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Fuel dealers, customers caught in pre-buy squeez
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ADDISON COUNTY — By the time fuel oil hit the record high price of $147 per barrel this summer, telephones were ringing off their hooks at local fuel vendors' offices. Customers were clamoring for "pre-buy" contracts, looking for a way to lock into a price of $4 per gallon of heating fuel or more and pay for a winter's worth of oil up front.

Now, though, fuel oil prices have dropped to under $60 per barrel this week and prices for heating fuel have fallen by 30 percent or more. With the price for No. 2 fuel oil at some local companies coming in this month at around $2.80 per gallon, those same customers are likely wishing they'd left their phones on the hooks.

But customers, it turns out, aren't the only ones who locked in at high prices this year — their vendors did, too.

"We were kind of forced into it by the customers," admitted Mike Bordeleau, the owner of Bridport-based Mike's Fuels. In July, Bordeleau was on the fence about offering pre-buy contracts — reluctant, he said, to have his own customers lock into prices that were $1.50 or $2 per gallon higher than last year.

Skyrocketing prices, though, made some customers anxious to buy early in case prices climbed even higher over the course of the winter. What's more, speculators on Wall Street — Matt Cota of the Vermont Fuel Dealers Association (VFDA) named Goldman Sachs as an example — were calling for oil prices to hit $200 a barrel, which could result in heating oil priced at $6 or $7 per gallon.

"There was a panic across the Northeast," Cota said.

So, when Bordeleau was able to offer a pre-buy contract at $3.99 a gallon, almost 20 percent of his customers — around 500 out of approximately 2,700 households — jumped at the offer.

Vermont law requires that fuel vendors sign their own contracts with wholesale suppliers within seven days of taking on a customer's pre-buy agreement. Vendors themselves must pre-buy at least 75 percent of the oil they've promised to supply to their customers within that seven-day period.

It's a law designed to protect customers in the event of a high spike in prices, Cota explained — as was the case last winter.

"This year, the opposite has happened," Cota said. "Neither (the vendor nor the customer) can get out of those contracts."

Vendors reported that while they have heard from some dissatisfied customers, most of their customers who've signed on to pre-buy contracts understand that the contract is binding.

"We locked in those high gallons, just like the customers did," said Bordeleau. "(Customers) realize that we had to lock those gallons in and there's not a lot we can do."

Bill Heffernan at Champlain Valley Heating and Plumbing in Middlebury chimed in with similar observations. Some of his customers locked into $4.06-per-gallon contracts at the end of August.

"The majority of those people seem to understand that it's a contract," Heffernan said.

Among Champlain Valley's budget plan customers, Heffernan said, more individuals have voiced dissatisfaction. These customers locked into a pre-buy plan at $4.26 per gallon. Instead of paying for their heating fuel in one lump sum, budget plan customers pay that bill over several months.

A few of these customers, he said, have threatened to stop paying their monthly bills.

**FOLLOW THE MONEY**

But Cota said that it's important for customers to realize that their local fuel vendors are not the ones reaping windfall profits as a result of yo-yoing oil prices.

"Two people made a lot of money this summer: producers and the hedge funds, the speculators," Cota said.

Bordeleau said that business has been good, but not great — and that, like consumers, his company has been cautious lately.

"We're not doing anything too extravagant here," he said.

Because "people have to heat their homes," Bordeleau said, fuel vendors will always have a market for their product. But Bordeleau, like Heffernan, said that he's definitely seeing more households make efforts to conserve energy, which does have ramifications for fuel dealers.

"Everyone is locking down with this economy," he said. "Heating oil isn't exempt from that."

**LOBBYING FOR AID**

"This economy" is the source of another concern facing small business fuel dealers — and, in part, the reason for a meeting Wednesday between a few Vermont fuel dealers, their counterparts from other New England states, and officials at the Department of the Treasury in Washington, D.C.

The meeting came after these dealers sent a letter to U.S. Treasury Secretary Henry Paulson earlier this month requesting a meeting to discuss the Economic Emergency Stabilization Act.

"The $700 billion appropriated by Congress is supposed to free up lending to small businesses and consumers to jumpstart the economy," said the VFDA in a statement on its Web site. "That isn't happening."

Cota said Tuesday that the meeting's agenda revolved primarily around discussing fuel dealers' ability to access loans in the case of a price spike or prolonged cold snap — and that dealers aren't asking for a bailout. Information on the outcome of the meeting wasn't available at press time.

Cota explained that fuel dealers have to borrow an enormous amount of money to purchase fuel from their wholesale suppliers before they can turn around and sell that, in turn, to their customers.

With restrictions on borrowing money growing tighter, Cota said that some dealers are concerned about their ability to take out short term capital loans to fill the gap between when they make their purchases and when customers pay their bills.

"When it gets cold, real cold, we can't collect money as fast as we need to deliver heating oil," Cota said.

Many dealers already used most of their credit this summer, buying high-priced futures contracts for this winter. In the case of another price spike or prolonged cold snap this winter, Cota said, "it's like maxing out our credit cards."

"We can pay them back," he continued. "We know we can pay them back. But we need to be able to extend the line of credit to make sure that all of our customers (can heat their homes)."

Right now, businesses can acquire up to $2 million in a low-interest loan guarantee through the U.S. Small Business Administration. That loan currently requires a bank to cover 25 percent of the loan, with the SBA guaranteeing 75 percent. Cota said before Wednesday's meeting that he hoped the Treasury Department would help devise a way to back the 25 percent of those loans not guaranteed by the SBA.

That fuel dealers were able to sit down this week with representatives at the Treasury was significant, Cota said — as was the support of Rep. Peter Welch, D-Vt., Sen. Bernie Sanders, I-Vt., and the several state lawmakers who voiced support for the proposed meeting.

"We're emboldened by that," Cota said on Tuesday. "We're very happy that we're actually going to have that meeting."

Because the bulk of the country's heating oil is used in New England, Cota said, and distributed by small businesses — "companies where the name on the side of the truck is the name of the guy in the truck" — fuel vendors typically aren't at the top of the line for most lawmakers in Washington.

But he stressed that many other small businesses are facing similar problems.

"We're not saying anything that the small businesses across the country aren't saying," Cota said. "However, we're saying it with a little more urgency. We can't wait until springtime. We can't wait until things turn around. We need immediate action."

Bordeleau, for one, said that he was very supportive of the fuel dealers' effort to lobby the Treasury Department for some loan guarantees.

"I think it's a great idea," he said. "It's a way for us to help the consumer through these times. We know that people are strapped. They want to pay their bill, they just can't pay it all at once with these high costs."



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