

**Testimony of
Ms. Sandra Farrell
Owner, Northboro Oil Co.**

**Before the
United States Senate Committee on
Small Business & Entrepreneurship:
“Examining Solutions to Cope with the Rise in Home Heating Oil Prices”**

**Washington, DC
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Honorable Chairman Kerry, Ranking Member Snowe and distinguished members of the committee, my name is Sandra Farrell, and I am the owner of Northboro Oil Co. located in Northborough Massachusetts. I sincerely thank you for the opportunity to speak before you today on the very hard issues facing small retail heating oil dealers. Unfortunately, time will not permit me to speak to all of the issues we as small business owners are currently facing, but I will do my best to illuminate what I can. This is a subject that is close to me, and I am honored to be given the opportunity to speak to you all today.

Northboro Oil is fairly typical of other fuel oil dealers in that we are a multi-generational family owned business. My family has owned and operated Northboro Oil since January of 1953. This is our 55th year in business. We are a relatively small operation. We deliver approximately two million gallons of fuel oil and diesel fuel every year, service 2400 customers and employ twelve people, nine full-time and 3 part-time. We are a full-service provider, so in addition to delivering fuel oil, we provide emergency service as well as heating system installations, equipment upgrades and air conditioning. 24 hours a day, seven days a week, 365 days a year- we are always open for business.

Those of us in the fuel oil business have seen our share of hardship over the years, challenges brought on by any number of reasons. For example, during the oil embargo in the 1970's we saw high prices due to a lack of supply. But today, our businesses are being threatened not by supply shortages, but by the sheer price of the product. The current price of product is unpredictable and severely volatile. Every day we face increases in the price of fuel, historically high accounts receivables, insufficient lines of credit, shrinking margins due to higher costs of operations and angry customers who believe the small oil dealers like us are raking in the same obscene profits as the “big oil” companies. As a small business owner, it pains me to see my customers suffer and not be able to do more to help.

In my view, the greatest challenge facing fuel oil dealers today is the burden of staggering accounts receivables. The cost of carrying these receivables is enormous, especially if you have had to access a line of credit. I will use my own company, Northboro Oil, as an example. At the end of February 2006 my total receivables were

\$618,136.28 as compared to February 2007 when they were \$774,745.27. In February of 2008, my accounts receivables totaled \$918,749.42. In just two years time my receivables have increased by \$300,000.00, just under 30%. Let me try and put this number in perspective. At the end of my heating year, which is May 31st, receivables for the three previously mentioned years were \$441,056.26, \$535,208.88 and \$706,524.30 respectively. This heating year, as of June 20th my receivables are still at \$516,000.00. Compare that to the amount of money I have coming in. Last week I had one deposit of \$4000.00, and another for \$9000.00. My customers are not paying their bills. Pair that with the fact that my suppliers require payment from us within 10 days, and you have an equation that does not add up. Supplier payments are electronically withdrawn from our accounts. Should a payment issue ever occur where the amount in our account was insufficient to cover the cost of the product we purchased ten days earlier, you can be sure that our suppliers would immediately shut us off. We will struggle for the rest of the summer and into the fall trying to collect this money. But remember, the receivable figures I gave are based on last year's heating oil prices when one half of my customers were at a fixed price of \$2.799, and the other half paid a daily rate averaging \$3.50 per gallon. Today's rate for home heating oil is \$4.599. If a percentage of my customers could not pay last year's bill, how are they possibly going to pay this year's? And how are we, the fuel oil dealers, expected to carry this financial burden? If prices stay where they are today, or worse, if they increase, our receivables will be unthinkable. Many of us dealers could lose our businesses.

Another area of great concern for us is the high costs and risks of hedging that are associated with the implementation of price protection plans. Historically oil was delivered at the daily market rate. This worked well when fuel prices were stable, but as the price of oil became more volatile, consumer need spawned the introduction of price protection programs. These programs are created by purchasing oil futures contracts over the course of the winter months, adding our margin to that future rate, and offering a fixed rate. When the price of oil rises above the fixed ceiling price, the customer is happy because they feel they are getting a deal. But when the price runs lower than the fixed ceiling, the customer feels cheated. Unhappy customers in this business usually mean lost revenue, and if a customer abandons the program, the dealer is left holding the bill. Hedging would typically protect us from this type of risk. A while back it cost a dealer about 2 cents per gallon to protect against the cost of oil exceeding the cap price of a customer contract. But as the price of oil rose, so did the cost of hedging. Two years ago hedging insurance cost 18 cents per gallon. I was forced to start charging customers for the program. Last year the prices were so volatile, I hired a hedging company to create a program covering 1,000,000 gallons. It cost me \$170,000. To create the same program this year with the increased cost of fuel and risk in the market would cost a minimum of \$400,000. Needless to say I can not afford to do the program this year, and it is my customers who will suffer.

Day-to-day operating costs have also substantially increased. I hire a hauling company to transport oil from Boston to my bulk plant in Northborough approximately 35 miles. In October 2006 my hauling fee for a 10,000 gallon delivery was .0385 per gallon or \$385.00 per load. At that time there was a 20% fuel surcharge applied for an additional

\$77.00 per load. So my costs rose from \$.0385 per gallon to \$.046 per gallon. In October 2006 my fee remained .0385 per gallon but with a 25% fuel surcharge for an additional \$96.25 per load or \$.048 per gallon. In April 2008 the fuel surcharge was 35% or \$134.75 per load, \$.052 per gallon. In May 2008 my surcharge was 42% or \$161.70 per load, \$.055 per gallon. This current fuel surcharge adds up to an extra \$32,340.00 per year for hauling costs alone.

The cost of transportation diesel hurts too. My company has 4 fuel oil delivery trucks which traveled a total 23, 638 miles last heating year. In June 2007 our retail price for diesel fuel was \$2.889. At an estimated five miles per gallon fuel costs are \$13,656.30. In June 2008 our retail price for diesel fuel is \$4.929. At an estimated five miles per gallon costs are \$23,299.38. That's an approximate increase of \$9,643.08 per year for fuel delivery costs, and I am not even including the eight service vans we have on the road every day.

Other overhead costs that are of great concern are the fees associated with credit card transactions. Unfortunately credit cards are a reality in our collection efforts, and the additional squeeze they are putting on our already tight margins are burdensome. Last year a typical delivery of \$502.00 at a MasterCard rate of 2.2% came to \$11.29. Currently that same delivery is \$847.00 at 2.2% is \$19.00.

Finally, I must speak to the impact the high price of oil is having on my relationships with my customers. These people that I deal with every day are resigned, angry and frightened. The customers who are resigned just figure this is what it is. They don't like it but they will manage to pay it somehow. The angry customers are just that, angry. Some of them will call and rant and rave but then apologize because they know it is not us controlling the price. Others have accused us of being sneaky, holding their delivery ticket on purpose to deliver at a higher price. Still others are closing their accounts and going to our competitors or threatening to convert to natural gas. The frightened customers are just downright scared. They may be elderly on a fixed income or have a young family and already working as hard as they can. They have nothing to spare now, never mind next winter when the prices are even higher. Last year a typical delivery was \$500.00. This year it will be at least \$850.00. It is very tough looking into the eyes of these customers when they ask me what I think they should do. I don't know what to tell them. For the first time I think some of my customers are going to have to choose between main essentials like groceries, gasoline, warm clothes and heating oil just to pay their bills. Even though oil heat dealers run businesses, we are human and so are our customers. Many of them have known me since the day I was born. Sometimes the lines start to blur between being a business and a social service agency. It is painful to have to tell someone when the temperature outside is below zero that we cannot deliver to them because they have no money. I have made so many exceptions, but if I make too many more, the business won't survive.

In summation, small retail Oilheat dealers are being squeezed from all directions. I have gotten to know and work with many dealers from around New England and I can tell you that I have never met more honest, hard working, family oriented individuals anywhere.

They truly care for their customers. Many of us are already in trouble and more will be if the current situation continues. As one dealer recently said to me, “If I go out of business I will probably be alright, but what about my niece and nephew. This is all they know.”

Thank you, everyone, for listening to me today. I am proud to have been chosen to tell this story. I hope I have made an impression on you today.

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