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Heating-Oil Distributors Fear Tough Winter

By BRIAN BASKIN

NEW YORK -- The tight credit market is forcing weak links in the heating oil supply chain, from wholesale suppliers to homeowners, into the cold.

Borrowed cash infuses nearly every step of the supply networks that bring heating oil from refiners to individual homeowners and businesses. For wholesale suppliers and door-to-door distributors, loans cover the weeks or months between when fuel is purchased and when it is sold to the next step on the chain.

Most companies managed to secure fresh loans to carry them into winter, despite the global credit crisis that has made it difficult for even solid businesses to borrow. But evidence is emerging that not every company succeeded.

"A lot are starting to bounce checks," said a trader at a wholesale heating oil supplier, who requested anonymity to protect the supplier's standing in the physical fuel market. "Credit lines are definitely strained."

In the Northeast U.S., heating oil's biggest market, hundreds of dealers, ranging from single-truck operations to publicly traded corporations, bring the fuel to customers.

The fractured system, which stretches back decades and includes many multigenerational family owners, connects into a global market through the heating-oil futures contract on the New York Mercantile Exchange, which in turn acts as a global benchmark for other products, including diesel and jet fuel.

The credit market severely contracted in September, as major banks failed or required rescue after heavy losses in mortgage-backed securities. Remaining lenders have become more choosy about who they allow to borrow, presenting both small and large dealers with new challenges even as prices fall.

"It's a changing industry, and there will be somewhat of a shakeout," said Michael Ferrante, president of the Massachusetts Oilheat Council, a trade group.

"Some [distributors] will not be here at the end of winter."

Scaling Back

Companies that weren't able to secure additional credit have had to scale back. Castle Oil Corp., a large distributor that also owns a heating oil storage terminal in the Bronx, had an operator of a mid-sized fleet of fuel trucks recently scale back orders for the winter due to an inability to secure a large enough credit line, said Paul Conley, Castle Oil's chief financial officer.

"The customer intended to ... sell fewer gallons and try to sell them smarter to customers that are going to pay," said Mr. Conley, who declined to name the company. "They don't want to run out of [credit] lines in the middle of winter."

Heating oil distributors across the Northeast said they expect the tight credit market to weed out troubled competitors, a group that could include up to 20% of the companies, said Ken Williams, president of Scott-Williams Inc., a distributor in Quincy, Mass.

"Creditors are just being more picky, and if you don't have a strong balance sheet, you're not going to get it," Mr. Williams said.

Banks continue to lend to distributors, however, and balance sheets are looking better than they did just three months ago, when record heating oil prices had the industry staring down disaster. Prices began to rise last winter, leading to an increase in customers who skipped payments or defaulted entirely. That made it difficult for distributors to predict cash flow from month to month, which complicated credit applications with banks and wholesale suppliers.

Banks demanded that distributors purge their rolls of risky customers, which has angered some consumers but left heating oil companies in better financial shape. When energy prices continued to rise into the summer, many heating oil distributors applied for extensions to their credit lines to pay for more-expensive inventories. Now that prices have fallen back, many distributors have more credit available than they need.

"Last year [credit] kind of caused some problems because oil was running from \$2 to \$4 a gallon," said Kathy Newcomb, who operates two trucks in the Albany, N.Y., area. "We upped our credit line. Hopefully if it stays like this, then we're fine."

Relapse Possible

Distributors could quickly see hard-won financial stability, and available credit, crumble again this winter.

The weak economy has pushed heating oil prices lower along with other types of fuel and crude oil. While heating oil distributors usually welcome lower fuel

prices, a recession would again make it more difficult to predict which customers would be able to pay.

"The jury is still out on where the consumer is going to be; it's a big concern right now," said Andrew Heaney, president of Heat USA, a New York group that buys heating oil in bulk on behalf of consumers.

Heating oil prices are also not guaranteed to continue falling. Residential heating oil cost \$3.23 a gallon in the week ended Oct. 20, 12% less than it did at the start of the month, according to the Department of Energy. That price is still 35.7 cents higher than a year earlier, even after heating oil futures dropped by nearly 50% over the last three months.

Inventories are about 25% lower on the East Coast than they have been in recent years, increasing the likelihood of regional shortages and sharply higher prices in a cold snap.

"It seems to me if there was the smallest hiccup we'd see a price spike," said Steve McGrath, chief financial officer at Downeast Energy & Building Supply, which distributes heating oil to 40,000 customers in Maine and New Hampshire.

—Rose Marton contributed to this article.

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