

Heating Oil Suppliers Feel The Heat Of Rising Prices

by TOVIA SMITH

March 4, 2011

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Higher oil prices are not just taking a toll on consumers; they are also wreaking havoc on home heating oil suppliers. Especially for small family-owned businesses, buying oil has become a high-stakes gamble. Dealers are grappling with the much more complex world of futures and hedges.

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RENEE MONTAGNE, host:

Since the crisis in Libya began last month, the cost of oil has spiked. Consumers are feeling the pain in everything from gas to groceries. The rapidly changing prices are also hammering the companies that deal with home heating oil. Most of these operations are small, family-owned businesses. NPR's Tovia Smith visited one in Maine and has this report.

TOVIA SMITH: Steve Giroux's grandfather Wilfred founded Giroux Energy in 1959, and it's been operating in Portland, Maine ever since. But this is not his grandfather's oil company.

Mr. STEVE GIROUX (Giroux Energy): Not even close. Those days are long gone.

SMITH: Back when the price of oil was as predictable as the price of bread, being an oil dealer was all about deliveries.

Mr. GIROUX: These guys were truckers back in the day and they just happened to be delivering oil. You know, they weren't thinking about economics and financials.

(Soundbite of typing)

SMITH: These days, Steve Giroux sits at his desk, eyes glued to the real-time oil prices flashing on his computer screen.

Mr. GIROUX: Oh, it just moved again.

SMITH: With the market now swinging more in a day than it used to in a year, oil dealers like Giroux are left trying to duck and weave like guys on Wall Street.

Mr. GIROUX: Ooh, it's gone down a little.

SMITH: Speculating, hedging and making plays for pennies that could make or break their profits.

Mr. GIROUX: I'll put a bid in right now of where I would bite.

SMITH: But Giroux ventures in cautiously. It's been 10 days since he dared to gamble on what's called a prompt, which is a kind of short-term futures contract. Even if oil prices do dip the five cents to his bid, he's only committing to buy a tiny bit of it.

Mr. GIROUX: Well, I'm just basically speculating, but you don't know, and that could go down 10 cents by 2 o'clock. You don't know.

SMITH: Inevitably, Giroux will end up kicking himself for buying too much, too little, too late or too soon.

Mr. GIROUX: Psychologically that could drive you crazy.

SMITH: Giroux spends hours cramming about the Middle East, the markets, and ways to hedge. He usually does a pre-buy program so he and customers can lock into a price in June for the following winter. Customers pay a premium for the so-called downside protection, which is like an insurance policy. But in a market this volatile, premiums are way up and Giroux says it'd be crazy to gamble now.

Mr. GIROUX: It's too risky to speculate. It's become a crap shoot. We might as well just go to a casino every day.

SMITH: But these days even the old school model of just buying on the spot is risky too.

(Soundbite of engine)

SMITH: Giroux's oil trucks, like this one, head to the terminal in south Portland two to three times a day to refill at one of about five different wholesalers.

Unidentified Man: Sixty-one to base.

Mr. GIROUX: Go ahead.

Unidentified Man: Yeah, Steve. Where are we loading at?

SMITH: With prices changing by the minute, drivers call before every refill to find out where they might save a half a cent a gallon.

Mr. GIROUX: You can load at Sprague Energy.

(Soundbite of beeping)

Unidentified Man: 10-4

SMITH: In a market this volatile, Giroux says his wholesale cost can spike even between the time he quotes a price to his retail customers and then goes to pick up the oil and deliver it. And that eats away at his profit margin that's already way thinner than people think.

Mr. GIROUX: They're buying oil. They just know the bill just came to \$800. They don't know that we're only making about \$40 out of that 800. That's mere pocket change, what we're actually netting.

SMITH: These days, collecting those \$800 is another challenge. Customers can't pay, leaving Giroux with major cash flow problems and doubts about how he makes a living.

Mr. GIROUX: Trust me. We wonder, jeez, there's got to be a better way.

SMITH: Giroux says he always wanted his kids to come work with him like he did with his dad. But now, he says, he doesn't think he'd want to do that to them.

Tovia Smith, NPR News.

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