplace.

Past NEFI Chairman Cota Calls for Reform Before CFTC Committee

New England Fuel Institute (NEFI) member and immediate past Chairman of the Board Sean Cota has once again represented the industry before the Commodity Futures Trading Commission (CFTC)'s Energy and Environmental Markets Advisory Committee (EEMAC).

The advisory committee was established in early 2008 at the urging of NEFI and its coalition allies, as a forum for energy market stakeholders and consumer groups to meet and discuss important issues. The CFTC is concerned that its jurisdiction over emissions markets might be stripped or shared with another agency, despite its mandate as the principal commodities regulator, existing resources and staff expertise.

The second subject to receive attention was the role of "dark markets" or unregulated energy trading practices, products and environments.

"There has been some modest amount of regulation of the markets, but the dark markets are still largely dark. The over-the-counter markets still do not have visibility," Cota said.

He called for regulation of these markets, as well as for the CFTC to work with foreign regulators to police off-shore exchanges. "[Speculative] position limits across platforms really needs to be taken into account."

Cota also questioned the role being played by financial players, and credited this activity with helping to distort the supply and demand picture, especially with respect to heating oil.

"Demand from my [heating oil] customers year-on-year is 15 percent down, it's not coming back and I'm looking at record-high inventories, and there is an apparent disconnect [with heating oil trading activity]... it makes absolutely no sense," he said.

Bill to Create Loans for Energy Efficiency Improvements Introduced

Sen. Ron Wyden, D-OR, recently introduced S. 1092 the Re-Energize America Loan Program, legislation that would create a revolving, zero-interest loan program to pay for



energy efficiency upgrades and clean energy equipment, such as high-efficiency heaters and hot water heaters. The loan program would also cover other upgrades, such as installing insulation, weatherproofing windows and doors, and converting to low-power lighting.

The legislation will provide \$1 billion per year for 10 years, with a maximum individual loan allocation of \$5 million over four years. To assure that loans will be tailored to regional needs, the program will be administered by state energy offices. That will also enable

loan applicants to work with energy officials in their own state, rather than at the federal level.

However, the proposal will require state energy officials to submit five-year loan allocation plans to the Department of Energy for approval before any federal funds are released and the state agencies must describe the criteria used to select the projects to be funded. The program will cover residential, commercial, industrial and renewable energy projects.

The program would be funded by revenue from the royalties and rent paid to the federal government by oil companies that lease federal land.

CFTC Chairman Agrees Financial Reforms Needed

Gary Gensler testified in his first Congressional hearing as chairman of the Commodity Futures Trading Commission (CFTC) recently. The hearing before the Senate Appropriations Subcommittee on Financial Services and General Government focused on fiscal 2010 appropriations for the Securities and Exchange Commission (SEC) and the CFTC.

In Gensler's testimony, he endorsed aggregated position limits to limit excessive speculation and manipulation, along with broad regulatory reform to bring greater transparency and accountability to the over-the-counter derivatives market. Specifically, Gensler also said that the CFTC is reviewing all hedge exemptions under its weekly Commitment of Traders report and all existing authorities afforded it under federal law to assure a full and thorough enforcement of the markets is taking place. In regards to CFTC staffing levels, Gensler stated that with

an environment that has changed from an open outcry pit trading to highly sophisticated electronic markets, more staffers will be needed at the CFTC to combat excessive speculation.

Legislation Introduced to Give CFTC Emergency Powers

Sen. Bernie Sanders, I-VT, introduced legislation recently that would give "emergency power" to the Commodity Futures Trading Commission (CFTC) to bring stability to volatile energy futures markets. Under the bill's findings, it states that oil supply is at an all-time high, while demand is at a 10-year low, yet oil prices have increased by more than 70 percent since the middle of January 2009.

Specifically, the legislation would grant the Commission "emergency power" to curb the role of excessive speculation in any contract market within the jurisdiction of the CFTC that has led to price distortion and sudden or unreasonable fluctuations or unwarranted changes in prices. Additionally, the legislation would classify hedge funds and other investment funds as non-commercial traders subject to strict position limits, while eliminating conflicts of interest with any entity that owns and controls physical commodities.

As this issue went to press, Sanders was working to attach the measure to a travel bill under consideration on the Senate floor, but the Republican minority was blocking his efforts. CFTC Commissioner Bart Chilton endorses Sanders' legislation, which would grant the CFTC aggressive authority to address the current market volatility.

NEFI Welcomes New Members

New England Fuel Institute welcomes two new members.

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NEFI Helps Push Through SPCC Compliance Extension

The New England Fuel Institute (NEFI) won a victory for its members in June when the U.S. EPA announced that it would extend the July 1, 2009, deadline for Spill Prevention, Control and Countermeasure (SPCC) plan revision and implementation. The U.S. EPA announced that the SPCC deadline is being extended to Nov. 10, 2010.

The extension gives NEFI members an additional 16 months to comply with the new SPCC regulations. This is the fifth compliance deadline extension the EPA has granted since the revised SPCC regulations were issued back in 2002. Each extension followed a series of amendments to the revised 2002 SPCC rule. The SPCC amendments were in response to industry requests for more clarity in the rulemaking and regulatory relief provisions for small business bulk plant operators. NEFI played an integral role in the most recent extension. NEFI submitted written comments supporting an extension and met with EPA regulators on a number of occasions to urge the agency to provide more time for compliance.

Without the extension, new SPCC regulatory relief provisions scheduled to take effect Jan. 14, 2010, would not be available for the July 1, 2009, plan revision and implementation deadline.

The most important of these provisions relates to secondary containment requirements for parked trucks. NEFI convinced the EPA to exempt cargo tank trucks containing product and parked overnight at bulk plants from sized secondary containment requirements. Sized secondary containment requires these trucks to be parked within structures capable of containing a catastrophic release from the single largest compartment in the tank. In other words, the EPA requires these trucks to be within a diked containment area when parked overnight.

NEFI member bulk plants generally have such secondary containment structures for aboveground tanks and loading racks, but not for parked trucks. It was not until a rash of EPA enforcement actions exposed this obscure requirement to the light of day that bulk plant operators were made aware that trucks must be parked within sized secondary containment structures.

The new focus on parked trucks threatened to require NEFI members to spend up to \$100,000 to build secondary containment structures around parking areas in order to meet the July 1, 2009, SPCC deadline. With these costs in mind, NEFI convinced the EPA to require only that parked trucks be subject to general secondary containment requirements—planning for the most likely release instead of a catastrophic release—with inexpensive drip pans and absorbents rather than with costly dikes and berms.

It is easy to see the importance of the compliance deadline extension to NEFI members when considering the fact that expensive sized secondary containment structures would have to be built to meet the July 1, 2009, deadline, but would no longer be required after Jan. 14, 2010, when the parked truck exemption goes into effect. The fact that the extension goes 10 months beyond Jan. 14, 2010, is an extra bonus for those still requiring more time to revise and implement SPCC plans. The SPCC deadline and the parked truck exemption are now in sync and provide a huge cost savings for NEFI members.

Now that all the SPCC regulatory ducks are in a row, it is time for NEFI members to move into high gear with respect to compliance efforts. Line up your professional engineer and contractor now.



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If you wait too long, you may have trouble finding truly knowledgeable professionals that specialize in SPCC plans. It is also important to remember that local planning and construction permits take time to secure, particularly where a proposed bulk plant change draws the attention of neighboring landowners.

Act now and avoid the rush. There will be no more SPCC deadline extensions.

Mark S. Morgan, Esq.

NEFI Regulatory Counsel

Another Victory: Bill to Require Firms to Report Inventory

The United States Senate Committee on Energy & Natural Resources approved in mid-June a new energy bill that, unlike the House energy bill, is absent a cap-and-trade program (the Senate will deal with that separately) and instead focuses on renewable electricity, efficiency programs and market transparency.

NEFI has been tracking this legislation closely and involved in key aspects of its market transparency provision. The “Energy Markets Transparency” section of this bill would have originally required new inventory reporting requirements of all holders of futures contracts, and require that the details of contracts, including fixed-price contracts, be reported to the U.S. Department of Energy’s Energy Information Administration (EIA). NEFI worked with industry advocates to change this provision, which will now only require the 50 largest holders of commodity futures contracts, including some large Wall Street trading houses, to report their physical inventory and storage capacity to the EIA.

Also, NEFI worked with Sen. Bernie Sanders, I-Vt., in introducing and passing an amendment to the legislation that will require these traders to divulge crude oil and refined petroleum reserves currently being held in off-shore supertankers. NEFI signed a letter of support for the amendment to the committee leadership and helped to get it approved by the committee.

Global diesel storage at sea climbed to about 41 million barrels, Reuters reported in mid-June, up 71 percent since April. They cite petroleum being held in off-shore tankers by trading firms and shipbrokers. Seven tankers with an estimated 14 million barrels of North Sea crude oil are anchored off Great Britain, Bloomberg reported. JP Morgan Chase also hired a ship to store up to 2 million barrels of heating oil off the coast of Malta. Without a requirement that storage held by trading firms in these off-shore tankers be reported to federal authorities, these barrels remain “in the dark.”

In addition to requiring traders to report physical inventory data, the measure would also create a panel to investigate and report on the energy commodities markets and the setting of prices, and specially, the role of speculation. The Senate is expected to take up the broader energy bill sometime this fall.

Jim Collura

NEFI Vice President for Government Affairs



COMMITMENT COMES WITH NAMES ATTACHED
WE ARE PLEASED TO RECOGNIZE OUR VALUED SUPPORTERS

2009 CONTRIBUTORS
As of June 26, 2009

\$10,000		\$600 or more		\$300 or more	
James Devaney Fuel Co. Inc.	Newton, MA	B&B Oil	Charlestown, MA	Ashley Fuel Inc.	Beverly, MA
		Blue Cow Software	Lynnfield, MA	Benway Oil Co.	Milton, MA
\$7,500 or more		Boston Steel & Mfg. Co.	Malden, MA	Braley & Wellington	Worcester, MA
Atlas Glen-mor	Chelsea, MA	Bourne's of Morrisville	Morrisville, VT	Cetane Associates	Ellicott City, MD
Petro	Providence, RI	Brideau Oil Corp.	Fitchburg, MA	Chapman Fuel, Inc.	Gardiner, ME
Petro	Norwalk, CT	D. Ferruccio & Son Inc.	Hudson, MA	Cocard/Richmond Financial Svs.	Beverly, MA
		Dunn Oil Co. Inc.	Maynard, MA	Columbus Oil Co.	Swansea, MA
\$5,000 or more		Dutchess Oil Co.	Millerton, NY	Continental Fuel Co.	Bridgeport, CT
Arlex Oil Corp.	Lexington, MA	Federal Heating & Eng. Co.	Winchester, MA	Dorr Oil Co. Inc.	Manchester Ctr., VT
		Fuel Services Inc.	Westfield, MA	EP Cotter	Norwood, MA
\$3,500 or more		Gault Inc.	Westport, CT	Guardian Fuel	Westerly, RI
Buckley Heating & Cooling	Wakefield, RI	Gillespie Fuels, Inc.	Northfield, VT	Glendale Oil Service Inc.	Glendale, RI
Champion Energy	New Rochelle, NY	Goodrich Oil Co. Inc.	Newport, NH	Hiller Fuels, Inc.	Marion, MA
Macfarlane Oil	Dedham, MA	Gottier Fuel Co. Inc.	Rockville, CT	Howell Fuel Inc.	Fairfield, CT
Scott-Williams, Inc.	Quincy, MA	Guy Nido, Inc.	Wilmington, VT	John's Fuel Service	Lynn, MA
Wesson Energy	Waterbury, CT	Haffner's Service Stations, Inc.	Lawrence, MA	Landry & Martin Co.	Pawtucket, RI
		Hall Oil Co.	South Dennis, MA	Lemay Oil Co.	Hartford, CT
\$2,500 or more		Holden Oil Inc.	Peabody, MA	Madison Oil Co. Inc.	Madison, CT
Fred Fuller Oil Co. Inc.	Hudson, NH	Homestead Fuel Inc.	Ellington, CT	Marran Oil, LLC	Holtsville, NY
W.H. Riley & Son Inc.	North Attleboro, MA	J&S Oil Co.	Manchester, ME	McKusick Petroleum Co.	Dover-Foxcroft, ME
L.E. Belcher, Inc.	Springfield, MA	Lakeside Oil Co. Inc.	Marlboro, MA	Micheletti Oil Service, Inc.	Johnston, RI
New York Oil Heating Association	New York, NY	Lees Oil Service Inc.	Westport Pt., MA	Nardone Oil	Wakefield, MA
Noar's Enterprises	Worcester, MA	LF Powers Co. Inc.	Waterbury, CT	Pallett Oil Co. Inc.	Chesapeake, VA
Noonan Energy Corp.	Springfield, MA	J.J. Sullivan	Guilford, CT	ToddOil/Div. of Rose's Oil Svc.	Gloucester, MA
Scott Oil Co.	Gloucester, MA	John A. Healy & Sons	Westford, MA	Towne Heating Co. Inc.	Swansea, MA
		Julian's LLC	Medway, MA	Sinclair Enterprises Inc.	Walpole, MA
\$1,750 or more		Juniper Farms Bolton Oil, Inc.	Hudson, MA	Spring Brook Service, Inc.	New Britain, CT
CK Smith	Worcester, MA	Murphy Fuel Corp.	Waltham, MA	Stocker Oil Co.	Peabody, MA
Dominic Fuel	Norwalk, CT	Needham Oil & Air LLC	Needham, MA	Wehof Forms	Somerville, NJ
Faulkner Brothers Inc.	Somerville, MA	Pioneer Propane Co.	Harrison, AR		
Medway Oil Co.	Medway, MA	Rand-Handy Oil	Marshfield, MA	\$100 or more	
Munhall Energy Co.	Watertown, MA	Rowayton Fuel & Oil Co. Inc.	Norwalk, CT	Arrow Fuel	Seekonk, MA
Owner Services, Inc.	Proctor, VT	Reggie's Oil	Quincy, MA	Blanchard Oil	Orleans, VT
		Reliable Oil & Heat	Glenbrook, CT	Community Oil Company	Cambridge, MA
\$1,000 or more		Sherman Oil Co.	West Brookfield, MA	East Providence Fuel Oil	East Providence, RI
Anderson Fuel	North Scituate, MA	Sippin Energy Products	Monroe, CT	Gray, Gray & Gray	Westwood, MA
City Fuel	Manchester, NH	Sochia's Oil & Gas	East Douglas, MA	Harvard Oil	Harvard, MA
Densmore Oil Co.	Mystic, CT	Star Petroleum	Foxboro, MA	Hilton Oil Co.	Lawrence, MA
D.F. Richard	Dover, NH	Swanzey Oil	Swanzey, NH	H.H. Snow & Sons, Inc.	Orleans, MA
Energy Kinetics	Lebanon, NJ	Town Oil Co.	Wethersfield, CT	Interstate Biofuels	Sudbury, MA
Fraticeilli Oil Co.	Leominster, MA	Warren Enterprises, Inc/		Medway Oil Co.	Medway, MA
Hedge Solutions	Manchester, NH	DBA Fisher-Churchill	Dedham, MA	Niccoli Bros. Oil Inc.	Brockton, MA
Horan Oil Corp.	Stoughton, MA	West Oil	North Adams, MA	People's Fuel, Inc.	Gardner, MA
M&T Oil	South Boston, MA	Westmore Fuel Co. Inc.	Greenwich, CT	Perillo Brothers Fuel Corp.	Framingdale, NY
Norbert E. Mitchell	Danbury, CT	Winthrop Fuel Co.	Winthrop, ME		
Northboro Oil Co.	Northboro, MA				
Palmer Gas Co./Ermer Oil Co.	Atkinson, NH				
Kerivan-Lane Inc.	Needham, MA				

If you would like more information on how NEFI's Legislative & Regulatory Action Center serves your interests, and how you can contribute to our annual efforts, please email jimcollura@nefi.com, or telephone 617-924-1000.

Visit www.NEFIActionCenter.com



Mastering the Market

Experts Offer Advice on Hedging in a Volatile Market

WHEN OIL & ENERGY CONDUCTED ITS ANNUAL SURVEY OF THE TOP HEDGING COMPANIES AND wholesalers last year, the price of a barrel of oil was breaking records almost every day as it climbed toward its peak of \$147 in July, leaving experts confounded and dealers confused about when to buy.

Its precipitous fall through the beginning of 2009 and steady climb back to more than \$70 a barrel did little to settle questions about whether supply and demand or trading of oil contracts were behind the price movements. This volatility has made it harder than ever for home heating oil dealers to decide what price plans to offer, how to hedge and what costs to pass on to customers.

After conducting this year's survey, it's obvious that, as in previous years, no one can tell just what the market will do this summer. While demand remains low due to the slowing economy and inventories are piling up to record levels, the price of oil has risen steadily.

Though each company agrees that the market will continue to be unpredictable, they also all concur that dealers must make sure to avoid trying to time the market and make a purchase when they think oil has hit its bottom. Instead, they caution companies to come up with a solid business plan, stick with it through the season and pass on the appropriate costs to customers.

Oil & Energy thanks all the companies involved for spending time to answer the following additional questions about how dealers can best approach buying supply for next season.

Please list the hedging programs and services that you offer to fuel oil dealers and include a brief description.

Angus: We offer advice and execution on strategies to plan, structure, implement and monitor price programs—both cap and fixed—for retail heating oil dealers. The plan is comprehensive in analyzing historical margins, costs to serve, storage opportunities and financing of hedge needs.

Our hedging ranges in scope and scale, but can cover the price and volumetric (weather) needs of all dealers, track the hedges as implemented, and report daily on actual costs of product for price setting on deliveries. With the recent sale of a stake in our company to an "A" rated, publicly traded company, we have improved our credit support, and offer hedge financing, in addition to newly acquired expertise on the banking, hedging, storage and structuring of deals.

Global: Fixed-priced contracts, prompt contracts, basis deals, spread deals, hedging tools such as put and call options, collar deals. Global has the flexibility and know-how to help customize a program to suit individual oil dealer needs. Global also offers storage deals within appropriate market conditions.

Hedge: Hedge Solutions is a consulting company. We do not have specific programs. Instead, we look at every client's unique circumstances and objectives and then tailor a program that fits their needs and manage it from start to finish. This allows our client to retain professional, objective advice at a fraction of the cost to hire direct.

Hedge Solutions also gets deeply involved with the day-to-day procurement strategies in advance of and during the heavy buying season. We look for ways to buy the oil better than at rack and to lock in better-than-typical margins. The hedging is managed on the

Web-based software platform, HedgeInsite. We have a trading company, Northland Energy Trading that is available exclusively to our client base. Northland Energy develops and delivers customized OTC products such as off-contract volume increments for swaps and options, as well as daily offset options to fit our clients' needs.

Irving: Our Price Risk Management Programs are designed to meet the specific needs of each reseller and include:

- Fixed futures for distillates with fixed differentials up to 18 months out;
- Fixed futures for gasoline up to 18 months out;
- Fixed futures with monthly volumes to meet customer needs;
- Un-priced futures with fixed differentials;
- NYMEX prompts.

Our fixed-price products are available for lifting on the first day of the lifting month.

RenRe: We offer risk management programs that address volatility in heating oil and crude oil commodity markets. Programs include futures, options, calendar and crack spreads. We also provide risk management programs that protect dealer's profits from volume fluctuations caused by weather. We perform advisory services integrating physical supply with financial hedges to insure that the dealer is achieving the margins needed to meet financial goals. We can provide working capital which may be needed to execute these risk management strategies. In many cases, we will work with our affiliate Angus Energy to provide the most comprehensive and effective solutions to dealers.

TES: Total Energy Solutions (TES) offers a complete line of price protection programs for all products, including fixed-price futures, cap programs with downside, guaranteed differentials, fixed diffs with calls and prompt month bulk (spot) purchases. TES also

Continued on page 14...

Have you seen this picture?



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The following is a list of companies that provided written responses to our hedging survey.

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Pennsylvania, New Jersey
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offers needs and development analysis and customized management strategies.

What mistakes are dealers likely to make in a volatile market? How can they avoid making those mistakes?

Angus: There are two common mistakes: The first is in believing that a fixed-price customer won't just "jump ship" if he/she can get oil significantly cheaper elsewhere. Last year (2008-09) was the "poster child" for what can go wrong in offering a fixed-price, despite what might have appeared to be a good hedging plan.

The second, and often most costly, is confusing hedging and speculating. Easiest said, each time that you have made a promise to a customer, and you have not backed that promise up (via a hedge with a supplier, trading company, bank, or the like), you are at risk (aka speculating).

In today's very volatile environment, you are playing with dynamite. All too often we hear excuses as to why hedges weren't placed, but in each case, the end result was that the company speculated. While speculation can, at times, be very profitable, at other times, it can put you out of business—and in deep debt. Increasing volatility just magnifies the risks. If you want to roll the dice, that's fine, but if it doesn't go your way, the only one to blame will be the one staring at you in the mirror.

Global: Speculating! Whether it's overbuying for program needs or basing purchasing decisions on birthdays or lucky numbers, etc., dealers need to formulate a business plan and stick to it. Many companies continue to try buying at the bottom; a dangerous game indeed. Many dealers just last year were still buying on speculation.

Hedge: The biggest mistake we find heating oil dealers making is a lack of planning and then a lack of discipline to follow the plan. The markets are clearly at historical levels of volatility, which is why premiums are high.

The days of scaling in months in advance of selling the volume they are hedging are long past, since the risk is simply too high (see last year, with prices falling precipitously in a very short time).

The heating oil dealer needs to have a comprehensive buying strategy laid out well in advance, coupled with their marketing strategy for turning around and selling it to their customers. The window between these two events needs to be tightly coordinated to avoid risk. Finally, they should have a strong accounting system that tracks results and gives them a forward profit and loss statement.

Irving: Offering customers deals that you

can't cover at the current market level or buying too much product without having secured customers is a likely mistake. These mistakes can be avoided by not trying to match competitors' deals that are unrealistic at current market levels and by buying a small number of gallons for each month and adding to those gallons only as needed.

RenRe: The most common mistake that is made doesn't have anything to do with the execution of the hedge, i.e. buying "wet barrels," puts or calls. It is with the design of the offering to the customer, which makes many programs impossible to hedge from the start. This is especially true in today's volatile markets.

"Whether it's overbuying for program needs or basing purchasing decisions on birthdays or lucky numbers, etc., dealers need to formulate a business plan and stick to it. Many companies continue to try buying at the bottom; a dangerous game indeed. Many dealers just last year were still buying on speculation."

– Bill Braunig, Global

For example, coming out with an offer that fixes a price without limits to volume and/or time is a recipe for going out of business. To avoid these design mistakes, offers should be limited, always insuring that what is sold is covered.

TES: As always, common mistakes are trying to guess the bottom, not executing because they're waiting for a lower number, and worrying about the guy down the street.

What should a dealer keep in mind when it comes to keeping their hedging costs under control?

Angus: Hedging costs are commensurate with the level of risk taken. Similar to insurance premiums, the smaller the "deductible," the larger the premium will be.

Each dealer needs to assess how much prices will have to move before he must start to change his delivery price. The sooner the need, the better (and more expensive) the protection that is needed. Also, and interesting in the wording of this question, the costs should not be borne by the oil dealer.

While the dealer may be the one to lay out the money for the cost of the hedge, it is ultimately the end-use customer who must pay for the cost of hedging. Some companies charge a fee upfront. Others build the cost into the delivery price, and some work with a combination of the two.

If you wish to remain profitable—as the

current market does allow for—you need to understand that the hedging cost is the customers', not yours. One other thing to keep in mind is that hedging, by itself, is not designed to generate profits for an oil company. The hedge, only when complemented by physical supply and retail margins, all bundled, should yield the profits.

Global: Dealers should not have any hedging costs, all costs associated with

Dealers have been reluctant to pass the hedging cost on to the customer, which has often lead to the dealer not getting the proper coverage due to cost. This then resulted in losses much greater than the cost of proper coverage. Customers have to bear these costs if they want to participate in these programs.

TES: First, stay in balance and second, recognize all costs (self-insurance).

a reluctance to offer pre-buy oil, since they now realize the risk they are taking if their customer doesn't perform on his/her end of the deal.

Irving: Yes, many dealers started buying earlier this year and many have been buying in smaller quantities each time they purchase rather than buying all at once. The buying started earlier because the level of the market is quite a bit lower this year. The market dangers that are prevalent at \$4 per gallon (a drastic drop in the market and customers not taking delivery) are greatly minimized at \$2 per gallon.

“Many dealers started buying earlier this year and many have been buying in smaller quantities each time they purchase rather than buying all at once... The market dangers that are prevalent at \$4 per gallon (a drastic drop in the market and customers not taking delivery) are greatly minimized at \$2 per gallon.”

- Kevin Mikoski, Irving Oil



hedging should be included in the price they charge for their capped and/or price protection programs, it should be a pass-through cost.

Hedge: There is more than one way to “skin a cat.” And when it comes to hedging and spending premium, understanding this can lower one’s hedging costs considerably.

Irving: Once again, you should buy only the volumes needed for each month and buy from a full service wholesaler who will help you match your volume needs while giving you consultation services to help you in the process. One key point is to keep in communication with your supplier so that

“If you wish to remain profitable—as the current market does allow for—you need to understand that the hedging cost is the customers', not yours. One other thing to keep in mind is that hedging, by itself, is not designed to generate profits for an oil company.”

- Mark Bloom, Angus Energy

your questions can be answered and unwanted surprises can be eliminated. Also, don't forget to collect money from your customer as soon as the deal is in place.

RenRe: A dealer has to realize that price protection programs are an “added value service” provided to the customer and the customer has to pay for this added service.

Have you seen dealers changing their hedging methods/habits at all in response to the vast changes in oil prices over the course of the previous year? If so, how?

Angus: So many fixed-price programs were disasters this past year that there are many companies who are abandoning them—with some abandoning all pricing programs.

Capped programs yielded record profits for many companies (if hedged properly, which not all were!). We are seeing more companies start price-cap programs. One notable change we have seen is that there is definitely more focused attention (time spent with clients) in getting a better understanding of the moving pieces. Contrary to popular belief, hedging is not that complicated and can be accomplished fairly easily.

However, to get there, you must stop trying to guess what the price of oil will do.

Global: Yes, some of them are seeing the light. More dealers are using hedging tools to protect themselves and their customers from the incredible swing in market prices with great results. However, I'd like to see more dealers take advantage of the hedging programs that are readily available to them.

Hedge: Yes. They are being a lot more cautious about taking on a large position in the market before they know it is sold. They are also realizing that you can't bury the premium costs into the margin; it must be passed to the customer. We are also finding

RenRe: Most of the changes we see are positive because dealers are realizing how much risk they have taken in the past and are making changes to reduce that risk. The biggest change related to cap programs is charging a fee for protection. For fixed-price offers, dealers are limiting the timing of the offer to protect themselves from price swings.

TES: I've seen a reluctance to execute. Shock and awe over 2008-09 has them handcuffed.

Do you expect supply and demand to be the driving force behind oil price movement this heating season or could we see more investment in it as a commodity?

Angus: Ultimately it is all supply and demand. The “investment angle” is more on the investment portfolio management side of things, and applies more to storable commodities. Futures and cash markets have a way of self-regulating when pricing relationships get out of whack—e.g. the current storage opportunity.

Global: As the economy starts to move out of the current recession, I believe we'll see more funds (investors) continue to make their way into the commodities markets (including petroleum), especially as the U.S. dollar continues to weaken against foreign currencies.

Hedge: Supply and demand will always ultimately influence oil prices. Unfortunately, there are multiple non-product-related peripheral factors that influence prices also. This is due to the global feature as well

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as geopolitical characteristics that come with this commodity. The fact that it is also becoming a hedge for other financials as well just adds to the volatile nature of this product.

Irving: Supply and demand always has an influence in oil price movement, but even more than supply and demand is the perception of future supply and demand. As such we are already seeing investments in commodities pushing the prices higher than current supply and demand fundamentals would justify. I would expect this will likely continue in the heating oil season.

RenRe: If the supply/demand balance tightens you will see more “investment” participation in the commodity markets.

TES: As always, a combination of both will push volatility with a vengeance.

There has been a surge in oil prices over the last few months. Do you believe it's possible

we reach the same levels as last year and approach \$150 a barrel?

Angus: Last year, when prices were at \$60, no one could fathom \$100, and yet we moved to almost \$150. When prices are almost \$150, no one could fathom seeing prices below \$100, yet we traded down to under \$34. So, since the question is not what I think they will do, but whether it's possible, my answer would have to be yes!

Global: Having witnessed the incredible volatility over the past 12 months I hope we've all learned to try and not put a dollar amount on a ceiling or a bottom for the market, unfortunately in these economic times anything is possible, which is all the more reason to consider hedging programs.

Hedge: I don't and I haven't seen any forecasts to that extent. That said, see my answer to the previous question.

Irving: I do not believe that the current economic conditions will allow the market to

approach the same levels as last year. That being said, we are going through a similar market condition this year with oil climbing once again to levels higher than fundamentals would indicate. Thus we could very well see a market drop after the summer as we did last year. So much will depend on the economic recovery!

RenRe: I don't know. More importantly a dealer should not be offering programs with a “market opinion.” The whole purpose of price protection programs is to protect the customer in rising or falling markets, not to time the market.

TES: Anything's possible (right?). But in this economy with demand destruction and tanks already “chock-a-block” filled, what would be your guess? Add to that a warm fourth quarter in the Northeast and you won't be able to give it away fast enough. What a great industry... ☺

NBB VOICES CONCERNS WITH PROPOSED RFS RULE TO EPA

Manning Feraci, the vice president of federal affairs for the National Biodiesel Board, recently voiced the U.S. biodiesel industry's concern with the EPA's proposed RFS-2 rule at a public hearing hosted by the Environmental Protection Agency (EPA).

“RFS-2 for the first time requires a renewable component in U.S. diesel fuel, and provides a readily attainable schedule for the use of biomass-based diesel that increases from 500 million gallons in 2009 to 1 billion



gallons in 2012. To qualify for the program, renewable fuel must reduce greenhouse gas emissions by 50 percent compared to the conventional diesel fuel it is replacing,” Feraci said. “Biodiesel produced from domestically produced vegetable oils are disqualified from the biomass-based diesel program, making it all but impossible to meet the volume goals established by statute.”

Feraci also detailed some problems with the research behind the rule.

“As a general principle, the EPA assumes that increased U.S. biodiesel production will lead to land conversion in South America. If this basic assumption is correct, Brazilian soybean acreage would have increased from 2004 through 2008—a time period that saw U.S. biodiesel production increase from 25 million gallons to 690 million gallons,” he said. “In fact, acreage in Brazil dedicated to soybean cultivation actually decreased from 2004 through 2008.

“The EPA's greenhouse gas emission methodology also contains a huge error pertaining to nitrogen emissions. As any farmer can tell you, soybeans add nitrogen to the soil. The Intergovernmental Panel on Climate Change (IPCC) determined that nitrogen fixed in the soil by soybeans should not be considered greenhouse gas emissions. However, the EPA's methodology relies on outdated data that does not incorporate the IPCC's updated nitrogen findings, and thus inaccurately attributes excess nitrogen emissions to soybean cultivation. This error alone reduces the greenhouse gas emission score for soy-based biodiesel by more than 20 points.”

DOE OFFERS \$50 MILLION IN RECOVERY ACT FUNDS FOR GEOTHERMAL HEAT PUMPS

The Department of Energy (DOE) recently announced that it will offer nearly \$50 million in funds from the American Reinvestment and Recovery Act to accelerate the deployment of geothermal heat pumps (GHPs).

Industry News

GHPs use the ground underneath or surrounding a building as either a source or sink for energy, drawing heat from the ground during the winter heating season and sending heat into the ground during the summer cooling season. Also referred to as ground-source heat pumps, GHPs generally achieve higher efficiencies than air-source heat pumps, because the ground maintains a relatively stable temperature throughout the year, even during heat waves and extreme cold snaps. They can provide space heating and cooling and water heating for residential and commercial buildings. GHPs can substantially reduce the electricity demand for buildings, providing building owners and residents with lower utility bills and reduced maintenance costs.

To accelerate the deployment of GHPs, DOE will offer funding for cost-shared technology demonstration projects that provide a minimum of 50 tons of heating and cooling capacity. Ideally, the projects will use technologies that can be deployed in various geological conditions and climate zones and in either residential communities or commercial buildings.

To help achieve that goal, DOE will also offer funding for life-cycle cost tools that will help evaluate the feasibility of using GHPs. The tools will be used to analyze the costs and benefits of various systems and installation techniques over their entire operating lifetime. DOE will also fund the creation of a national certification and accreditation program for the GHP industry.



The two-day 2009 North American Heating & Energy EXPO in Boston attracted a record-breaking crowd of more than 8,000 attendees on the trade show floor and at the business and technical seminars.

Inside the EXPO

Seminars Focus on Adapting to a Changing Economy

AFTER LAST YEAR'S RECORD-BREAKING summer of skyrocketing prices for a barrel of oil, it was understandable that Tom Kloza, publisher and chief analyst for the Oil Price Information Service (OPIS) drew a standing-room only crowd for his keynote presentation at the New England Fuel Institute's 2009 North American Heating & Energy EXPO.

Kloza is recognized as an expert in the field of energy market information and many attendees at the June event in Boston clearly anticipated his analysis, with a barrel of oil doubling in price over the last four months following a precipitous fall.

If there's one trend that Kloza can commit to after reviewing all the pertinent data on production, supply, demand and trading volume, it's that the age of volatility we've recently entered is not likely to end any time soon, with oil's price often straying from its actual "value."

"If you're looking to park your money for three to five years, betting on oil is a good bet. The difficulty is figuring out when it might spike. It will probably not last long, because oil is simply not spending enough time in its properly valued area."

- Tom Kloza, OPIS publisher

Even though organizations from the Saudi government to the Organization of the Petroleum Exporting Countries (OPEC) claim that oil prices need to be in the \$80 per barrel range in order to sustain the industry, Kloza

said that's not the case after looking at the actual production numbers.

"The average price to bring oil to the market is well below \$10 a barrel," Kloza said. "A price around \$60 is what's necessary to continue to explore and market the product."

However, as prices settled around \$70 a barrel in June, Kloza said that this type of behavior should be expected.

"Prices could certainly swing up in the next three years," he said. "If you're looking to park your money for three to five years, betting on oil is a good bet. The difficulty is figuring out when it might spike. It will probably not last long, because oil is simply not spending enough time in its properly valued area."

A main reason the price will remain to be volatile is what Kloza calls "the ultimate fundamental," money flow. Over the last few years, many speculators and passive investors have put their money in oil contracts as investments and not to take physical delivery. This helps explain why the price has risen despite severely diminished worldwide demand.

According to Kloza, many investors are guided by "very bullish" forecasts from financial advising firms like Goldman Sachs, which predicted in March 2008 that \$200 a barrel oil could be achieved in the near future. Goldman Sachs recently called an energy shortage in the United States by the end of 2010 "likely" due to an economic rally and worldwide production cuts. Goldman, of course, earns money from commodities trading and investments, but claims its

analysis unit is entirely separate from the traders. Kloza said if the government does not institute any curbs on futures contract trading, it will only invite continued volatility due to investor activity.

In addition to tracking what financial firms say oil might do, Kloza cited other factors that are important to what ultimately impacts the price of heating oil.

"You have to track worldwide demand for diesel," he said, because the distillate markets are so closely related. "Heating oil is really just along for the ride."

Specifically, Kloza said that watching China's growth and oil stockpiles will be an important barometer of judging future worldwide demand. The strength of the U.S. dollar will also be important. If its value falls, investment groups will most likely look to invest in commodities to store their money.

With 74 percent of economists predicting an economic recovery in the third quarter of 2009, according to Kloza, the industry needs to prepare for another year of potentially wild gyrations on the market.

SUCCESS AMID VOLATILITY

With the trade show floor packed with a record-setting crowd during the two-day EXPO, the concurrent business and technical sessions were also frequently full with attendees listening to experts speak about how to adapt to the latest technology, regulations or economic challenges.

Betsi Bixby, a consultant to petroleum-based companies with Meridian Associates

Continued on page 20...

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...Continued from page 17

Inc., led a session on how businesses need to adapt to the changing economy in order to profit and survive.

"I think most people realized that 2008 was a changed business world," Bixby said. "We had fuel volatility, the first serious retail fuel demand decline and the credit crisis leading to bankruptcies you couldn't have expected."

Even though this caused a strain on almost all business sectors, Bixby noted that in the aftermath, it's easy to judge those who fared the best.

"Those without too much debt and with low accounts receivable have been able to weather this much better than highly leveraged companies," she said.

Those who survived, however, probably cannot continue to run their business in the same way, because the turmoil of 2008 changed how both other businesses and customers behave.

With prices rising in the summer of 2008, Bixby said, many retailers realized they had to change how they worked with their supplier, since most credit limits were set at a dollar amount and not per gallon. Those with stronger credit records were able to negotiate better terms for more fuel. Consumers have also changed their buying habits and are looking for more value in all of their purchases.

"We had people quitting mid-season out of desperation; usually we don't get calls from people until April. If everyone knows you need to sell, usually you don't get a good price. One season and a few bad decisions wiped out the total equity of many companies."

- Joe Vassallo, Oilheat Associates

In order to take advantage of the new environment, Bixby suggested several ways to improve profits relatively quickly.

"Because of the high unemployment numbers, there are a lot of smart, good people out of work," she said, recommending that businesses work to improve their staff during this time. "People are the most important asset and the right attitude from the staff makes or breaks high-growth companies."

Working out a better relationship with suppliers or maximizing supplier sources can also help in case of more unanticipated volatility.

Heating oil retailers also need to diversify and market their product better if they hope to increase their customer base.

"Businesses should try to make up for fewer gallons sold per customer by looking

to increase non-fuel sales," Bixby said. "They can also try to target more profitable customer classes, such as industrial or government contracts."

Companies can also take advantage of the sluggish economy by finding technology deals and upgrading now to lower costs in the future.

"You need to include technology costs in your budget, not as an afterthought," Bixby said. "Have potential vendors calculate an ROI (return on investment) and hold them accountable with a contract."



There are also customary costs many businesses do not review frequently that continue to rise and may need to be reevaluated, according to Bixby.

"Healthcare premiums are way up, and expected to double by 2012," she said. "This cost accounts for 14 percent of the entire U.S. economy. Don't wait! Look to join a larger group that might help lower costs."

An upheaval in the status quo may also be the best time for companies to think seriously about their future, Bixby said, noting that many heating oil companies are kept in the family for generations.

"Sometimes, by only having the family involved, a company can lose its focus," she said. "You have to let profitability, not history, guide you and let outsiders into meetings for a fresh perspective."

Bixby said all heating oil companies have only three options after the events of 2008.

"You can choose to work at getting out of the business, getting bigger or getting smarter," she said. "No choice is right or wrong, but you have to devote yourself to doing each the right way."

BUYER'S MARKET

John Levey and Joe Vassallo of Oilheat Associates, who have nearly 60 years of combined experience in the industry, also

spoke about how the economy has changed the landscape for acquisitions for both buyers and sellers.

Throughout the last heating season, volatility led to all-time high levels of attrition because many businesses were not prepared for such rapid change, according to Vassallo. Profitability suffered because many did not fight for their margins or had inadequate buy-out fees for customers renegeing on

"You need to include technology costs in your budget, not as an afterthought. Have potential vendors calculate an ROI (return on investment) and hold them accountable with a contract."

- Betsi Bixby, Meridian Associates

contracts. This led to dealers with too much oil that cost much more than it could be sold for.

"We had people quitting mid-season out of desperation; usually we don't get calls from people until April," Vassallo said. "If everyone knows you need to sell, usually you don't get a good price. One season and a few bad decisions wiped out the total equity of many companies."

With buyers aware that sellers may be abundant after last season, Vassallo said that buyers are now becoming much more selective. They are now looking for bargains and retained gallons deals.

If buyers want to take advantage, though, they have to be diligent in finding out the reasons a company is on the market, according to Levey. While some may be because of poor resource management or volatility, others may simply be selling because a family business has no clear successor. In order to find the best bargains on the market, Levey suggests networking with others in industry associations in order to hear about developments before they become public.

Also, making an offer has to be done in a methodical way, not by basing it on someone else's offer or an arbitrary cents per gallon basis. The main consideration for a buyer when calculating an offer is what the return on investment will bring, Levey said.

Meanwhile, those serious about selling need to make sure they don't make some basic mistakes Levey and Vassallo have seen repeatedly.

"If you call a big company and offer yourself up, you lose the opportunity to shop yourself around," Levey said. "If you start to call local dealers to let them know, you'll lose customers and employees as word spreads. The best thing to do is call in a pro to get a valuation to help you get a better number to bring to buyers." ☐

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Challenges With Regulations Creating Inaction

By Paul Nazzaro, Advanced Fuel Solutions Inc.; National Biodiesel Board

IF YOUR COMPANY IS AMONG THE THOUSANDS of Oilheat dealers inundated with daily decisions on how to drive your business forward, then you need to be prioritizing your agenda to include evaluation of Bioheat®. As you are aware, in order to qualify as Bioheat, our wholesale terminal operators will need to blend a minimum 2 percent biodiesel with 98 percent No. 2 home heating oil up to a maximum of 5 percent to be in compliance with ASTM D 396. There is much debate over which feedstock will likely make the grade, both nationwide and statewide. It is specific to the biodiesel used as a blend stock for our middle distillates and also includes decisions that are anything but feedstock neutral; all of which will likely be cause of our concern.

IN SEARCH OF THE PERFECT FEEDSTOCK

Biodiesel is the most sustainable, environmentally friendly fuel available in the marketplace today, and there are compelling public policy benefits associated with the

First, we all recognize that biodiesel is still in its infancy stages of development. That being said, the fuel cycle has not been optimized from inception of the selected feedstock through production, transportation and combustion.

production and use of biodiesel. Successful implementation of a workable Renewable Fuel Standard (RFS-2) program is of vital importance to the U.S. biodiesel industry and is consistent with a national energy strategy that values the displacement of petroleum diesel fuel with low carbon renewable fuels. The RFS-2 program as enacted by Congress

for the first time requires the displacement of petroleum diesel fuel with low carbon renewable fuels. The program also requires renewable fuels to meet certain greenhouse gas (ghg) emission reduction targets. While the National Biodiesel Board has not yet had the opportunity to review the proposed rule in detail, it appears that the Environmental Protection Agency (EPA), in determining the ghg profile for biodiesel, is penalizing the U.S. biodiesel industry for land use decisions made outside the U.S. that have little, if anything, to do with the domestic biodiesel production.

A final rule that is based on questionable science and is structured in a manner that restricts the role of sustainable vegetable oils in the program will make it nearly impossible to meet the Advanced Biofuels goals established by statute.

EPA Administrator Lisa P. Jackson indicated in her comments accompanying the release of the rule that her agency plans to work with the industry and welcomes review of the methodology employed by EPA in crafting the proposed rule. Hopefully, common sense will prevail in this process and the EPA will issue a workable final rule that is based on sound science and allows the U.S. biodiesel industry to make a positive contribution to the RFS-2 program.

A quick review of the Massachusetts mandate legislation defines “eligible petroleum distillate substitute fuel” as one that yields at least a 50 percent reduction in lifecycle greenhouse gas emissions relative to average lifecycle ghg emissions for petroleum distillate fuel sold in 2005, as determined by the division in consultation with the department and the executive office of Energy and Environment Affairs. Without question, this

very specific language as defined above eliminates virgin oils like canola, palm and soy in Massachusetts, allowing only feedstocks like animal fats and recycled grease and cooking oils. If you have been following my articles this past year, you know that I am a proponent of feedstock neutrality—and for good reasons. First and foremost, let the specification declare the winner as well; feedstock neutrality helps establish pricing competition, limits the choices and makes it possible to anticipate pricing volatility when supply runs lean in any one category of feedstocks.

A LOGICAL APPROACH TO SUPPLY

I believe that the market needs to make decisions on which feedstock they will procure to blend with the distillates based on a product’s ability to meet ASTM D 6751 specifications, while at the same time managing the value proposition associated with each respective feedstock. As you remember from my past articles on feedstock quality, soy possesses desirable cold flow characteristics, while remaining challenged on the stability scale; in contrast palm oil, grease and tallow all face cold weather challenges but possess better stability values. Often you will find producers and blenders mixing one or more of these feedstocks together to optimize their final product specifications in the supply chain. Another way of understanding this production strategy is a producer attempting to “balance performance with costs,” a very important criteria in an industry measuring sales on a points per gallon basis.

Feedstock neutrality not only makes sense in the early adoption stages for biodiesel and Bioheat commercialization, but it also serves

as a prerequisite of success for countless reasons. First, we all recognize that biodiesel is still in its infancy stages of development. That being said, the fuel cycle has not been optimized from inception of the selected feedstock through production, transportation and combustion.

The national infrastructure is not comprehensive enough to make available to consumers this unique liquid fuel option. Why? Because of the "chicken and egg" syndrome, of course. The Achilles heel for the moment (and it often changes) is the sustainability issues associated with this fuel. Whether food versus fuel, lifecycle greenhouse gas emissions, indirect land use changes or CO2 are real vulnerabilities or not is yet to be determined, one way or another, by either side of the issues. I have said for some time, if you think you really know the facts specific to these key issues, think again. I have been witness to the nation's brightest scientists and economists sharing their expertise from Capitol Hill to Beacon Hill and, other than setting the stage for doubt, not one of these individuals has with 100 percent conviction resolved the relevant issues which inquiring minds want to know.

WHAT'S NEXT?

The flip side of the unknown is we do know that Bioheat is fit for use based on ASTM's acceptance of up to a 5 percent blend into home heating oil, high or low sulfur. During our seven year stretch of validating Bioheat's performance in the field and laboratory, governing bodies like ASTM, UL, NFPA and industry leaders have invested countless hours and funds determining Bioheat is the real deal. While the nation and the state continue to wrestle with trying to figure out what the right feedstock is and if all the important issues defined above are really issues, we cannot as an industry sit idle waiting for their final verdict. We must proceed, and actually need to proceed; inaction is not an option.

A quick reflection on the core issues impacting the Oilheat market contraction remains the assault by natural gas organizations, controversial fuel quality, carbon intensity reduction demands, greenhouse gas emission reductions and, most importantly, wavering consumer attitudes toward Oilheat. We are, at least in Massachusetts and soon Pennsylvania, being mandated to accept this change and embrace low blends of biodiesel into our diesel and heating oil.

Let's be proactive, let's make the move without the regulatory pressures associated with mandates. We have the infrastructure, supply, marketing programs, training programs and all the motivation to mitigate continued market contraction. Do we have the will to change on our own? I hope so. ☑

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Visions of the Future

NAOHSM Highlights Equipment, Education as Keys to Growth

THE THEME FOR THE 56TH ANNUAL NATIONAL Association of Oil Heating Service Managers (NAOHSM) convention and trade show this year was “Imagine!”, inviting attendees to think about where the industry is headed and how to best use training and technology to get there.

Many equipment manufacturers delivered on this theme, using the opportunity to showcase projects that take advantage of tax credits for energy efficient equipment, renewable fuels or controls that will meet an upcoming federal mandate.

CARLIN H2L

Carlin Combustion showed off its EZ-H2L residential oil burner, which began with the help of a program notice from the National Oilheat Research Alliance (NORA) calling for research into technology that would prepare the industry for evolving fuels while also increasing efficiency.

According to Carlin, the two-year development process was necessary to refine the operation of the motor speed control, which allows for dual-speed blower operation, a fuel unit with high/low pressure regulation and a proprietary new combustion enhancement technique. The EZ-H2L provides two-stage

firing, with 2:1 turndown, even with a high-fire input of a half-gallon per hour. The burner operation is regulated by the integrated “ESP” microprocessor-

based control, which orchestrates the firing rate of the burner, the combustion process and the blower speed based on the response it detects from the appliance. Collaboration with the appliance team resulted in a control that knows when to increase or decrease firing rate and cycle the burner. And combining the ESP with other Carlin electronics (the 90524 triple limit/cold start control) ensures minimum stand-by and cyclic losses, and even reduces condensation in cold-start boilers.

The dual-speed blower and control allow the unit to be far more efficient than machines that are built for a “worst-case scenario” in terms of BTU usage, but rarely used to their capacity.

Bock Water Heaters, ECR International’s Olsen Furnace, Buderus Boilers, and ThermoDynamics collaborated with Carlin to match the burner and controls with each application. The EZ-H2L is offered only to OEM to ensure maximum efficiency and the closest possible match of the burner and electronics to the appliance needs and response characteristics.

The EZ-H2L doesn’t need linkages to control air/fuel ratio. Its ESP microprocessor control provides motor speed regulation while simultaneously controlling combustion at low and high fire.

The EZ-H2L fuel unit incorporates both a shut-off valve and a firing rate valve in a single body.

Sealed combustion—The EZ-H2L operates only using ducted combustion air. The air pipe simply connects to the adapter on the new two-piece burner enclosure.

BECKETT’S AQUASMART

With a federal requirement for temperature controls on hot water boilers set for 2015, Beckett product manager Ted Pantone introduced the AquaSmart control, which is due

for release in the fall after more than a year in development.

The AquaSmart is a universal boiler control designed for use on residential and light commercial boiler systems. All models include the option of Beckett’s proprietary HeatManager dynamic temperature reset that, when selected, provides 10 to 20 percent fuel consumption savings, according to Pantone.

The control includes a backlit LCD digital display with touch pad to program temperature limits, differentials and other advanced options.

The AquaSmart also has memory storage of system history for help with diagnostic troubleshooting. If the system is experiencing any problems, technicians can review saved data for a certain period that will provide more diagnostic data.

Pantone said the unit is meant to replace aquastats, comes in both oil and gas configurations and uses a universal design so that it can be used with a variety of systems.

BECKETT SOLARHOT

Beckett also hopes to take advantage of surging interest in using renewable fuels with its Solarhot line of products that can be used with existing water heaters or new installations.

The current package offered by the company includes two solar plates, the expansion or drainback tank, mounting hardware and the SolVelox system. The SolVelox consists of two bronze circulators,



Beckett’s AquaSmart, due out this fall, is meant to conserve energy through the HeatManager system and also make diagnostics easier with its onboard memory and LCD display.



A microprocessor powers the new Carlin EZ-H2L oil burner, helping to conserve fuel by controlling the blower speed. The device will be available on a variety of appliances and customized to match each.



The Solarhot system from Beckett includes two panels, similar to this one, as well as a control that helps make it the most efficient solar system in its class.

a brazed plate, counter-flow heat exchanger and the electronics to operate the system.

Though relatively new to the field, Pantone said Beckett's equipment is already recognized as the most efficient system in its class, according to the Solar Rating and Certification Corp.

THERMO PRIDE

Thermo Pride technical adviser Tim Wolf touted one of the company's latest products, which also takes advantage of an efficient burner and electronics to provide a more consistent heating experience.

The 2-Stage OH6 oil furnace uses a Riello burner that Wolf said has been used in Europe for about 15 years, but only been available in the United States for the last three. The system is paired with an electronically commutated motor (ECM) in order to provide a firing rate that is matched to the needed energy load. This helps prevent the unit from firing more often than needed, conserving fuel while keeping space properly heated.

"Between energy saving and comfort, it's really hard to beat," Wolf said.

RECOGNITION AND REWARD

With the focus on the future, NAOHSM spent time to acknowledge those in the industry helping move the industry forward through education and innovation.

"Education is the key to the growth and success of our industry and association," said NAOHSM President George McQueeney.

The award for **Instructor of the Year** went to Jeff Sweda, an HVAC instructor at the Hazleton Area Career Center in Hazleton, Pa. He was given the award for continually striving to get the most advanced equipment donated to his shop, in order to make sure his students are aware of the latest technology. Sweda also brings his students to NAOHSM convention every year and has them participate in the student competitions.

For her work on both the manufacturing and association sides of the industry, Rosemarie Bartchak was named the **Associate of the Year**. In addition to working for Boyertown Furnace and Columbia Boiler since 1980, she is a member of the Berks Chapter and serves as NAOHSM's national treasurer. Her willingness to pitch in to aid the industry was cited by a few examples. When the idea of the fundraiser Oil Heat Cares was introduced at a board meeting, she immediately committed a furnace to the Greater Seacoast Chapter to

install to a family in need. When NAOHSM was raising money for a scholarship fund, Bartchak was quick to offer to sponsor a seminar.

Kurt Massa, currently working for Walter A Dwyer Co. of Ambler, Pa., was awarded **Service Manager of the Year** for the way he has championed NORA and other education standards in the industry. Massa, who began as a service technician, is also the president of NAOHSM's Delaware Valley Chapter. He has instituted monthly "Tech Training" sessions, coordinated efforts with NORA to allow the chapter to train at the local level and earn NORA CEU's and also been the catalyst for branching beyond Oilheat with North American Technician Excellence (NATE) approved training and testing. He has also facilitated connections between their chapter members and the occupational studies program at Delaware County Community College to incorporate NORA Bronze/Silver Certification Training curriculum into their HVAC Certificate Program. To date, nearly a dozen members have contributed either as instructors or guest speakers.

The **Hugh McKee Award**, named after NAOHSM's first president, was given to Don Potter, to honor his lifetime of work in the heating oil industry. Potter has worked for Duckett & Laird Co. of Freehold, N.J., for 41 years, starting as a driver delivering coal and oil. The company had no oil burner service department at the time and Potter started the department and became the service manager. Today he has 10 service personnel and was instrumental in moving the company into a complete HVAC company. He is responsible for the training of the service people and sales people who join the company. Potter has been a member of NAOHSM's South Jersey Chapter for 27 years and has been a board member since 1986. He teaches the Silver and Gold certification programs for the Fuel Merchants Association of New Jersey and has participated in student training workshops. In addition to serving as vice president for NAOHSM's South Jersey Chapter, Potter was named the Service Manager of the Year in 1988.

The **Lifetime Achievement Award**, a special recognition bestowed upon a member that has left a lasting mark with the Association, was given to Harold Feld. Feld is a long-time member of the Westchester Chapter and was a member of the board of directors for many years. Feld also has a reputation for supporting technician education at the local level.

R. W. Beckett Corp. was named the **Manufacturer of the Year** for supporting education and working closely with associations by encouraging training with

their equipment, as well as offering products that focus on efficiency and integrate renewable fuel sources. NAOHSM also handed out its first **Technician of the Year** award to Scott Vachon (see page 34 for details).

SCHOLARSHIP WINNERS

NAOHSM not only recognizes long-time members at its annual banquet, but the group also rewards those trying to begin a career in Oilheat, in memory of late Education Committee Chairman Dave Nelsen. In 2009, NAOHSM awarded 10 \$2,000 scholarships to students planning to begin or continue an Oilheat education.

The potential award winners were required to write an essay that asked "What are your thoughts about the Oilheat industry and what appeals to you about this segment of the industry?" Some said that the evolving technology is what keeps them interested; others said they enjoyed interacting with families to help them heat their homes.

This year's winners were Jonathan Ingalls, Zachary Fonseca, Zhen Jiang, Douglas Greene, Morgan Hayes, Alrick Crowe, John Ethier Jr, Gregory Miller, Kushtrim Gojani and Seth Hopkins. Miller also received a scholarship last year. Companies that sponsored the scholarships include Delavan, Taco, Honeywell and Weil-McLain.



Zachary Fonseca received a Dave Nelsen memorial scholarship sponsored by Delavan for his essay about the heating oil industry.

Zhen Jiang, born in China, appreciates the power of helping keep families warm more than most, having grown up in an impoverished family that had to often share one blanket as the only source of warmth during cold winter nights and a long monsoon season.

After receiving an oil burner in his house, however, he became obsessed with learning how the machinery worked, eventually earning a dime a day fixing burners in his village.

Two years after becoming his uncle's apprentice, Jiang came to America and realized he still had much to learn about the industry.

"My interest in oil burners never faded in this wonderful land, with the best heating technology and education to fulfill my dreams," Jiang wrote in his essay. "However, for me to accomplish this goal, an education is a prerequisite... This country has repeatedly demonstrated that with enough endeavor and will, nothing is impossible."

Jiang is currently taking classes at the New England Institute of Technology. ☐



Signs of Optimism Seen in Survey

Solid Margins, Increased Number of Buyers Reported

GRAY, GRAY & GRAY CERTIFIED PUBLIC ACCOUNTANTS OF WESTWOOD, MASS., RECENTLY released the results of the firm's 18th annual Oilheat Industry Survey, with few surprises from last year, despite a volatile economy and energy prices.

"If there is a surprise in this year's results, it is that there were no big surprises in this year's results," said Paul Gerry, CPA, the Gray, Gray & Gray partner who manages the firm's Energy Practice Group. "Despite a tumultuous year of price spikes and dramatic drops, most dealers were able to maintain a solid margin. In fact, the number of dealers who reported that they are considering acquiring another company jumped this year, a sure sign of optimism for the future."

Gerry notes that one area that continues to be a dilemma for dealers is price protection plans.

"Dealers who responded to the survey are almost equally divided on whether or not they will offer price protection next year. The record-setting swings in the price of oil we experienced this year will not make a decision any easier," said Gerry.

Responses to the survey were obtained from retail fuel oil dealers from throughout the Northeast and Mid-Atlantic regions of the U.S. Complete survey results are available at www.gggcpas.com or by calling (781) 407-0300.

fuel sales during the heating season just ended?

Retail/Residential Heating Oil	.... 60¢/gallon
Commercial Heating Oil	..... 41¢/gallon
Propane	..... 88¢/gallon

Which of the following do you offer to retail customers?

Fixed pricing	..... 56%
Price cap	..... 36%
Budget payment plan	..... 93%
Service contracts	..... 54%
Free oil for new customers (oil coupons)	..... 15%
Free service for new customers	..... 11%
Tank monitoring system	..... 11%
Tank protection plans	..... 47%
Central air conditioning	..... 53%
Plumbing service	..... 17%
Heating equipment service	..... 82%
Heating system installation	..... 81%
Online ordering	..... 15%

Do you charge retail customers a fee for a price protection plan?

Yes, for fixed price	..... 4%
Yes, for cap price	..... 24%
Yes, for down side	..... 10%
No	..... 33%
Do not offer a price protection plan	..... 38%

Do your price protection plans offer customers a buyout option?

Yes	..... 34%, \$369 average fee
No	..... 66%

Will you offer retail customers price protection plans next year?

Yes	..... 35%
No	..... 31%
Not sure	..... 34%

What percentage of your price protection programs did you hedge?

79%, at a hedging cost of 31¢ per gallon

What is your average residential drop (gallons delivered per stop)?

165 gallons

What is the average renewal price you charge for a service contract?

\$213

How many paid service contracts do you have?

1,166

How many service calls were made last year?

4,075

How many installations did you complete last year?

111

In what state does your company primarily do business?

Massachusetts	..... 26%
Pennsylvania	..... 26%
New York	..... 11%
Connecticut	..... 9%
Maine	..... 8%
New Jersey	..... 7%
New Hampshire	..... 5%
Maryland	..... 3%
Vermont	..... 3%
Rhode Island	..... 1%
Virginia	..... 1%

Total number of employees	..... 21
Number of service technicians (full-time equivalent)	..... 7
Number of delivery drivers (full-time equivalent)	..... 6

Are your employees unionized?

Yes	..... 5%
No	..... 95%

Which of the following employee benefits do you offer?

Group Life Insurance	..... 52%
Group Disability Insurance	..... 46%
Retirement Plan (401k)	..... 67%
Pre-Tax Benefit Package (Sec. 125 Plan)	... 42%
Paid Sick Days	..... 75%
FSA (Flexible Spending Account)	..... 10%
HRA (Health Reimbursement Account)	... 9%
Incentive pay/bonuses	..... 40%
Dental Plan	..... 41%

Group Health Plan	..... 89%
Group health percent company paid	..... 79%

What is the average hourly rate you pay your:

Delivery drivers?	..... \$18
Dispatchers?	..... \$18
Service technicians?	..... \$20
Service manager?	..... \$27

Are you considering any of the following?

Acquiring another company	..... 30%
Selling your company	..... 15%
Transitioning to the next family generation	..... 27%
Conducting a business valuation	..... 10%
Developing a bulk plant	..... 8%
Upgrading an existing bulk plant	..... 23%
Refinancing	..... 5%
Retiring	..... 14%
Converting to an S Corporation	..... 5%
Expanding product lines	..... 17%
Converting to flat rate billing for service	... 8%

How many fuel customers do you have?

Retail/Residential Heating Oil	..... 2,983
Commercial Heating Oil	..... 241
Propane	..... 2,805

How many gallons of fuel did you sell during the heating season just ended?

Retail/Residential Heating Oil	..... 1,860,820
Commercial Heating Oil	..... 457,565
Propane	..... 1,259,635

What was your average targeted margin for

SERVICE MANAGER TO RETIRE AFTER NEARLY 50 YEARS

After 47 years in the fuel oil industry, service manager Jack Gill of Hughes Oil and Devaney Fuel, retired at the end of March.



Jack Gill

Gill joined the ranks at Hughes Oil Company in 1962 as a service technician and worked his way up to the position of service manager, a position he held for 35 years. Gill's blend of technical expertise and common sense, coupled with his no-nonsense

approach to meeting the needs of customers made him a valuable asset to Hughes Oil and Devaney Fuel.

Gill is a devoted husband to Fran, father of three, grandfather of eight, and a veteran of the Korean War.

BAYSTATE BIOFUELS PLANS FOR COMPANY LAUNCH

Baystate Biofuels of Massachusetts is taking the final steps necessary to officially open its doors and start delivering a green energy, petroleum alternative to the region. With the North Andover lease signed, construction of the biodiesel terminal was expected by the end of May, with product ready to sell by summer's end.

Baystate Biofuels' North Andover terminal will be the first full-scale commercial facility dedicated to biodiesel distribution in Massachusetts. Baystate Biofuels will distribute biodiesel to oil companies to blend with petroleum diesel for use in automobiles and home heating to fulfill the requirements of the Clean Energy Biofuels Act of 2008.

The state's Clean Energy Biofuels Act requires 2 percent biofuel as a component of all diesel fuel and home heating fuel sold in the Commonwealth. The required percentage ramps up to 5 percent by 2013. Massachusetts is the first state in the nation to require biofuel in home heating oil.

The company will use solar-powered photovoltaic cells to provide green electricity for the distribution terminal and plans to harness excess steam from a nearby construction waste-to-energy plant to keep the biodiesel in storage tanks hot.

The company is planning a July kickoff event for potential customers to tour the facility and learn how Baystate Biofuels can help them fulfill the requirements of the Clean Energy Biofuels Act of 2008.

TACO GOES GREEN WITH PLANT RENOVATION AND EXPANSION

Cranston, R.I.-based Taco Inc. held a Leadership in Energy and Environmental Design (LEED) certification ceremony on

Earth Day at its new facility in Cranston, R.I.

Taco recently completed a substantial plant renovation and expansion, taking unusual measures to reduce the firm's carbon footprint in doing so. The company celebrated the accomplishment on Earth Day.

The project that won the U.S. Green Building Council's LEED certification is a 60,000 sq. ft. single-story warehouse addition that includes a gas turbine-based cogeneration plant that provides heating and cooling for the entire facility through Taco's LoadMatch system, along with a solar panel array to supplement the plant's domestic water requirements.

The cogeneration plant and mechanical areas double as training and demonstration areas for Taco's sustainable heating and cooling system products. There is also a climate-controlled vestibule for truck drivers to wait in to reduce air pollution.

FUEL SOLUTIONS PROVIDER ANNOUNCES NATIONAL PARTNERSHIP

Advanced Fuel Solutions Inc. recently announced a national marketing partnership with Afton Chemical Corporation to offer Greenburn Combustion Technology to home heating oil marketers.

The partnership combines the vast fuel additives experience of Advanced Fuels Solutions Inc. with the chemical manufacturing expertise of Afton Chemical to bring a new fuel enhancement product to home heating oil dealers and their customers in the Northeast market.

Greenburn Combustion Technology is a year-round fuel enhancer designed to improve the performance of home heating oil systems from storage tank to heat exchanger while providing immediate, sustained and economical emission reductions.

Greenburn helps improve combustion and heat exchanger performance, providing up to 3 percent improved combustion efficiency, according to the companies. In addition to its patented combustion catalyst, Greenburn is comprised of a four-way wet side treatment as well. The Greenburn performance includes stability protection to reduce fuel system sludge and deposits, a detergent to reduce burner nozzle fouling and soot and smoke generation, a corrosion inhibitor to protect fuel system components and a metal deactivator to help mitigate the assault of yellow metal contamination, the companies said.

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Financial Forecast

Economist Sees Recession Ending During Summer



Joel Naroff has received many accolades for his work, including being named the top economic forecaster by MSNBC in 2006 and becoming the first independent economist to win the CBS MarketWatch Economist of the Month award.

WITH UNANTICIPATED SPIKING AND FALLING ENERGY PRICES, a worldwide credit freeze and severe drop in real estate values, the economy showed itself to be particularly hard to predict over the last year. As the world tries to recover from a recession, however, there are many indicators that show the economy may finally be stabilizing.

As president and founder of consulting firm Naroff Economic Advisors and chief economist for TD Bank, Joel Naroff closely studies these numbers and advises companies across the country on the risks and opportunities brought about by these economic developments.

He is also a frequent source in national publications and broadcasts for his observations and recently answered *Oil & Energy's* questions about how economic turmoil and subsequent government legislation may impact the heating oil industry.

The stimulus plan in February also included many energy efficiency and renewable fuel incentives. Do you think they will be enough to sustain growth in those markets, and can they have any effect on the overall economy?

The stimulus plan should sustain demand for energy efficiency activity both in the short run and longer term. Cynicism arose because oil prices collapsed. However, we have begun to see that those lower prices were short-term aberrations. As a consequence, alternative energy will be cost-effective for a long time and that should support the industry well into the future. In addition, as long as Mr. Obama and the Democrats are in power, there will be a major push into this area. Initially, the impact on the economy will not be great. But if it sustained for a decade, it will become a major force.

Commodity prices have been rising steadily for months and OPEC is looking for oil to maintain a price around \$80. Do you see evidence that commodities are being used as an investment tool in larger quantity?

Yes, it is a financial instrument not just a commodity and gets traded accordingly.

Do you expect the government to pass any meaningful legislation that would curb using commodities as a hedge against inflation?

I expect more regulation and monitoring of the commodity market but not major curbs. It would be too hard to do correctly.

A major climate change bill is expected to be passed this year; do you think a cap and trade framework is agreed upon? If so, what kind of impact could that have on the energy markets?

I don't expect cap and trade to become a reality. The fears about short-term costs are likely to sway the political decisions.

Are there any steps you would recommend small businesses could take to position themselves to be stronger when the economy starts growing again?

The biggest mistake that businesses make is assuming that conditions don't change. When times are good, they think they will always be good. When times are bad they assume the turtle position and try just to survive.

With the end of the recession likely to occur during the second half of the year, now is the time to start the process of going out for business. That includes not just selling to current customers but becoming much more aggressive in marketing. Consumers can flip a switch on demand and being out front will help. ☺

The economy has recently shown signs of, if not recovery, at least reaching a floor. Do you think the worst has passed for most companies as a reaction to the real estate and credit crises?

The recession is not over, but it is easing and is likely to end sometime during the summer. But there are major problems ahead. Rebuilding bank balance sheets will take time and that means credit availability will increase slowly. The unemployment rate is going above 10 percent and while consumer confidence should continue to rise, households are not expected to start spending like crazy anytime soon. Businesses will also start hiring only cautiously and there is a lot of excess capacity that can be used before investment increases.

Thus, the recovery is likely to be very sluggish for a long period of time. One note of caution, we could see one or two very strong quarters of growth because the demand for so many things is so extraordinarily low (vehicles are an example). Those quarters are not signaling strong growth, but just a movement back toward more normal levels of demand.

What kind of timeline do you expect for the economy to begin growing again?

The economy should be growing during the summer. There is even an outside chance

that second quarter growth will be close to flat. I expect fourth quarter growth to be artificially high as I said before, but that will be an aberration. Looking out for the next five years, growth could be a very moderate 2.25 percent, rather than the 3.5 percent we had gotten used to. The higher growth rate was a result of bubbles: tech in the '90s and housing in the '00s. Without a bubble, we go back to the 1980's growth rate, which was closer to 2.25 percent.

Major economic stimulus packages have raised concerns about major inflation in the near future. Have you seen signs of this, and what could it mean for small home heating retailers and their customers?

Inflation is likely to start picking up and we are already seeing what signs of the end of the recession would mean for energy. The oil price surge has nothing to do with current demand or supply fundamentals, but instead reflects speculation on demand in the future.

Oil is now a financial commodity, not just an economic good, and that changes the way it gets priced. However, we have learned that there is a limit to which prices can rise before demand gets crushed and I don't expect triple-digit prices to occur. If they do, I don't expect them to be sustained.



Sure Profits in an Uncertain Market

By Betsi Bixby, Meridian Associates Inc.

IN THE MIDST OF WIDE FUEL PRICE SWINGS happening multiple times in a single day, record high accounts receivable for most marketers, steel prices soaring that push up the cost of new trucks and tanks, credit card fees chomping away at operating profit, suppliers shortening terms, mortgage havoc causing nervous lenders and layoffs, and even loyal customers tightening up their wallets, is it any wonder that many in our industry are on edge?

It's because of these market uncertainties that smart marketers who want to stay in business are decisively taking action. The old rules don't apply anymore. There are specific steps you can and should be taking for sure profits in this uncertain time. Take these five steps today to get started.

Drive margin management with good pricing technology. For solid profits, supplier prices must automatically dump into your system and that system must provide you

In an industry where sameness abounds and is even encouraged via mandates, dare to be different. Whether it's mobile fueling, dealer services or smart real estate development, locking in sure profits often requires broadening your horizons.

with failsafe upward customer pricing. If you hate automatic pricing because you believe you miss margin opportunities, let me reassure you that good systems allow or even offer alternative pricing when prices are going down so you can still maximize

margins, but you capture the all-important uptick immediately.

Offer capped or fixed pricing, but don't go naked! If you ever quote fixed prices without locking in matching supply price through either supplier contract or a good hedge management, you could get in big trouble. Terrible, needless strife and bankruptcies occurred last season with small heating oil retailers who quoted fixed price but didn't secure fixed-price supply. With that said, if you can safely offer price caps or fixed prices, you will be a huge blessing, even a hero, to your customers.

Be ruthless about delivery profitability. If you deliver product, and aren't measuring individual truck profits, start now and insist on continuous improvement. And it will take technology. Your most fearsome competitors will have handhelds for every truck and every driver. They will be watching gallons delivered per day per truck. They will be using technology that seamlessly alerts them to traffic hazards and weather problems with onboard notification of route changes. If you don't have this technology, get it. It costs much less today than even last year—everyone can afford this! Good drivers of the future will want performance compensation and take active roles in driving per-truck profits.

Seek new, high profit opportunities. In an industry where sameness abounds and is even encouraged via mandates, dare to be different. Whether it's mobile fueling, dealer services or smart real estate development, locking in sure profits often requires broadening your

horizons. Begin by total focus on your best customers that uncovers their needs. If you hit a hot button and fill that gap, you'll become even more valued by your best customers while you boost your profits. See a need you don't have skills or manpower to do, even outside the petroleum realm? Look for partnership opportunities! Interesting bedfellows are being made even as you read this article!

Get deadly serious about your cash cycle. Once again, soundly designed systems and technology will drive best-in-class cash cycles. On the wholesale side, the marketer who can electronically deliver an invoice at the instant a driver touches his screen within minutes after delivering the load, wins in the cash cycle contest. Behind the scenes, great credit and billing systems must be in place for smooth, seamless transactions. The less your office staff touches the better. It's the same in retail, only your focus is the inventory to sale to replenishment cycle. Item level inventory and seamless store-to-back office systems will win.

I'm really excited about where I see the industry going. And it's not going to be a game just for big players. There are plenty of small volume marketers doing amazingly well by following some of these steps. And we're helping those who don't want to invest the time and energy to strategically exit the business with good cash in their pocket to go spend time with family or other pursuits they've set aside as they ran their businesses. ☺



Your New Banker: Your Customers

By Matthew Ide, RenRe Energy Advisors Ltd.

IN TODAY'S MARKET, TIGHT CREDIT IS THE theme from both suppliers and banks. How does a dealer manage to get the available credit needed to operate the business? While dealers often offer “pre-buy”, fixed or cap programs to their customers as marketing tools, they should also think about how these programs can enhance their company’s cash flow and reduce reliance on supplier and bank credit lines.

The key to this is designing the programs properly, as we have found poorly designed programs will have just the opposite effect and make already tight credit and cash flow even worse. So how does a dealer design a customer program that helps improve cash flow and improve credit?

PRE-BUY PROGRAMS

The traditional “pre-buy” program, which is most prevalent in New England markets, is the granddaddy of ways to enhance a company’s cash flow, by collecting payments from customers upfront. The obvious benefit of the “pre-buy” program is that cash flows into a company during the time of the year when actual deliveries are at their lowest. Since the company has the cash in hand, it does not need to use credit to buy the oil. Sounds perfect, doesn’t it?

Unfortunately, recent history has shown us that poorly designed and administered “pre-buy” programs have been the leading driver for many of the well-publicized failures of heating oil dealers and silently eroding the ability of many other dealers to stay in business. Why is this? The bottom line is many dealers are “robbing Peter to pay Paul”.

For the “pre-buy” program to have the desired benefit noted above, a dealer must

ask the question: “Can I open a three-month certificate of deposit with the proceeds of my pre-buy program equal to the cost of product to cover the program?” If the answer is yes, then the “pre-buy” program will provide your company with a significant benefit.

In fact, our studies have shown that for every “pre-buy” gallon sold, a dealer can save on interest expenses because the dealer doesn’t need to borrow on a line of credit to pay for the oil. This of course assumes margins are set at profitable levels and the dealer can make that deposit into the CD. However, if a dealer cannot set that money aside and needs it to pay off current bills, then the “pre-buy” program has the potential to lead the dealer into dangerous financial territory which makes the cash flow and credit situation worse. Companies in this situation should be consulting with their accountant and financial adviser to find ways of working through this situation.

FIXED-PRICE PROGRAMS

Becoming less popular are fixed-price programs where the dealer extends credit to the customers. We have seen dealers who offer a fixed price to their customers, deliver the oil and then bill the customer after the delivery simply go out of business as the customers refused to pay the fixed price when posted prices fell, leaving the dealer alone to pay the bill to the supplier.

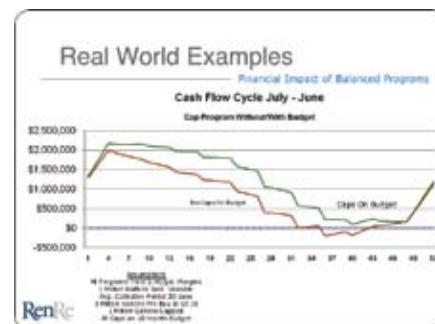
This is especially true if the dealer purchased “wet barrel” contracts to hedge the anticipated deliveries of the fixed-price program. At the very least, if a dealer offers a fixed-price program the customer must be required to be on a budget plan. Our recommendation is that the fixed-price program should be enhanced

into either a “pre-buy” or a “cap” program described below.


With the price volatility in today’s market, there is too much risk for a dealer to fix a customer’s price without the customer making all or a significant payment toward the cost of the oil. If a dealer extends credit to a fixed-price customer, the dealer is exposed to the worst of both worlds. Because the dealer is carrying the customer, extension and cost of credit is now being shouldered by the dealer and the uncertainty of collecting the receivable increases if the market price of oil falls.

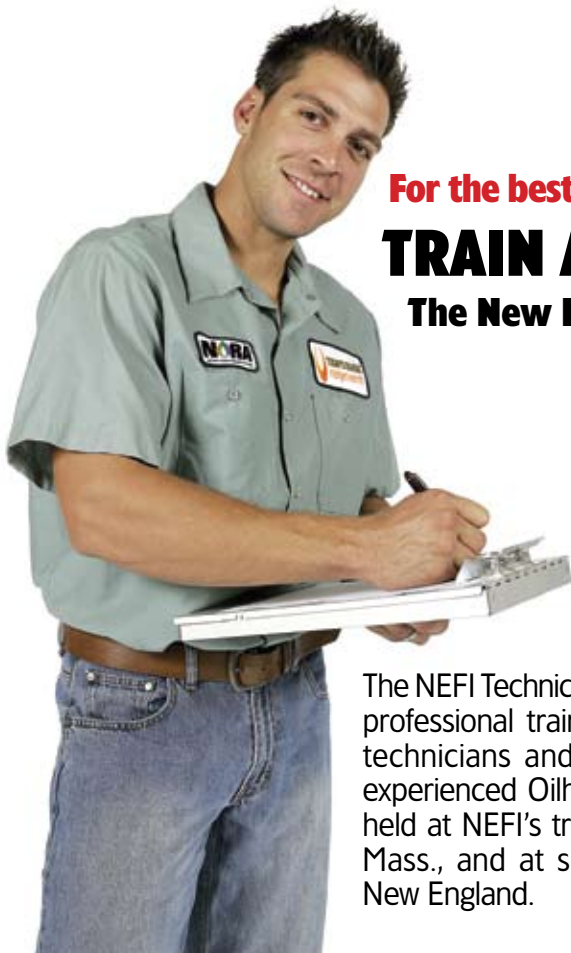
CAP PROGRAMS

I don’t think you will hear anyone disagree that a cap program best protects a customer in both a rising and falling market. The trouble is dealing with the cost of hedging a cap program and how a dealer can recover those costs. There are many strategies and companies that help dealers do this and many are noted in this month’s issue of *Oil & Energy*. From its impact on cash flow and credit, one thing is clear about a cap program: customers must be on a budget plan! The included graph illustrates how requiring cap customers to be on a budget eliminates the need for this company to borrow on its line of credit.



In this example, by requiring cap customers to be on a budget, the company has eliminated its need to borrow under its line of credit (green line vs. red line).

Our experience in working with and financing heating oil dealers has demonstrated that well-designed customer price programs—where the customers “pre-buy” and the dealer puts the cash in the bank, or where customers are required to be on a budget for fixed and/or cap programs—create beneficial cash flow and reduces a dealer’s reliance on credit extensions from suppliers and banks. In today’s frosty credit climate, the way you design your programs can mean the difference between having too little credit or enough to be successful. 



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performance in a meaningful way is to measure profitability. Every employee, every department, every expenditure you make can be tracked and measured, and its contribution to profitability determined.

Be willing to make changes. Once you've determined where you need improvement, make sure it gets done. Use continued benchmarking to determine progress toward your goals.

COMPARING YOUR COMPANY TO OTHERS

At some point, you should seek a broader perspective on your company's performance. A logical extension of internal benchmarking is going outside your company to compare your performance to other businesses in the heating oil industry.

One way is to find a benchmarking "partner," a non-competing oil company of similar size and operating in a similar market. By sharing benchmarking statistics, you may be able to help each other gain important perspective.

Another way to see how you measure up is by comparing your company's key indicators with industry-wide statistics. For many years our firm published a FuelTrack study that provided industry averages for a broad spectrum of key performance indicators. Your state oil associations may also be able to provide similar information.

MAKE BENCHMARKING A PRIORITY

Many of us are so busy today that we overlook or bypass the routine monitoring and reviews that are necessary to stay on top of a business. A disciplined, regular review of key performance indicators is a basic requirement for financial success today. The computer technology and systems available now allow any business, regardless of size, to stay healthy by tracking vital signs.

The next step is even more important. Once you begin to measure key indicators and compare your company's performance with past efforts (or other, similar companies), you need to have the courage to implement changes where and when they are necessary. For example, if you see that your service department payroll as a percentage of service sales is creeping up, you may need to trim your service staff, or increase the price you are charging for service or service plans. Or if you discover that insurance costs have risen dramatically over the previous year, you may want to shop around for more affordable coverage.

By tracking the flow of money in and out of your company through benchmarking, you will be able to make more informed and better decisions that affect the future of your business. ☐

Why Benchmarking is Essential for Survival

By Joe Ciccarello, CPA, Gray, Gray & Gray

"YOU CAN ONLY MANAGE WHAT YOU CAN measure." This statement is more than just another business adage—it highlights the absolute necessity of understanding and tracking the day-to-day operations of your Oilheat company in order to successfully manage it.

The days of managing an oil business by "gut feeling" are long gone. With the sophistication and huge costs involved today, as an oil company owner you must have a firm grasp on what is happening within your business at all times. And you must be able to track and measure progress, and to identify potential problem areas.

The process of measuring your company's performance is called benchmarking, and the investment of time and money you put into the process will be repaid many times over. But only if you are diligent in tracking your company's "vital signs" (key performance indicators) and are then willing to take steps to fix problems or take advantage of opportunities.

Benchmarking is the process of comparing your company's performance today with its previous performance or, in some cases, measuring your activities against industry standards and "best practices." The most common measuring stick is year-to-year changes, but some companies "drill down" their benchmarking to measure quarter-by-quarter or even month-by-month performance.

KEY PERFORMANCE INDICATORS

With so many activities and variables in your business, you may be bewildered about what to measure and how to measure it. Quite simply, you must "follow the money" to determine your company's vital signs.

Every business needs to identify and track its key indicators in order to monitor the

health of the organization and identify favorable and unfavorable trends. These indicators can provide signals that growth and development are occurring on schedule, or that new actions or programs are needed. The trick is to select the proper indicators, understand them, and review them regularly.

A growing business will have different key indicators than a mature one. Some of the numbers may be abstracted from the financial records. Others may be measures of operating activities or business processes. Some may evolve from objective-setting activities such as an annual budget or short-term improvement plan.

You can measure almost anything through the benchmarking process: gallons sold per customer, cost per service call, sales per employee, advertising efficiency. The key is to select operations and expenditures that provide a snapshot of performance and activity that affects profitability. It is also important to make sure your measurements are consistent, and that your month-to-month or year-to-year comparisons are evaluating the same item.

GETTING STARTED WITH BENCHMARKING

Setting up a benchmarking process involves several steps:

Determine what you will measure. Key performance indicators vary from company to company. Decide which operations are the most important to your business and measure them.

Be specific. Be very detailed in defining the operations or processes you wish to benchmark. This will help keep you stay focused on what is important. While you may measure a number of aspects of your performance, key in on an important few to monitor frequently.

Run the numbers. The best way to track



Dollars and Sense

By Mark Skaparas, Hedge Solutions

LOOK OUT, THE COMMODITY FREIGHT TRAIN IS heading north! In just over a month's time the heating oil market has gone up by more than 40 cents. That is good news for those of you who already hedged forward sales, but not so good for those of you who have delayed these forward-sales purchases.

So what do you do now after the recent market rally? In order to answer this question, some common sense needs to be applied to your post market rally plan. Here are four common sense steps you can take in order to navigate through the stressful world of commodity buying and selling.

Common Sense Step 1 is to not get caught up in emotional purchasing decisions. Don't make snap decisions. You might even have to sit on the sidelines while waiting for buying opportunities. Yes, the market seems to be climbing everyday but the reality is that markets go up and down (always remember that). As quickly as they go up, they can fall just as fast, if not faster. Unless your customers are handing you money with a signed agreement, then sales commitments and purchases need to be carefully managed. Do not go out and buy large volumes of product before either your program offer letter goes out or until you gauge the interest level from your customers via online or other means of communication.

Common Sense Step 2 is to look closely at what the New York Mercantile Exchange (Nymex) is telling you now and what it has told you in the past. If the price on the Nymex does not reflect supply and demand then it is obvious that technical trading is taking place. Currently the Nymex is telling you that future demand momentum is picking up speed. This means that surplus inventories are being overshadowed by optimism the worst of the economic challenges are behind, not ahead.

Last year, heating oil averaged \$2.82 per gallon, with a high of \$4.13 per gallon. This year, heating oil has averaged \$1.47 per gallon, with a high of \$1.85 per gallon. Keep in mind that this peak in 2008 was reached before we knew the details of the enormous financial crisis and subsequent government intervention on the horizon. Currently, as a result of TARP (Troubled Asset Relief Program), investors seem to be turning more and more optimistic that an economic recovery is well underway due to the banking industry seemingly being well capitalized. What this means is that we have room to go higher given the current weakening of the U.S. dollar, but on the flip side the higher the per-barrel price goes, the better chance that we will see a correction lower over the heating season. Thus when heating oil was trading in the \$1.20s earlier this year, the thought by many was it couldn't

go lower. Now that we are trading around \$2.00 on the forward curve, program offerings are more susceptible to a fast falling downward market.

Common Sense Step 3 is to duplicate what the Fed recently did with the nation's 19 largest banks. It was this stress test that brought back investor confidence, because it was confirmed that these 19 banks essentially had enough money to weather almost any future financial turbulence. What companies in the petroleum industry can learn from this stress test is that you need to take a forward view and ask yourself, "Will I make enough money should the price of heating oil hit \$3 a gallon?" or "What if the price slides to \$1?" If your in-house spreadsheets or back office systems cannot do this, then it might be worthwhile to look at heading software, such as HedgeInsite. Expect the best and prepare for the worst!

Common Sense Step 4 is to have a buffer zone. If you don't utilize online ordering, then it becomes more difficult to balance sales with purchases. In order to protect yourself and minimize your exposure to detrimental market movements, make sure you build in a 10 or 15 cent additional margin before the letters hit the street. This will greatly reduce profit erosion to your bottom line should the market rally before all your customers have responded to the offer. Also, make sure that a "while supplies last" clause is in the letter.

The amount of news disseminated daily is staggering. One day, Goldman Sachs predicts crude will average \$85 a barrel and then a day or two later Lukoil says that crude will average \$65 a barrel for the year. One thing is certain, even experts disagree about the future direction of oil. When crude oil hit \$100 per barrel in 2008 the economy started to show signs of trouble ... big trouble. OPEC has publicly stated that they would be happy with a barrel of crude between \$75 and \$85. Other economists believe that \$50 a barrel crude is more appropriate given our current economic environment.

So what this tells you is that most likely a ceiling is in place at \$100, while the floor is most likely \$50 a barrel, with the sweet spot is looking as if it will be the OPEC target of \$75 for the 2009-10 heating season. With these numbers in mind remember to not make emotional purchasing decisions, use the Nymex present and past prices as a benchmark, implement a stress test, and establish a buffer zone. If these four common sense steps are taken, you are well on your way to having a profitable season. ☐



Steve Vachon, left, was congratulated by Robert O'Brien, Nassau-Suffolk Chapter of NAOHSM, for winning the first Technician of the Year Award.

As the NAOHSM Technician of the Year, Vachon and his wife Jennifer were guests of the association at the Hershey convention, where he received the award, along with a NAOHSM jacket and a \$1,000 gift card from the association, and test equipment compliments of Testo.

The first runner-up for tech of the year was Wayne Lawrence, who works for Petro and is a member of the Nassau-Suffolk Chapter. Lawrence was also recognized at the convention and presented with a NAOHSM jacket.

This year's judges included Dan Holohan, Skip Lincoln of the Mid-Atlantic Chapter and David Bessette, past president of the national association.

NAOHSM will be naming its second Technician of the Year at its 2010 convention and will soon be looking for candidates for the next award. Some of the criteria used in the judging of candidates include certifications (the National Oilheat Research Alliance's Bronze, Silver and Gold), state licensing, ongoing educational activities, supervisor recommendations and community service activities. ☐

Vachon Named NAOHSM's First Tech of the Year

THE NATIONAL ASSOCIATION OF OIL HEATING Service Managers (NAOHSM) has named Steve Vachon, a lead technician with Lamprey Brothers in North Hampton, N.H., and the current president of the Greater Seacoast Chapter of NAOHSM, as its first-ever "Technician of the Year." The presentation was made at the annual NAOHSM convention and trade show in Hershey, Penn.

Vachon's credentials put him in the winner's position: he has been with Lamprey for 14 years and was described by Andrea Myers,

Lamprey's director of field operations as a "dedicated employee who has been very proactive in mastering his field. Steve attends extra training sessions whenever they are available and has become quite proficient in troubleshooting and repairing oil-fired equipment. Steve is usually able to resolve difficult heating and cooling issues and intermittent/recurring problems that many other technicians struggle with." Vachon is also in the Navy Reserves and was promoted to Chief Petty Officer in 2008.



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REPORT: WORLDWIDE CLEAN ENERGY INVESTMENTS ON THE UPSWING

After a difficult first quarter, new worldwide investments in clean energy are now gaining momentum, according to analysts at New Energy Finance. Clean energy investments in the first quarter of 2009 were down 44 percent from the fourth quarter of 2008 and down 53 percent from the investment peak in the first quarter of 2008, according to the market research firm.

But 2009 second quarter clean energy investments are already surpassing the first-quarter investments by more than a third. New Energy Finance notes that public market investments have rallied sharply, while bankers active in the clean energy sector are optimistic about a gradual improvement in the availability of project financing as the year progresses. The gradual injection of worldwide "green stimulus" funds, including funds from the American Reinvestment and Recovery Act, are also expected to assist the recovery.

Although the situation is improving, clean energy investments are still expected to fall short of the investments in 2008, which reached a record \$155 billion. New Energy Finance expects clean energy investments for 2009 to end up in the range of \$95-\$115 billion. The drop is particularly troubling in light of a report published earlier this year, which showed that annual investments in clean energy needs to reach \$500 billion by 2020 to ensure that global carbon emissions peak before that date. Noting the drop in global interest rates, that report also concluded that "at some point a flood of cheap money will begin to flow, and when it does, clean energy infrastructure ... will be among the first (sectors) to benefit."

MIT FINDS INCREASED WARMING THREAT IF GREENHOUSE GASES STAY UNCHECKED

In the absence of new policies to limit greenhouse gas emissions, calamitous global warming appears much more likely now than it did six years ago, according to comprehensive climate modeling by the Massachusetts Institute of Technology (MIT).



The MIT Joint Program on the Science and Policy of Global Change uses a detailed computer simulation of global economic activity and climate processes and runs it 400 times, making slight changes to both the climate responses and the economic growth projections. The result is a probabilistic assessment of climate outcomes.

A similar study in 2003 found that a global temperature increase of 2.4°C by 2100 was the most likely outcome, but the newly updated study raised that to 5.2°C, with a 90 percent probability that the temperature increase would fall between 3.5°C and 7.4°C.

In contrast, most climate scientists recommend that global temperature increases be maintained below 2°C. The scientists also examined the outcomes for greenhouse gas control measures that would stabilize the concentration of carbon dioxide in the

atmosphere at 550 ppm and found a median warming level of 2.3°C, with a 20 percent chance of keeping global warming below 2°C.

According to the MIT researchers, the new study differs from the older study in several ways. First, it draws on improved economic modeling and newer data that shows less chance of lower greenhouse gas emissions. Yet the model does not include potential positive feedbacks, such as the emission of methane by melting permafrost, which would make the outcomes even more drastic.

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Pennsylvania STATE DEBATES VIABILITY OF BIO DIESEL MANDATE

Pennsylvania Petroleum Marketers & Convenience Store Association (PPMCSA) Executive Vice President John V. Kulik testified in May at a public hearing in Pittsburgh conducted by the Pennsylvania Departments of Agriculture and Transportation.

The purpose of the hearing was to determine whether the infrastructure was in place to support the proposed Jan. 1, 2010, start of a 2 percent biodiesel mandate. Pursuant to state law passed last year, the process to trigger the mandate has three steps. The first is a determination by the governor that in-state biodiesel production had met a sustainable level of 40 million gallons, which he made in January.



The next step is for the state to conduct three public hearings to determine the readiness of the infrastructure and issue a report by July 1. If the determination is made that the infrastructure is sufficient, the mandate takes effect Jan. 1.

Testimony provided at the May hearing was varied. The American Petroleum Institute (API) testified that it did not believe the state was ready to begin the program. It cited that regulations had not been promulgated to determine key aspects of the program, and that a number of terminals would likely not make the investment until that took place. Petroleum Products Corporation testified that their terminals would be ready by Jan. 1. The National Biodiesel Board urged the state to develop a task force immediately to deal with implementation issues.

PPMCSA testified that there were a significant number of unanswered questions regarding this program. As it stands now, the retailer of diesel is responsible for the 2 percent biodiesel mandate. There are no enforcement provisions, no paper trail requirements and a lack of quality control monitoring. PPMCSA also questioned starting the program in the middle of the winter.

New Jersey FMA LOOKS TO IMPROVE ASSISTANCE PROGRAM

The Fuel Merchants Association of New Jersey (FMANJ) recently hosted a meeting

for members to interact with representatives from New Jersey Statewide Heating Assistance and Referral for Energy Services (NJ SHARES). The winter of 2008-09 was the first year that heating oil dealers participated in the program since its inception 10 years ago.

NJ SHARES is a statewide, organization that provides grants to pay the utility bills of households in need through a statewide network of 213 community-based social service agencies.

NJ SHARES serves households whose incomes exceed LIHEAP thresholds of 225 percent of the poverty level up to 400 percent of poverty level. For a family of four in New Jersey, this is approximately \$88,000 annually.

The program is a "safety net" for individuals who need temporary assistance. Homeowners are eligible for up to \$1,000 in fuel assistance per calendar year, up to \$300 for electric and up to \$700 for heat. The average oil grant for the winter of 2008-09 was \$600.

For oil dealers to participate, they must make a tax-deductible contribution of \$1,150 annually, with \$1,000 going toward fuel assistance and \$150 for administrative expenses.

If you are interested in participating in NJ SHARES, contact Kat Madaras at madaras@fmanj.org or call (973) 467-1400.

UPDATE ON STATE OILHEAT BILLS

FMA Executive Vice President Eric DeGesero has been busy discussing legislation with the state government in order to ensure lawmakers are aware of concerns from the Oilheat industry.

Legislation promoted by FMA that would amend the state's Underground Storage Tank (UST) Fund statute passed the Senate 36-0, the Assembly 79-0, and is now awaiting action by Gov. Corzine. FMA President



Jeff Jenkins, immediate Past President Ed Miller, DeGesero and Associate Director Kat Madaras met with the office of the governor's counsel to discuss the legislation.

Among other changes, the bill will require the Economic Development Authority (EDA) to provide homeowners a 45-day guarantee that they will receive funding for the voluntary

replacement of a non-leaking UST, provided the work is completed in that time and they are otherwise eligible.

The bill will also allow proactive replacement of USTs of 2,000 gallons or less at nonprofit facilities.

CLEAN ENERGY PROGRAM (CEP) TO INCLUDE OILHEAT

FMA representatives met with N.J. Board of Public Utility officials to discuss the inclusion of heating oil and propane in the Clean Energy Program (CEP) recently. Representatives of the New Jersey Propane Gas Association also attended the meeting.



DeGesero explained that Oilheat equipment will be part of a \$17 million allocation from the federal stimulus money New Jersey is receiving from Washington, D.C.

"We expect to have the details ironed out within the next 60 days. However, it appears highly likely that an energy audit will be required to be performed for heating oil equipment to be deemed an appropriate upgrade," he said. "Inclusion in this program is a significant victory for FMA, but these funds are only short term and we need to find a long-term solution for funding. We will continue our dialogue to assure equitable treatment for Oilheat."

Connecticut STATE ENERGY EFFICIENCY PROGRAMS ENDING

As the state struggles with a \$914 million deficit in the fiscal year that ends June 30—and another \$9 billion deficit for the next two-year budget—hundreds of programs are getting cut and energy efficiency programs are no exception. The following heating system grant/subsidies programs have ended or are scheduled to end in the near future:

- The heating system upgrade/repair rebate program has ended due to the legislature's attempt to close the state deficit by using unspent money in this and hundreds of other programs. New applications for the program are no longer available. Applications that have already been submitted by the Office of Policy and Management (OPM) will continue to be

processed and rebates will be issued within funding limitations to eligible applicants.

- The \$500 Furnace Replacement Rebate Program will continue until the \$5 million that has been appropriated to it is expended. The program has approximately \$2.5 million remaining.

- OPM also announced that the \$75 clean, tune and test program ended June 30. Oil dealers who registered for this program should have been sent information informing them of a revised grant allocation. OPM has said that Home Energy Rating System (HERS) qualified energy auditors will likely continue to have access to the subsidized fee charged to homeowners for energy audit services.

Vermont

VERMONT PASSES A FEED-IN TARIFF, PLUS OTHER CLEAN ENERGY MEASURES

Vermont legislators have passed House Bill 446, also known as the Vermont Energy Act of 2009, which will allow owners of small renewable energy facilities to sign long-term contracts for the sale of power produced by their facilities.

The approach, commonly referred to as a “feed-in tariff,” is meant to encourage individuals and businesses to install their own grid-connected renewable energy system.



The long-term contracts provided by such feed-in tariffs can make renewable energy systems a profitable investment, and the guaranteed income can help attract financing for such systems. The act will apply to renewable energy systems commissioned on or after Sept. 30, 2009, that are up to 2.2 megawatts in capacity. It allows for power purchase contracts of 10-20 years in duration for most renewable energy projects, and up to 25 years in duration for solar energy projects. The act sets a statewide limit of 50 megawatts for such contracts, but that limit also includes any new, similar-sized renewable power facilities built by the state’s utilities.

The Vermont Energy Act also has a number of other notable features. First of all, the state’s utilities are no longer required to offer voluntary renewable energy programs to their customers. The state previously required

utilities to establish such “green power” or “green pricing” programs by July 1. Second, the act extends the Vermont Clean Energy Development Fund to include geothermal energy devices.

Third, the act encourages appropriate wind power development on state-owned lands. Fourth, the act does not allow covenants, deeds, or other binding agreements to prohibit the installation of solar collectors, clotheslines, or other renewable energy devices. Fifth, it allows municipalities to finance renewable energy and energy efficiency projects.

Sixth, the act directs clean energy development funds to two “Vermont village green” renewable pilot projects, tentatively located in Montpelier and Randolph. The pilot projects will offer district heating to local homes and businesses, using a centralized heating system fueled with renewable energy. And last but not least, the act requires that the state’s building energy codes comply with the 2009 edition of the International Energy Conservation Code.

FUEL TAXES CHANGED IN JUNE

As of June 1, 2009, gasoline distributors are required to pay a 2 percent “transportation infrastructure assessment” on the retail price of gasoline. This tax is in addition to the 19-cent per gallon Vermont gasoline excise tax and the 1-cent per gallon Vermont Petroleum Cleanup Fund fee. The new tax is expected to raise \$22 million in annual revenue to fund road and bridge repairs.

After Oct. 1, 2009, distributors of clear, on-road diesel will be required to pay a 3-cent per gallon assessment. Currently the Vermont tax on clear, on-road diesel is 25-cents, plus a 1-cent PCF fee. After Oct. 1, 2009, 29-cents of every gallon of clear, on-road diesel sold in Vermont will go to the state transportation fund. This is in addition to the 24.4-cent per gallon federal tax on clear, on-road diesel.

CLEANUP FUND BILL TO IMPACT OILHEAT DEALERS

The Petroleum Cleanup Fund (PCF) Reauthorization bill was recently signed into law. There are several key changes in the law that will impact fuel dealers.

First, the law clarifies that all dyed diesel, not just heating oil and kerosene, is assessed a half-cent per gallon fee. This fee can be itemized on the customer’s bill. This tax is also called the “Petroleum Distributors Licensing Fee” and is paid quarterly to the tax department on the same form as the Fuel Gross Receipts tax.

Second, the law adds dyed diesel “not used to propel a motor vehicle” to the list of fuels that are imposed a gross receipts tax of one-half of 1 percent. The purpose for this

change is to ensure that retailers selling dyed ultra-low sulfur diesel as heating fuel pay the tax. The gross receipts tax on heating fuels funds the Vermont Low Income Weatherization Program.

The legislation also calls for a study to determine whether the gross receipts tax and the PCF fee on heating oil and dyed diesel should be collected monthly, rather than quarterly.

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9-14 Empire State Petroleum Association's Summer Convention, Hyatt Regency Resort, Lake Tahoe, NV. 518-449-0702 • www.espa.net

16 NORA Silver Seminar & Certification Exam (Test for Gold Available), FW Webb, Williston, VT. 802-223-7750 • www.vermontfuel.com

19-21 Pennsylvania Petroleum Marketers & Convenience Store Assn. (PPMCSA) Summer Conference, Grand Hotel, Ocean City, MD. 717-902-0210 • www.ppmcsa.org

28 NAOHSM's "Crossing the Generational Divide" Workshop, Hilton Hotel, Woodcliff Lakes, NJ. Phone: 888-552-0900 • www.naohsm.org

12 NORA Energy Conservation Analysis Seminar, FW Webb, Rutland, VT. 802-223-7750 • www.vermontfuel.com

17 Massachusetts Oilheat Council's Golf Tournament, Pinehills Golf Club, Plymouth, MA. 800-722-0623 • www.massoilheat.org

25 Carlin "U" Residential Oil Class, 8am-5pm, NEFI Technical Training Center, Watertown, MA. 617-924-1000 • www.nefi.com

31 Maine Oil Dealers Association 17th Annual J. Garrie Murray Golf Classic, Penobscot Valley Country Club, Orono, ME. 207-729-5298 • www.meoil.com

9 NORA Energy Conservation Analysis Seminar, NORA Gold Certification, New Windsor, NY. Hudson Valley Oil Heat Council 845-561-0462 • www.hudsonvalleyoilheat.com

10-13 NAOHSM's 4th Annual Oilheat Retreat, Wakefield, MA. 888-552-0900 • www.naohsm.org

15-17 Oil Heat Council of New Hampshire's 44th Annual Convention, Mount Washington Hotel & Resort, Bretton Woods, NH. 603-895-3808 • www.nhoilheat.com

21-23 Penn. Petroleum Marketers & Convenience Store Assn. Fall Energy Conference & Annual Meeting, Wyndham Gettysburg, Gettysburg, PA. 717-902-0210 • www.ppmcsa.org

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NEW HAMPSHIRE GETS MILLIONS FOR EFFICIENCY PROJECTS

U.S. Department of Energy (DOE) Secretary Steven Chu recently announced more than \$154 million in Recovery Act funding to support energy efficiency and renewable energy projects in four states, including New Hampshire, which received more than \$10 million.

Under DOE's State Energy Program (SEP), states have proposed statewide plans that prioritize energy savings, create or retain jobs, increase the use of renewable energy, and reduce greenhouse gas emissions. This initiative is part of the Obama Administration's national strategy to support job growth, while making a down payment on clean energy and conservation.

New Hampshire will implement several energy efficiency and renewable energy initiatives with funding from the Recovery Act. The state plans to include programs that will increase building efficiency for businesses, commercial enterprises, institutions and nonprofits through building codes and competitive loan and grant programs.

The state will provide technical and financial assistance to these businesses and institutions as they seek to reduce their energy use and costs through a variety of measures, including more energy efficient processes. The New Hampshire SEP will also support energy efficiency upgrades to 75 state-owned buildings and 13 college and university campuses, in order to save taxpayers money and reduce energy use across the state.

After demonstrating successful implementation of its plan, the state will receive more than \$12 million in additional funding, for a total of more than \$25.8 million.

U.S. WIND POWER INDUSTRY MARKS STRONG FIRST-QUARTER GROWTH

The U.S. wind power industry installed more than 2,800 megawatts (MW) of new generating capacity in the first quarter of 2009, according to the American Wind Energy Association (AWEA). The growth rate is strong compared to the overall growth of 8,358 MW in 2008, which averages out to



roughly 2,100 MW per quarter, but the growth is relatively weak compared to the fourth quarter of 2008, when the industry installed a record 4,112 MW of wind capacity. New wind power projects were completed in 15 states, including the 400.3-MW first phase of the Fowler Ridge Wind Farm in Indiana. But looking ahead presents a less favorable view for the nation, as projects now under construction will only add another 3,400 MW of wind power capacity. Even if all those projects are completed this year, which is unlikely, the total installed capacity for 2009 would only reach 6,200 MW, a 26% drop from the record pace achieved in 2008.

BILL WILL REQUIRE BIG TRADERS TO REPORT PHYSICAL INVENTORY

The United States Senate Committee on Energy & Natural Resources is assembling an energy bill that is absent a cap-and-trade program (the Senate will deal with that separately) and instead focuses on renewable electricity, efficiency and transparency. The committee is conducting hearings and marking up the bill piece-by-piece, dealing with one component at a time.

In June, the committee marked up an "Energy Markets Transparency" section that will require the 50 largest holders of commodity futures contracts to report their physical inventory and storage capacity to the Energy Information Administration (EIA). The New England Fuel Institute (NEFI) was successful in working with Vermont Sen. Bernie Sanders in introducing and passing an amendment to the legislation that will require these traders to divulge crude oil and refined petroleum reserves currently being held in off-shore supertankers.

Global diesel storage at sea has climbed to about 41 million barrels, Reuters reported

recently, citing traders and shipbrokers, up 71 percent since April. Seven tankers with an estimated 14 million barrels of North Sea crude oil are anchored off Great Britain, Bloomberg reported. JP Morgan Chase recently hired a ship to store up to 2 million barrels of heating oil off the coast of Malta. Without a requirement that storage held by trading firms in these off-shore tankers be reported to federal authorities, these barrels remain "in the dark."

In addition to requiring traders to report physical inventory data, the measure would also create a panel to investigate and report on the energy commodities markets and the setting of prices, and especially, the role of speculation. It is not clear if the bill will gain the momentum needed to pass the Senate this year, in light of several controversial energy provisions, according to NEFI.

PMAA PAC COOKBOOK ON SALE

The Petroleum Marketers Association of America Small Business Committee Political Action Committee (PMAA SBC PAC) has an official cookbook with more than 200 recipes—all contributed by members of the industry—available for \$25.

To order cookbooks to support the PAC, mail a check or money order to:

PMAA, 1901 N. Fort Myer Drive, Suite 500, Arlington, VA 22209. Contributions to the SBC PAC are not tax deductible.

HOUSE PASSES BILL STRENGTHENING INSPECTOR GENERAL OF CFTC

In June, the U.S. House passed a bill that would strengthen the power of the inspector general of the Commodity Futures Trading Commission (CFTC) along with the Securities and Exchange Commission (SEC), Federal Reserve and other regulatory agencies. H.R. 885, known as the "Improved Financial and Commodity Markets Oversight and Accountability Act," grants the inspectors general subpoena power and also allows the covered inspectors general to hire employees or appoint officers. Congressman John Larson, D-CT, introduced a similar bill last year that passed the House, but was never taken up by the Senate. Last year's bill only addressed the CFTC inspector general.

ETHANOL BLENDING COMMENT PERIOD EXTENDED

The Environmental Protection Agency (EPA) is extending the comment period by 60 days on a waiver application requesting an increase in the amount of ethanol blended into a gallon of gasoline to up to 15 volume percent (E15). The original public comment period was to end on May 21, 2009, and will now end on July 20, 2009.

The current limit on the amount of ethanol that can be blended into a gallon of gasoline is at 10 percent ethanol (E10) for conventional (non flex-fuel) vehicles. Growth Energy and 54 ethanol manufacturers submitted the



E15 waiver application on March 6, 2009. The statutory provision calls for EPA to make a decision within 270 days of receipt, which is Dec. 1, 2009. The comment period extension will not change this timeframe.

More information and instructions for submitting comments is available at www.epa.gov/otaq/additive.htm.

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THE SUPPLY CYCLE

Beyond storage, there are key elements in the supply process. The first is to develop a supply plan utilizing multiple supply points and transportation methods, including pipeline, rail and import terminals. Depending on distance to those facilities the mix will vary from marketer to marketer, but every marketer needs to have the insurance of a contract at each supply point, in the event of an issue at any single supply point.

The next key is to contract what you plan to sell. All of it! Unlike other fuels where the supplier maintains the supply for customers, propane is based on contractual commitment. It is that storage issue again. The wholesale supplier does not have the storage to hold extra product in the region, so your contract is key!

A key component of the supply contract is ratio, gallons sold in the six winter months versus gallons sold in the six summer months. The marketer can impact this ratio greatly by having storage low at the end of the winter months, refilling in the beginning of the summer months and being totally filled on Sept. 30.

The same holds true for customer tanks. Push some late March deliveries into early April and all customer tanks should be full at the end of September. This delivery pattern minimizes your ratio to your benefit. The lower your ratio, the easier time you will have over the winter months ensuring adequate supply for your company.

What are key actions between now and Sept. 30? Review your supply plan and make sure that you have contracted 100 percent of your needs at diverse supply points. You can still buy contracts now to fill the gaps. Work with your dispatcher on the delivery cycles. Start to fill customer tanks used for heat-only now. Before the end of September, top off every customer tank and your storage tanks so you minimize your ratio. Consider offering a summer fill special with a prompt pay discount for all the will call customers. Begin the additional storage permitting process now even if you are not sure you can put it in this year. It has taken over a year to get permits in many cases. Once you have a permit in hand, the rest of the project seems to fall into place a lot easier than you imagined.

Last, and most importantly, communicate your plans with your banker, your suppliers, your customers and your employees. Everyone saw the stress of last winter on your face and they should know that you are taking proactive steps to alleviate that stress for a smoother operation in the future. That will make every stakeholder sleep a little easier, even you! ☺

Will There Ever Be Enough Storage?

By Joe Rose, Propane Gas Association of New England

THIS PAST WINTER PROVED TO BE A LONG, STARTING WITH STORAGE

challenging one for marketers and wholesalers of propane. Starting back in July 2008, our customers faced record prices for gasoline, fuel oil and propane. Many customers called their marketer and put deliveries on hold until they could save some money to pay the bills. At the same time, many were buying up propane for the coming winter at the record high prices.

Marketers, facing credit line issues with suppliers and banks, held back on filling their storage due to those same high prices. Fall weather arrived early in October and never let up, creating record demand on the TEPPCO pipeline system following the slowest summer in years. The reserve storage at Watkins Glen, N.Y., full on Sept. 1, was nearly empty by Thanksgiving. Allocation was imposed and the Cavern was fully depleted before Christmas, causing long lines and frustration at all levels of the supply chain.

In mid-November, a ship carrying about 18 million gallons of propane collided with another vessel in the Atlantic Ocean, causing damage to the hull and necessitating a return to Gibraltar for repairs. That cargo tied up two of the four ships that bring propane to the Eastern U.S. for nearly a month. The volume from that accident never arrived at Newington, N.H., until winter was over.

Some have called this winter the perfect storm, but if it was, we seem to be experiencing those perfect storms on a fairly regular basis. According to one leading propane supplier who serves the Northeast, trucks from the Midwest have been pressed into service in five of the past eight winters to meet Northeastern U.S. supply needs.

What is the answer? If there were only one or two this would be easy, but it is a very complex problem. Storage is the key! We all know that nobody wants added storage in their backyard. Portland, Conn., recently passed a community ordinance prohibiting additional fuel storage in the community in excess of 1,000 gallons.

The industry is working to coordinate efforts to add storage to existing facilities or create new ones. The Propane Gas Association of New England (PGANE) is providing support with information for local officials and testimony at hearings. The propane industry needs to build a case of how many attempts have been made for added storage and how many of those were successful. Public education is a key component. Marketers need to have a week worth of storage at their facilities. This alleviates pressure on the transportation system and the local delivery system.

One key area of storage that is often overlooked is the tertiary (consumer) storage. Imagine a world where customers only need three or four deliveries per year, instead of one every two or three weeks. Imagine a bobtail that empties out an extra time each day by making half as many deliveries! These things are possible and won't happen overnight, but by putting larger storage at your customer locations, you can achieve these results. The margin on the initial delivery to the larger tank in most cases will nearly pay for the increased tank cost! Factor in the price of a bobtail and driver and this idea starts to make a lot of sense.



sets to indicate this large area will have anything but a colder-than-average summer.

While I still favor the Northeast/New England regions averaging cooler than normal to possibly close to normal for the three-month period, the colder-than-expected June may make it difficult for a “normal” end of the summer average to be attained. It might also be difficult for July to have the coldest anomaly of the summer given the coldness of June.

As I assessed the mid-June pattern trends, my July outlook continued to favor a cooler-than-normal monthly anomaly, but possibly somewhat less cold compared to normal than June. It is difficult to get all three summer months to average cooler than normal, which makes me think August might feature frequent enough tropical air mass intrusions to skew slightly above normal. I am in no mood to call for a hot end to the summer, but given the likelihood that both June and July average colder than normal, I feel there might well be a bit of balancing out during August.

As stated in my June article, a cooler-than-normal summer does not mean there will be no hot days. While the heat signal remains weak, sooner or later hot temperatures will make a run at us. The June attempt failed and unless major changes in the pattern develop soon, we may need to wait until August for a viable hot period. The bottom line is this is likely to be a summer that features far fewer 90 degree days than normal. Hot periods, if and when they do appear, will be very brief.

The fact that June featured above normal rainfall across much of the Northeastern U.S. will also hinder hot weather. The wet ground will continue to suck the warmth out of any hot surges that try to break eastward from the western U.S. or the Deep South. If the July pattern finds a way to run drier than normal, which is very much in doubt, we might see warm air masses have an easier path into the Northeast. ☼

El Nino Could Keep Northeast Cool

By John Bagioni, Fax-Alert Weather Service

EVER SINCE APRIL, IF NOT A BIT EARLIER, THERE have been strong signals of an impending cooler-than-normal summer from the North-Central states east and southeastward through the Great Lakes, Upper Midwest, Ohio Valley and much of the Northeast. Well as of the writing of this article on June 15, there were no changes in cold signal seized upon during the early spring. In fact, the unusual cold nature of the pattern during the first half of June seemed to scream that the summer outlooks were actually not cold enough.

The cold start to June was quite unsettling. Back during mid-spring it appeared that of the three summer months, June had the best shot at averaging warmer than normal. Even though there was the potential for the second half of June to edge back closer to normal or even feature a few above normal days, the fact that the mid-June temperature anomaly across the Northeast was running anywhere from minus-4 to minus-8 degrees argued that June would more than likely end with a cooler than normal end of the month anomaly, unless a spectacular warm period came into play.

The driving force behind the cool summer outlook is the developing El Nino. While debates continue to rage as to how long and how strong the El Nino will be as we head into the fall season, there is no debate that at least weak El Nino conditions will be in play through the summer season.

Analog studies of summer seasons that featured a developing El Nino point toward a general upper air pattern across the country. An upper air ridge should sit across the western third of the country. During the early part of the summer, its favored position will likely be from Texas northward along the front range of the Rockies.

As the summer progresses, the ridge will likely drift westward. A mean upper-level trough will extend southward from south-central Canada into the Northern Plains and

western Great Lakes. A second area favored for a general trough location will be across southeastern Canada and portions of the Northeast. Lastly, a weak ridge will occasionally be found across the Deep South across portions of the Southeast and offshore waters.

Assuming the basic upper-air configuration described above verifies, any consistent heat will likely be confined to areas from the Southern Plains on westward into the Southwest, Rockies and some portions of the interior West. There will be periods that see pieces of the western heat try to come east and northeast. It seems unlikely that the core of the heat will be able to shift into the eastern U.S. with any force or staying power. If there is a path eastward, it would seem to be from the Deep South on into portions of the Southeast and southern Middle Atlantic region.

The overall coldest anomaly for the summer season will likely come across the Northern Plains and extend eastward into the upper Midwest and Great Lakes. Through mid-June, most cities in these areas had been experiencing their coldest start to summer in about 15 years. There seems nothing in the pattern trends and/or analog

Degree Day Reporting Form				REPORTING DATE: 5-31-2009
Station	Total Actual Accumulation To Date	Normal Accumulation To Date	Actual Accumulation To This Date 1-Yr. Ago	Normal Next 30-Day Period
Caribou, ME	9220	9401	9397	159
Portland, ME	6961	7202	6836	116
Concord, NH	7243	7388	7105	90
Burlington, VT	7352	7588	7022	77
Albany, NY	6575	6798	6261	64
Worcester, MA	6508	6757	6311	74
Boston, MA	5592	5582	5343	48
Hartford/Springfield	6026	6066	5666	39
Providence, RI	5695	5710	5213	44
Chatham, MA	5719	5821	5215	110
Bridgeport, CT	5507	5465	4889	33

Report compiled by John Bagioni, a consulting meteorologist who runs Fax-Alert Weather Service LLC, Burlington, Conn. He can be reached at: (860) 675-9091, or at: johnbag@comcast.net.

EIA: GLOBAL CO2 EMISSIONS TO INCREASE 39 PERCENT BY 2030

In the absence of specific policies to limit greenhouse gas emissions, the world's energy use is expected to increase by 44 percent between 2006 and 2030, causing a 39 percent increase in global carbon dioxide emissions, according to DOE's Energy Information Administration (EIA). The EIA's "International Energy Outlook 2009" finds that much of the increase in carbon dioxide emissions will occur in developing nations, especially in Asia. The EIA reference case projects oil prices climbing to \$130 per barrel by 2030, causing biofuels to become increasingly competitive, but also opening the door to less environmentally friendly options, such as oil sands, extra-heavy oil, and facilities to convert coal and natural gas into liquid fuels.

On the bright side, the EIA report expects renewable energy to be the fastest-growing source of electricity over the next 21 years, with an average renewable power growth of 2.9 percent per year.

PUBLIC REPORTS ON RGGI CO2 ALLOWANCE MARKET NOW AVAILABLE ONLINE

The Regional Greenhouse Gas Initiative CO2 Allowance Tracking System (RGGI-COATS) now allows the public to view, customize and download reports of RGGI market data.

The 10 Northeast and Mid-Atlantic states participating in RGGI (Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, New York, Rhode Island and Vermont) have designed the first market-based, mandatory cap-and-trade program in the U.S. to reduce greenhouse gas emissions. The states have regulations in place to cap and then reduce the amount of CO2 that power plants in their region are allowed to emit, limiting the region's total contribution to atmospheric greenhouse gas levels. Power sector CO2 emissions are capped at current levels through 2014. The cap will then be reduced by 2.5 percent in each of the four years 2015 through 2018, for a total reduction of 10 percent.

A CO2 allowance represents a limited authorization to emit 1 ton of CO2, as issued by a respective participating state. A regulated power plant must hold CO2 allowances equal to its emissions to demonstrate compliance at the end of each compliance period. Because CO2 allowances issued by any participating state are usable across all state programs, the 10 individual state CO2 Budget Trading Programs, in aggregate, form one regional compliance market for CO2 emissions.

Available reports cover the following categories: accounts, account representatives, owner/operators, sources, transaction price

reports, special approvals, offsets, and source emissions.

To view the reports, visit www.rggi-coats.org.

PRICES FOR OIL AND GASOLINE ARE ESCALATING, SAYS EIA

Oil prices rose for the third consecutive month in May, and prices for gasoline and diesel fuel are also going up, according to DOE's Energy Information Administration (EIA). The EIA's "Short-Term Energy Outlook" blames rising oil prices on expectations for an economic recovery and future increases in oil consumption, as well as a weaker dollar.

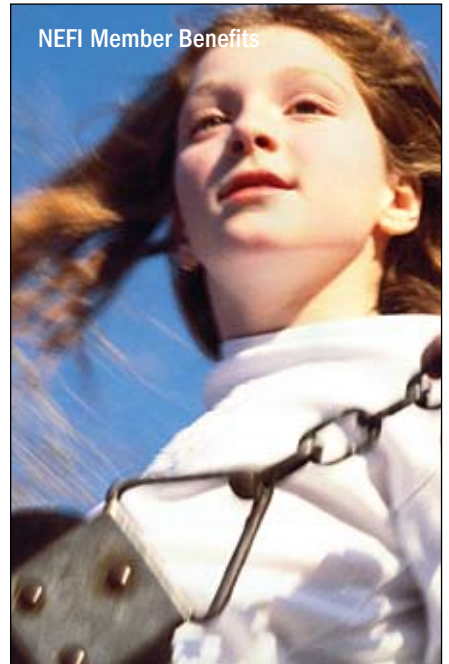
Crude oil prices are expected to average \$67 per barrel for the second half of the year, compared to about \$51 per barrel in the first half. Meanwhile, the average U.S. price for regular-grade gasoline reached \$2.62 per gallon, almost 60 cents per gallon higher than the average price at the end of April. That led the EIA to boost its projections for gasoline prices, increasing the projected average for this year to \$2.33 per gallon, a 21-cent increase above last month's projection. The EIA also increased its diesel fuel price projection for 2009 by 14 cents, to \$2.40 per gallon on average for this year.

API PREDICTS CLIMATE BILL WILL INCREASE GAS PRICES 77 CENTS

Legislation designed to restrict fossil fuels will increase gasoline prices by 77 cents a gallon predicts the American Petroleum Institute (API). The measure, H.R. 2454, has passed the House Energy and Commerce Committee and is being considered by other committees with limited jurisdiction. Basing an estimate on numbers provided by the Congressional Budget Office (CBO), API President Jack Gerard estimates the impact on consumers will be costly.

The legislation would require refiners and manufacturers to acquire carbon dioxide pollution allowances that could be traded on a market as part of an effort to cut emissions 17 percent below 2005 levels by 2020. The House Energy and Commerce Committee approved the bill in May and it is awaiting review by other panels. The CBO study released in June said the measure would produce \$845.6 billion in revenue and cost consumers \$821.2 billion through 2019 in the form of free allowances for industry, tax breaks for low-income households and investment in cleaner forms of energy.

Gerard said the measure puts too much burden on the oil and gas sector. It would raise the cost of a gallon of jet fuel by 83 cents per gallon and diesel fuel by 88 cents. The report estimates that allowances would cost \$15 per ton of emissions in 2011 and rise to about \$26 per ton in 2019.



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Interested parties are urged to contact Shane Sweet, CEO, at shane@nefi.com or (617) 923-5011, with proposals or questions.

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PRODUCTS IN STOCK: MOST RECENT WEEKS**

Ultra-Low Sulfur / 15 ppm and under				Low Sulfur / 15 ppm+ to 500 ppm			
	Week Ending				Week Ending		
District	06/12/09	06/05/09	Year Ago	District	06/12/09	06/05/09	Year Ago
East Coast (PADD I)	20.5	22.1	15.1	East Coast (PADD I)	9.2	8.5	6.0
NEW ENGLAND	2.6	2.4	1.1	NEW ENGLAND	0.7	0.7	0.2
MID-ATLANTIC	9.7	10.2	7.0	MID-ATLANTIC	4.2	3.9	2.4
SOUTH TO FLA.	8.2	9.5	7.0	SOUTH TO FLA.	4.3	3.9	3.4
Midwest (PADD II)	26.2	26.3	24.2	Midwest (PADD II)	3.2	3.5	4.1
Gulf Coast (PADD III)	29.8	28.8	20.4	Gulf Coast (PADD III)	7.1	6.8	7.3
Rocky Mtn. (PADD IV)	2.7	2.8	2.6	Rocky Mtn. (PADD IV)	0.3	0.3	0.4
West Coast (PADD V)	9.4	9.7	10.0	West Coast (PADD V)	1.1	1.1	1.4
U.S. Total	88.5	89.6	72.4	U.S. Total	20.9	20.2	19.1
Greater than 500 ppm (0.05%) Sulfur				TOTAL DISTILLATE STOCKS			
	Week Ending				Week Ending		
District	06/12/09	06/05/09	Year Ago	District	06/12/09	06/05/09	Year Ago
East Coast (PADD I)	30.5	30.6	16.3	East Coast (PADD I)	60.2	61.1	37.4
NEW ENGLAND	7.7	7.3	2.5	NEW ENGLAND	10.9	10.3	3.8
MID-ATLANTIC	20.8	20.8	12.3	MID-ATLANTIC	34.7	34.9	21.7
SOUTH TO FLA.	2.1	2.4	1.5	SOUTH TO FLA.	14.6	15.9	11.9
Midwest (PADD II)	1.9	2.0	2.9	Midwest (PADD II)	31.3	31.7	31.2
Gulf Coast (PADD III)	6.9	6.4	4.1	Gulf Coast (PADD III)	43.8	42.1	31.8
Rocky Mtn. (PADD IV)	0.1	0.1	0.2	Rocky Mtn. (PADD IV)	3.1	3.2	3.2
West Coast (PADD V)	1.1	0.9	1.5	West Coast (PADD V)	11.7	11.7	12.9
U.S. Total	40.6	40.0	25.1	U.S. Total	150.0	149.7	116.6

Weather Summary

**Selected U.S. Cities
(Population Weighted Cooling Degree Days)**

The weather for the nation, as measured by population-weighted heating degree-days from Jan. 1, 2009 through June 20, 2009 has been 9 percent cooler than last year and 2 percent warmer than normal.

Location	Current	Normal	% Change
	1/1/09 thru 06/20/09	1/1/09 thru 06/20/09	Current vs. Normal
Boston	58	113	-49%
Chicago	54	149	-64%
Hartford	78	123	-37%
New York	127	179	-29%
Philadelphia	223	217	+3%
Pittsburgh	133	133	0%
Portland	20	32	-38%
Providence	53	93	-46%
Raleigh	558	214	+68%
Richmond	405	91	+29%
Washington	281	313	-10%

Sources:

Energy Information Administration, Weekly Petroleum Status Report. For information about distillate stocks, contact Diana House: 202-586-9667 or by e-mail at dhouse@eia.doe.gov.

Oil & Energy Securities Recap

Company	Symbol	6/25/09	5/20/09	Change
Ashland Inc.	ASH	27.52	27.42	+10
BP-Amoco	BP	47.32	48.20	-88
ChevronTexaco	CVX	67.20	65.79	+141
Conoco Phillips	COP	41.87	46.84	-497
ExxonMobil	XOM	69.83	70.27	-44
Global Partners	GLP	18.32	15.66	+2.66
Hess Corp.	HES	54.73	63.98	-9.25
LUKOIL	LUKOY	45.45	50.15	-4.70
Marathon Oil	MRO	29.50	30.87	-1.37
National Grid Plc	NGG	44.93	47.40	-2.47
Occidental	OXY	65.54	64.46	+1.08
Royal Dutch Shell Plc	RDSA	49.94	51.75	-1.81
Star Gas	SGU	3.39	3.44	-.05
Sun	SUN	23.84	29.64	-5.80
Tesoro Petroleum	TSO	13.08	17.61	-4.53
Total	TOT	53.67	56.48	-2.81
Valero Energy	VLO	16.64	22.00	-5.36

**THE GIVE AND TAKE OF
CAP-AND-TRADE**

POLITICIANS, CONSERVATIVE AND LIBERAL alike, have called a national cap-and-trade system implemented to regulate carbon trading potentially costly, difficult to administer and burdensome to companies and consumers. But it took one step closer to becoming reality in late June, surviving a close vote in the U.S. House of Representatives.

Passing by a mere two votes, the 1,200-plus page bill was supported by only 8 Republicans, with 44 Democrats voting against it. Constant revisions of the bill were introduced, with the final version appearing less than a full day before it was voted on. Hardly enough time for anyone to get a comprehensive understanding of the changes, let alone for a proper debate on their merits.

Home heating oil dealers may think a system like this will only impact the upstream oil producers or importers, but any costs associated with a carbon tax will inevitably be passed along to everyone, from residential customers upward.

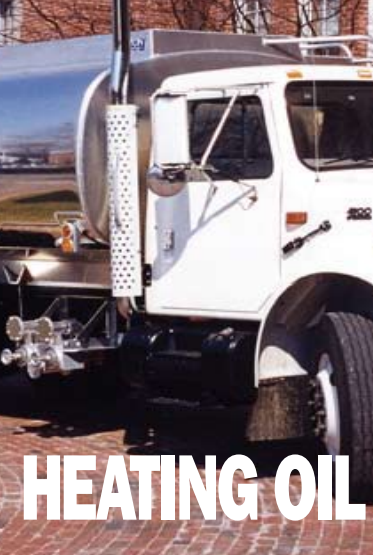
The next step is for the U.S. Senate to debate its own version of the bill. However, since a two-thirds majority is needed to prevent a filibuster, it faces a much tougher road there than it did in the House. Even though President Obama has stated that a cap-and-trade plan is his preferred method for reducing greenhouse gas emissions, there is still plenty of debate about details.

If the heating oil industry wants to have a say in the legislation, now is the time to get involved. While the utilities and other big players are negotiating for free offsets and programs are put in place to make sure the bill doesn't hurt low-income households, there will be countless homeowners and businesses across the country caught in the middle that could receive neither offsets nor aid.

In light of this economy, with small businesses bearing the brunt of tighter lending standards and reduced consumer spending, politicians may be more likely than ever to consider their plight.

Let your representatives in the House and Senate know that your business will be negatively affected by a bill that gives offsets to natural gas utilities but ignores those providing Oilheat. Make sure to mention the massive reduction in greenhouse gases that has been realized by the industry in the last 20 years with more efficient equipment, or the potential for even greater savings in the future as ultra-low sulfur biofuel blends enter the market.

This narrow decision proves that even though cap and trade might be a step closer, it's far from inevitable. ☒



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GLOBAL provides retail distributors with direct access to our Wholesale Risk Manager, in addition to our knowledgeable bank of field representatives. Led by industry veteran Bill Braunig, you can ask us for as much guidance as you judge necessary when buying oil. We can explain the mechanics of prompts, futures, options and hedging tools to protect your purchase and review your contract before you make a commitment.

In today's market, relying on the skills and expertise of a professional risk manager can provide objective, real-time advice aimed at making your buys more attuned to your specific business and customer base.

Taking on risk can have its rewards. Having an informative discussion with Global beforehand has the potential to make your transaction less risky, and thus more rewarding. We are always available to assist you.

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Wholesale Risk Manager

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