



FEATURE-Some in U.S. replace oil heat with wood stoves

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United States - By Jason Szep

BOSTON (Reuters) - It's summer in the United States, but many Americans are already fretting about winter.

Record prices for home heating oil are rippling across America's northern regions, stoking demand for wood stoves and other alternatives, and forcing some heating oil companies out of business.

In New England, which has the nation's highest rates of heating oil use, homeowners are bracing for a near doubling in the cost to fill home oil storage tanks compared with last year.

The surging cost has spread alarm among heating oil distributors, mainly small and often family-run businesses. Their profit margins already squeezed, they now face the prospect of taking on unprecedented amounts of debt to buy fuel for winter.

"It's cutting into us really deep now," said Ray Scarfo, president of Ranco Fuel, a 33-year-old family-run business in Medford, Massachusetts. "We don't even know if we'll even have a heating oil business when it comes to next winter."

Three heating oil companies have failed since March in Connecticut. Vermont is creating a task force to help residents deal with rising heating oil and gas prices, and from Maine to Minnesota authorities are warning residents to prepare for a surge in the cost of staying warm.

On July 9, the governors of Maine, Massachusetts, New Hampshire and Rhode Island called on Washington to increase the region's home heating assistance to \$1 billion from \$252 million last winter.

"This is a human catastrophe coming at us in the state of Maine in terms of energy supply and costs," Angus King, the state's former governor, told a recent alternative energy industry gathering. Maine has the highest rate of heating oil use in the nation, with about 87 percent of homes using heating oil or kerosene.

King said he expects the cost to fill a typical family's heating oil storage tank in Maine could top \$1,000 this winter, double last year's cost, following a recent spike in heating oil prices above \$4 a gallon. Other estimates put the cost at about \$800, up 60 percent from last year.

"Most people are going to have to fill up that tank six times," said King. "How is somebody who is making \$350 or \$400 a week going to pay to fill up the tank to keep warm?"

New England pays more for energy than the rest of the nation because of its reliance on fossil fuels such as oil and natural gas extracted from distant states and countries.

The Massachusetts Oilheat Council estimates that heating oil prices in New England are now around \$4.65 a gallon, up 116 percent since 2005. It expects prices to keep rising as the market tracks record-high crude oil prices.

Many homeowners are searching for alternatives to oil. Sales of wood-burning stoves -- in use since before American independence from Britain -- are brisk, even as customers don shorts and bask in summer weather outside.

"Demand for wood pellet stoves has tripled. We're pre-sold out until probably the New Year," said Tim Bushey, manager at Frost & Flame in Gorham, Maine, which sells wood stoves and stoves that burn wood pellets.

"Right now we have over 300 wood pellet stoves sold and almost 800 tons of pellets," he added.

Wood pellets are usually made from compacted sawdust. The Pellet Fuels Institute, a trade body for the U.S. wood pellet industry, said manufacturers are expanding capacity to meet growing demand.

"Could there be an unprecedented run on pellets? I don't think that's out of the question. But I think things are happening early enough in the season that certainly our manufacturers will have the ability to ramp up their production as needed," Bushey said.

GRIM ECONOMICS

The economics of the heating oil business look grim for the typical New England distributor, which supplies about 2.5 million gallons of the fuel each winter, with about 20 percent delivered in January alone.

A decade ago, when heating oil prices averaged around 50 cents a gallon, they needed just over \$1 million to buy the fuel wholesale. That was fairly easy to finance given the stability of the business during New England's harsh winters.

Now, to buy the same 2.5 million gallons at current prices of more than \$4 a gallon, the cost is 10 times higher at about \$10 million, a significantly harder amount to borrow. For some, their entire business is not worth that much, making it difficult to produce the collateral needed to secure a loan.

The weakening economy also means customers are taking longer to pay bills, further straining cash flow.

"Quite simply, their wholesale costs are outpacing their credit lines," said Matt Cota, executive director of the Vermont Fuel Dealers Association, which represents 125 companies in Vermont, where 75 percent of residents depend on deliverable liquid fuel such as kerosene and heating oil.

"Also our dealers are selling 15 to 20 percent less than they did previously as people here in Vermont supplement their heat with wood, chopping down trees in their backyard in order to do a little parlor stove," he added.

"So as a dealer you are faced with this reality: you are going to sell 15 to 20 percent less product this year yet you have to go to your banker and ask for two times more money. That's a problem," he said.

Some states fear that heating oil supplies could be disrupted if companies fail during winter, leaving families with few alternatives for heat in remote regions.

Massachusetts Sen. John Kerry and Maine Sen. Olympia Snowe have proposed legislation to allow businesses hurt by rising heating fuel costs access to "economic-injury disaster loans" at subsidized rates until they can get back on their feet.

That could help in Connecticut, where three companies that sell heating oil have gone out of business since March, said Eugene Guilford, executive director of the Independent Connecticut Petroleum Association, an industry body.

"We're going to begin meetings to determine whether it would be possible to have some state and federal resources put together to provide some additional borrowing power," he said.

Some heating oil companies are already selling solar power, wood pellets and wood-burning stoves, along with natural gas, he added, but others cannot switch business models quickly enough while costs are high.

"Diversifying your product lines means you are prepared to undertake a capital outlay. And maybe some are not in that position," he said. (Reporting by Jason Szep; Editing by Eddie Evans)