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To: Kim Smith

From: Bob Takvorian

I apologize for not making the meeting on Friday. I am submitting this memo as my opinion on how we see the upcoming winter season.

The market is structured in what is called a “carry” or “contango”. Under this structure it pays to place inventory into storage today for sale in the future winter months. As such most of the Northeast’s heating oil, diesel and kerosene inventories are being filled. Therefore we expect the industry to have plenty of inventory coming into the winter season. We foresee no problems with production, supply or shipping.

This year has been one of product changes with the use of Ethanol for gasoline blending in most NE states and the move towards ultra low sulfur diesel and kerosene in the months ahead. The supply of diesel and kerosene would be impacted if there is a lot of contamination as a result of handling. Contamination would result in downgrading to heating oil. This would increase the heating oil supply but reduce the diesel and kerosene supply. However we expect that shippers will have their policies in place to prevent such contamination from occurring.

With supplies expected to be in good shape this then leaves price. The problem here is that the price of petroleum is no longer impacted solely by supply and demand. The uncertainty of world politics and random acts of terrorism also play an important role. Both of these areas are unstable. Therefore prices will be unstable and volatile. The hype has already started over the possibility of another bad hurricane season which will create price spikes. We expect that prices will mirror last winter. If stability occurs in the world and crude production isn’t threatened then we could see a decline in prices. It is a very big IF.

Another area is in the need for higher credit lines. The higher cost of product requires dealers to have larger credit lines which in most instances can’t be provided without security. This is an area where the state can help by getting banks to setup special seasonal lines of credit for petroleum retailers. The credit crunch could be a significant issue if the price of product keeps escalating as margins have not improved and operating costs keep rising.

Please contact me at 603-559-8841 if you have any questions.