

NORA

A N N U A L R E P O R T Y E A R 2 0 0 1

T H E A D V E N T O F C L E A R B U R N S C I E N C E TM



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TM

Chairman's Letter



DREAMS DO COME TRUE. It was early in March of 1995 at the Brookhaven National Laboratory forum that Jack Sullivan, Executive Vice President of the New England Fuel Institute strode toward the podium to present a paper on his assigned topic. Somewhere between the steps leading to the podium and his arrival at the microphone a miraculous transition occurred.

Jack discarded his prepared text and began to speak extemporaneously. With fervor and conviction, he berated the heating oil industry for its pessimism, its doom and gloom attitude and its general apathy. He proceeded to describe a vision of what the heating oil industry's future might be — if only a concerted effort by dedicated dealers was possible.

He stressed the need for a sustained research and development program appropriately funded and structured over a long period of time. He proposed a training effort to improve service to consumers. Jack then emphasized the need to communicate to heating customers and the public all the benefits of Oilheat and its positive attributes that benefit the entire economic community.

His audience was rather stunned and surprised at first. But as his words penetrated their minds, many began to feel that Jack's vision was the necessary and appropriate one.

Jack emphasized that only with appropriate and sustained funding would such a program be possible. He described a “check off” program for the propane industry then before Congress and went on to describe other agricultural “check offs” already in existence. He felt that now was the time for Oilheat to aim for a “check off” program of its own that would accomplish the stated goals and sustain them for the future.

Subsequent to Brookhaven, John Santa organized a small group of dealers and association executives who formed an ad hoc committee to pursue the feasibility of such a “check off” program. The group raised the seed money, hired a legal firm, and started down the long road to make NORA a functioning reality.

I will not recite the ups and downs, the mountains climbed, the pitfalls evaded, nor the disappointments endured. Let me just say that hundreds of members of the heating oil industry cooperating and working continually for five years brought NORA to life in October of 2000. Since that time a dedicated Board of Directors and officers, a hard working president and his able committee chairpersons have begun to fulfill Jack Sullivan's vision.

The effort to attract builders of new housing will produce a new residential demand, more so for larger custom built residences and where natural gas is not available. As training of service technicians expands to produce HVAC experts, the ability to be involved in four season pursuits should create new profit centers. I also see commercial growth for heating oil, especially as more natural gas supplies are directed to utilities for power generation.

The attainment of a constructive energy policy that promotes conservation and lowers costs through efficiency is possible by providing high quality heating oil used in “Clearburn Science” equipment. I am certain that the vision of sustaining and growing our consumer base will be a reality, the magnitude of which we only can dream. Because of NORA, you, the marketers of heating oil, will be able to take advantage of every opportunity presented, and as a group create opportunities that some never thought possible.

THE VISION CAN BE A REALITY. IT'S UP TO YOU.

Robert Greenes, Chairman, National Oilheat Research Alliance



One year of



History is marked for the Oilheat industry at 10:14 AM on February 6, 2001 at the offices of Patton Boggs, LLP, Washington, DC. The first meeting of the National Oilheat Research Alliance, Inc. is called to order by Robert Greenes, President of the National Association for Oilheat Research and Education (NAORE), which is the qualified sponsoring organization behind the National Oilheat Research Alliance (NORA).

The Board of Directors approves NORA officers.
President: John Huber
Chairman: Robert Greenes, Scarsdale, NY
First Vice Chairman: Don Allen, E.T. Lawson Co., Hampton, VA
Second Vice Chairman: Peter Carini, Champion Energy, Greenwich, CT
Secretary: Jack Sullivan, New England Fuel Institute, Watertown, MA
Treasurer: John Maniscalco, New York Oil Heating Association

In addition to officers, the following are appointed to the Executive Committee:
John Beckett, Beckett Corporation
Robert Boltz, Vincent R. Boltz Co.
Michael Hopsicker, Agway Energy Products
John Fuquay, Berico Fuels
Jim Pierson, J.W. Pierson Co.
John Santa, Santa Fuels
Irik Sevin, PETRO
Richard Slifka, Global Companies, LLC
Doug Woosnam, SICO Company

Michael Hopsicker, Chairman of the Collections Committee, indicates that compliance with collections procedure is strong and program is viable.

CONSUMER EDUCATION
Fallon New York chosen as agency of record to create major consumer information effort via TV and radio. Ipsos-NPD hired to conduct market research.



Indiana authorized to change from a wholesale system to a retail system for collections.

Every state voting in the referendum voted in favor of the NORA program. Results from a 22 state referendum in which industry wholesale suppliers voted 99.52% in favor of the creation of the Alliance; retailers voted to approve the formation of NORA by a percentage of 97.38%.



Assessment of the Oilheat industry by NORA on dyed heating oil fuels destined for end use heating consumption effective as of March 1, 2001.



EDUCATION AND TRAINING
Nationwide Oilheat technician Silver/Gold certification program transferred from PMAA to NORA. NORA Education Center is established to manage this function. Creation of a newly revised and updated basic training manual for Oilheat technicians is authorized. Training videos planned.

Education and Needs Analysis for the service operations segment of the Oilheat industry is funded. Oilheat trade magazines to assist.

WINTER 2001

SPRING / SUMMER 2001

of progress.



NORA provides the link from refined product science to modern Oilheat technology for the ultimate benefit of heating consumers.

NORA works with the National Association of Oil Heating Service Managers (NAOHSM) on "Careers in Oilheat;" assists in distribution of over 14,000 introductory CDs to fuel marketers and classrooms around the country.



NORA President John Huber reports NORA is performing in accordance with expectations. Although only two collection cycles had been completed, collections are on schedule.

RESEARCH AND DEVELOPMENT
Bob Hedden reports on short term projects designed to make Oilheat cleaner, reduce service intervals, and cut costs for operating a service department.

NORA to fund evaluation of lower sulfur levels in fuel and study causes of no heat callbacks.

Doug Woosnam advises on relationship with Department of Energy. Preparation of Oilheat Roadmap underway.

RESEARCH AND DEVELOPMENT
Fuel Performance Test Development and field studies are authorized, aimed at improving Oilheat performance and reducing heating equipment service costs by studying fuel quality. Analysis of systematic fuel property changes as fuel passes through the supply chain and the heating season is to be a focal point of study.



NORA to direct at least 85% percent of all funds collected to the state of their origin. Under the enabling legislation, at least 15% of funds collected in a state shall be available to the qualified state association. State grants submitted to NORA for review and funding are affirmed at June 2001 Board meeting.

NORA imposes fees on dyed kerosene used for heating, effective October 1, 2001.

A Resource Directory for Oilheat Training is issued. (Available at www.noraed.org.)

FALL 2001

WINTER 2002

to build on... and grow!

BUILD WITH OIL Program receives NORA grant for initiative to enhance marketability of Oilheat to builder audience. International Builders Show, Atlanta, February 2002 employs its first ever "Oilheat" model home.



NORA industry website established at www.nora-oilheat.org



NORA joins Brookhaven National Laboratory, New England Fuel Institute and Petroleum Marketers Association of America to sponsor the inaugural "Oilheat Visions" Conference slated for August 2002 in Providence, RI.

NORA Education Center commences operations for Oilheat Technician Certification; launches website at www.noraed.org.



"CLEARBURN SCIENCE" makes its debut in Oilheat marketplaces across the country.

NORA EDUCATION AND TRAINING to establish project collaboration with the Consumer Energy Council of America (CECA), a public policy organization that focuses on industries that provide essential consumer services. Effort aimed at creating tools for stronger alliances among Oilheat dealers and consumer and builder sectors.



RESEARCH AND DEVELOPMENT NORA establishes the National Oilheat Research Institute (NORI) as a non-profit affiliate to focus solely on Oilheat industry R&D. NORI to enhance prospects for R&D alliances with other organizations such as university departments and attract co-funding, including government grants.



WINTER 2002

SPRING 2002

President's Report



I AM VERY PLEASED to report on the National Oilheat Research Alliance's first year of operations. The purposes of NORA are established by law and NORA began accomplishing those goals almost immediately. Delivering value, and delivering value quickly have been the primary operating procedures for NORA and its Board.

In the one year that we have been in business, we have made great strides in each of the operational areas that NORA is responsible for. The finances are healthy and have met or exceeded expectations to date. It is clear that the system that NORA developed for collections is working very well.

Our three primary operational areas are consumer education, research and development and education and training. This report contains in-depth reports on each of these areas. Each of these reports summarizes the work of hundreds of volunteers who have contributed their time and energy to ensure that the NORA funds are used wisely for the benefit of the industry.

As NORA developed a management plan for the early years, it became very clear that a strong consumer education campaign was essential to the success of the industry. This was validated through a workshop to discuss technological developments, where the consensus was that without an improved image, new technology would not be forthcoming.

To restore and improve Oilheat's image is important for a number of reasons. First, for homeowners with an Oilheat system, a bad public image may affect the value of their home. Second, a strong positive image may encourage the consumer to invest in improved products that will increase the efficiency of their home and save money. Our market research illustrated the need to educate the public to the improvements that have been made in Oilheat, particularly how much cleaner it has become within the last decade.

Our consumer education campaign began in 2002 by creating a new motto for the Oilheat industry, "Clearburn Science," and began exposing consumers to the new modern, efficient equipment now available and being installed.

The research and development program conducted the first ever downstream study of fuel related problems. Perhaps no issue has been more vexing to the industry than disrupted consumer service resulting from fuel problems. NORA has acquired extensive information on this issue and will issue a report in midsummer 2002 detailing the best way to avoid fuel related problems.

Working closely with the Department of Energy, the industry has also established a roadmap for resolving the issues that are hampering the growth of the industry. NORA will be funding many of these identified projects to lay the foundation for growth.

In the education and training arena, a new manual for technician training is nearing completion. This manual will be up to date, readable and an invaluable resource to Oilheat businesses. NORA is also producing several video tapes which will help dealers deliver necessary training to their employees.

Perhaps most importantly, through our collective efforts, NORA has established a positive atmosphere throughout our industry. Our common goals are larger than ever before, and the enthusiasm is higher. Together, we are working to establish a strong future for the professionals that work in the industry and to ensure we have a better product for our customers.

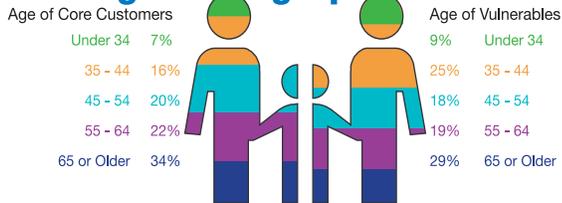


John Huber, President, National Oilheat Research Alliance

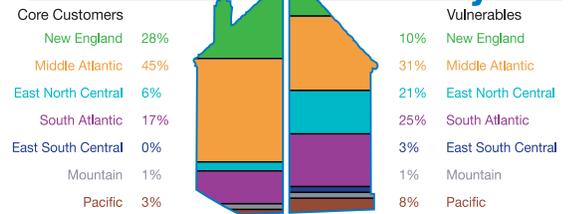
Research sows the s

Through focus groups, consumer surveys, and an extensive benchmark study that was conducted in all NORA states, Ipsos-NPD was able to quantify and qualify factors that influence consumer decision making with respect to heating choices. (The full Ipsos study can be obtained by request to info@nora-oilheat.org.)

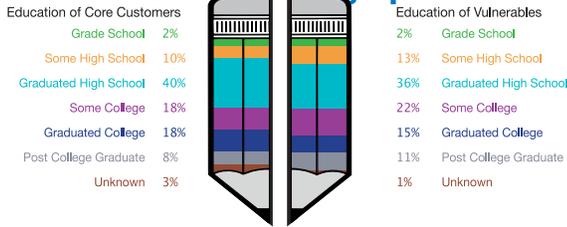
Age Demographics



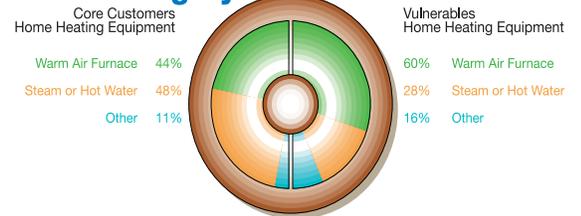
Customers — Where They Live



Education Demographics



Heating System Preferences



Factors That Drive Vulnerability

Cause Switching



Prevent Switching/Build Loyalty



Father's obsession with cleanliness mandates an Oilheat home, as explained to his daughter and her boyfriend, his son, and eventually his neighbors, in a series of clever TV and radio spots created by the Fallon New York agency to launch and drive home the concept of "Clearburn Science."



seeds for education...

Introducing Clearburn Science™

The consumer education program sponsored by the National Oilheat Research Alliance brings a new term to the forefront of the Oilheat industry — “Clearburn Science.” This is the primary thrust for the introductory TV and radio information campaign and can serve Oilheat well into the future.

The concept is designed to serve as an umbrella for the actions and activities occurring in Oilheat, to recognize the achievements in technology, improvements in fuel, and improved service. It also describes a commitment by the industry to carry these achievements forward with ongoing improvements in technology, and thus products.

The Oilheat industry is a composite of three major branches, the fuel that is consumed in producing domestic hot water and space heating, the technology that burns and transfers the heat for the comfort of the inhabitants, and the people who combine the fuel and the technology and provide outstanding service to their customers.

Clearburn Science recognizes the improvements in the fuel, particularly the reduced sulfur content which reduces emissions, extends the longevity of the customer’s heating equipment, and reduces services costs.

Clearburn Science reflects this steady improvement in fuel, and the industry’s commitment to new and improved fuels.

As the fuel has improved, so has the technology to utilize the fuel. Some thirty years ago the average oil heated home burned nearly 1300 gallons of oil per year, while today’s homes are burning approximately 800 gallons per year. This leap in efficiency demonstrates that Oilheat equipment has met, and continues to meet, the comfort and economic demands of the consumer marketplace. Additionally, new technologies are emerging which aim to make the fuel usable in different applications.

Advances in combustion technology have likewise reduced the environmental impact of No. 2 oil-fired emissions by a significant margin.

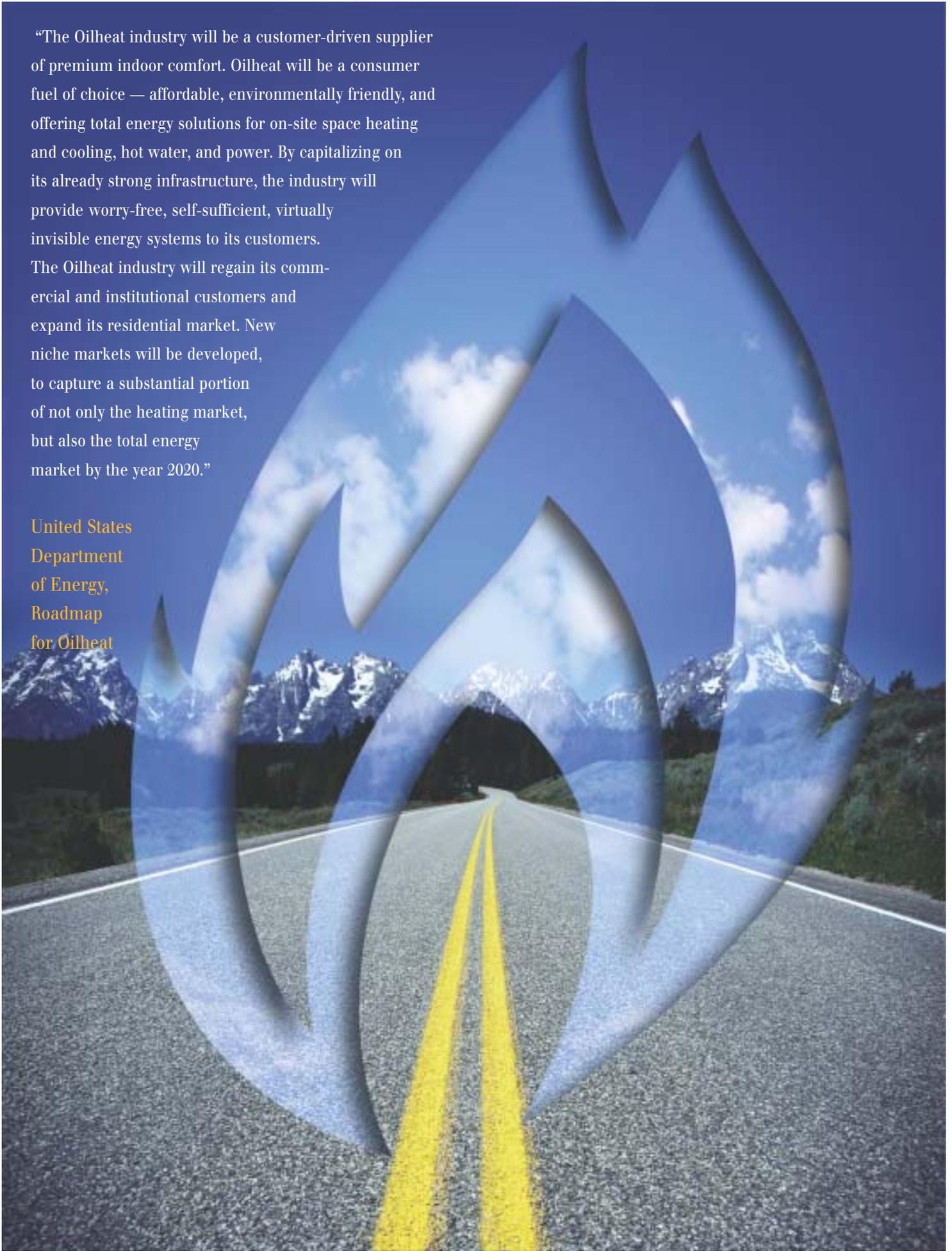
“Clearburn Science” is a tribute in motto form to the employees that work in the Oilheat industry. It represents a commitment to ensuring customer access to innovations. It represents training and professionalism throughout the field. In summary, Clearburn Science is a recognition of past achievements, with the promise of a constantly improving future.

While recognizing the Oilheat industry has been winning over customers in their neighborhoods through personal service, the Fallon agency is acutely aware of attrition due to competing fuels — and an image problem — identified by the Ipsos research and consumer focus groups. This led Fallon to focus on the vast improvements in cleanliness, efficiency and cost effectiveness, and the continuing R&D undertaken by the Oilheat industry over the last decade. Hence, the “Clearburn Science” marketing theme.



“The Oilheat industry will be a customer-driven supplier of premium indoor comfort. Oilheat will be a consumer fuel of choice — affordable, environmentally friendly, and offering total energy solutions for on-site space heating and cooling, hot water, and power. By capitalizing on its already strong infrastructure, the industry will provide worry-free, self-sufficient, virtually invisible energy systems to its customers. The Oilheat industry will regain its commercial and institutional customers and expand its residential market. New niche markets will be developed, to capture a substantial portion of not only the heating market, but also the total energy market by the year 2020.”

United States
Department
of Energy,
Roadmap
for Oilheat



to advance Oilheat.

Creating a Roadmap for the Future

The Oilheat industry, under NORA auspices, has forged a strategic partnership with the U.S. Department of Energy (DOE) and Brookhaven National Laboratory (BNL) to create the Oilheat Industry Roadmap, a series of specific action items with the ultimate goal of regaining market share and making Oilheat a fuel of choice.

The rationale behind a “roadmap” arises from the Oilheat industry’s preferred position. It markets a commodity over which it has limited control of the sources, quality, price and availability. Yet the industry has managed to be a clean, cost-efficient supplier of premium indoor comfort to over 10 million homes in the United States.

The roadmap provides a framework for recognizing public and private partnerships that seek to address these challenges through a set of specific actions.

The process to develop the document began with a workshop held at BNL in August 2001, and later at a more extensive workshop held at the University of Maryland. Oilheat dealers, researchers, equipment manufacturers, and other stakeholders considered the most critical regulatory, institutional, and technological issues affecting the future of Oilheat in order to create a visionary roadmap for the future.

The Oilheat Industry Roadmap consists of a series of specific actions in three areas:

- **improving fuel quality and performance;**
- **enhancing equipment and service; and**
- **expanding markets and applications.**

A synopsis of topics within each of these subject areas follows along with remarks about companion NORA action to date.

Fuel Quality and Performance

Critical to the advancement of Clearburn Science are the combustion properties of distillate fuels and how the industry transports, stores, and eventually uses the fuel in heating appliances.

A major NORA initiative assigned by the R&D committee is the Fuel Performance Project now underway. Project objectives are:

1. Detailed assessment of winter fuel performance with select Oilheat retailers. As of April 2002 over 65,000 service histories in nine selected Oilheat companies were being examined in an effort to determine causes behind fuel related service calls.

2. Sampling analysis of fuel quality in the field. The effort is to evaluate the condition of fuel from disparate sources: one with typical approaches to fuel delivery; one that has aggressively pursued performance improvement for 10 years; and another that markets low sulfur diesel fuel (with additive) as heating oil. (Sponsored in part by NORA, conducted by BNL, with detailed analysis by OCTEL Starreon’s research labs.)

Field sampling of heating oil under a BNL field study sponsored in part by NORA R&D grant.





Dr. Klaus Lucka, OWI Research, Germany (l) and Raymond Albrecht, P.E., NYSERDA (r), review a cool flame/surface burner under study at OWI's lab. NORA recently sponsored Albrecht and Tom Butcher (BNL) to assess state-of-the-art science in Germany, where low firing rates and ultra-low sulfur fuels are the norm.



Radiation burner and closeup of premixed oil combustion under evaluation at OWI, Germany.

3. Experience of middle distillate users in Europe and companion research.

Currently, there is little or no collaboration among organizations on the progress of fuel quality research and development. Collaboration is needed to assist with the transfer of technical knowledge. Sweden and Germany, among others, have long been identified as countries in which research and development on fuel quality is highly advanced.

One step in the process is an exhaustive literature search on fuel quality R&D, including both domestic and international sources. At the conclusion of the search, a technical report would be produced to identify and characterize completed or forthcoming fuel quality research. This project is currently being undertaken by NORA.

NORA was the primary sponsor of a technical mission of Dr. Thomas Butcher (BNL) and Raymond Albrecht of the New York State Energy Research and Development Authority (NYSERDA). The two visited a German Oilheat organization similar to NORA and met with burner manufacturer Giersch. They participated in a technical conference for very low firing rate, low emission, oil burners. The German industry has made substantial progress in

implementing ultra-low (50 ppm) sulfur oil as a means to higher efficiency. Progress is also being made in developing cool combustion. (An update on the overall Fuel Performance Project will be part of the Oilheat Visions Conference in Providence, RI, August 2002.)

Additive and Performance Data

A database of additive performance data would be very helpful to the field. Baseline data that proves the performance and effects of various fuel additives would be included in a technical document to serve as a repository of information and to provide a method of tracking additive effectiveness.

Test and Develop Ultra-low Sulfur Premium Fuel Data

The Oilheat industry needs to develop ultra-low sulfur premium fuel data to be utilized for the formulation of an ideal ultra-low sulfur heating oil product. Refiners who currently produce ultra-low sulfur fuel would be asked to field test the product so that performance data is obtained (50 ppm to 15 ppm).

Developing a standard for premium high quality fuel that refiners could feasibly produce and supply would logically follow.

Develop Fuel Storage System Protocols

A detailed assessment should be made on end user and wholesale storage capacity to assess how much capacity is available and the quality of storage in use.

Tank technology needs to be evaluated starting with research on the economics of plastic or other components vs. steel tanks. Oil tanks that are in compact shapes and sizes that fit more easily into residences and buildings should be developed and field-tested. New protocols can address improved installation, repair and maintenance of fuel storage systems.

Define a Standard for Premium High Quality Fuel

The next step is developing a standard for premium high quality fuel. The final product of this action would be publication of a paper designed to convince dealers of the merits of a premium high quality fuel — one that would lead refiners to produce a uniform, high quality heating oil. This document would be written for dealers and refiners, published in appropriate journals, and distributed at meetings and workshops.

Ideally, a high quality standard would arise for premium fuel that would meet with broad compliance.

A concerted effort is in order here to encourage opportunities at all levels for an eventual transition to low-sulfur oil. Ideally, the capacity to market a physical low sulfur fuel should be acted upon in hope of achieving a 50 percent market penetration within several years.

Biodiesel Fuel

Biodiesel is manufactured from vegetable oils, recycled cooking grease, or animal fats. The fuel mixed with heating oil in residential and commercial boilers may offer new market opportunities for the Oilheat industry.

Sulfur reductions will result in lower maintenance costs through less corrosion and fouling of heat exchangers. Also, biodiesel can be produced domestically, separating supply and pricing from the petroleum industry.

However, biodiesel performance and its applications need further research. Topics of investigation include cold storage, ratio of

biodiesel to Oilheat blends for maximum fuel efficiency, and identification of possible problems related to biodiesel use.

Implement Low-Sulfur Fuel as Standard

Many equipment and service problems are related to fouling of heat exchangers due to the buildup of iron sulfate scale deposits.

Iron sulfate scale is caused when sulfuric

acid condenses on heat exchanger surfaces below the dew point temperature of the systems. Sulfuric acid results from reactions caused during heating oil combustion.

The average sulfur content of residential heating oil is 0.25% by weight, while low-sulfur fuel (0.05%) is mandated for highway diesel. Lowering the sulfur levels of residential heating oil could elimi-

nate 80% of SO₂ emissions from systems according to recent BNL estimates.

Lower the Total Cost of an Oilheat System

Lowering the cost of high efficiency systems is important for greater market share. One aim is to establish a target for a competitive, installed system cost by comparing installation costs of other heating options.

By determining system cost — broken down by its individual components — areas that need the most improvement will be obvious. Performance numbers and individual component costs can provide manufacturers direction in lowering total installation cost. Additional analysis is needed on existing data and field studies that will result in development of algorithms for firing rates, oversized equipment, etc., that the Oilheat industry can

A premium low-sulfur oil offers many benefits to workers in the oil business as well as to customers. Premium low-sulfur oil facilitates a dealer's work through enhanced cleanliness and extended service-free intervals for equipment; this ultimately leads to better customer relations and retention.



Biofuels based on blends of soybean oils, or other agricultural oils and No. 2 heating oil offer clearburn promise for the future. Several field studies are underway, including projects undertaken by NYSERDA and Global Companies, LLC. (Photos courtesy of the National Biodiesel Fuels Board.)

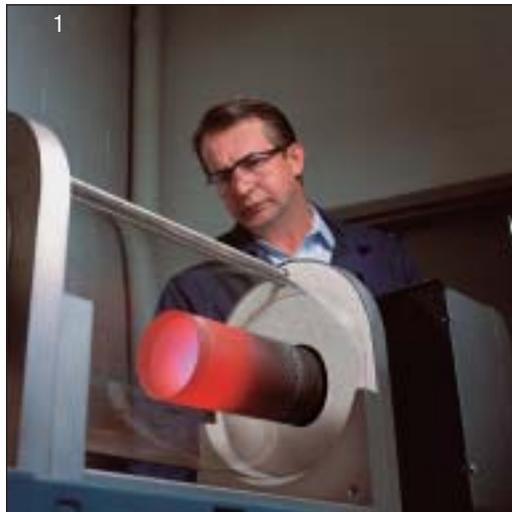


“The NORA branding strategy based on the ‘Clearburn Science’ education program can provide Oilheat dealers with enhanced business and growth potential. A positive image and advanced products, accompanied by excellent instruction and training materials, will be the result. To capitalize on this most unique opportunity, I encourage Oilheat dealers to fully integrate their operations with renewed emphasis on clean trucks, clean heating systems, and clean products — as Clearburn Science evolves into the energy standard by which we are judged. Be vigilant about Clearburn... the rewards await us.”

Don Allen

E.T. Lawson Co., Hampton, VA

First Vice Chairman, National Oilheat Research Alliance



We have entered the realm of “Clearburn Science,” as evidenced by R&D work by manufacturers that can result in the practical application of modern technology. Shown, moving clockwise: 1. Beckett’s NXLE burner prototype for reduced NOx levels and enhanced combustion; 2. the double filtration burner nozzle from HAGO Mfg. Co.; 3. a microturbine generator running on diesel fuel under study at Brookhaven National Laboratory; 4. new flame control monitor from Carlin Combustion Technology that will communicate flame quality status and various fuel operating conditions to a computer at a fuel dealer’s office; 5. the innovative OPUS high efficiency boiler design from Burnham; 6. RIELLO’s new RES low NOx burner, operational in Europe and to be introduced in U.S. markets

use as a “best practices” guide. Alternatives such as instantaneous systems also need to be addressed. These “no-storage” systems could conceivably eliminate the higher capital costs required by on-site installation.

Build an R&D Program for Low-NOx Equipment

Building an R&D and demonstration program for low and ultra low-NOx equipment will lower emissions from Oilheat and showcase its environmental performance. A low-NOx program would establish an emissions target of 65 ppm, which would bridge the gap to an ultra-low NOx target of 20 ppm.

The recent formation of the National Oilheat Research Institute (NORI) as the R&D affiliate of NORA should help accelerate the

practical application of environmentally sensitive Oilheat systems — more so with the efforts of private companies who are responding to both current and envisioned air quality standards.

Self-diagnostic and Self-adjusting Control Technologies

Oilheat equipment should take advantage of state-of-the-art technologies, such as sensors and controls. By incorporating advanced diagnostic technology, such as the advanced flame quality indicator, an Oilheat system could self-diagnose problems and reduce servicing time. By 2004, the goal is to develop field-level diagnostic methods for maintaining flame quality. Self-adjusting technologies will thus compensate and correct problems, limiting unplanned service calls.

Research Novel Combustion Techniques

Different firing systems such as modulating burners and low-fire concepts will improve system efficiency. These could revolutionize the industry, making Oilheat a near zero-emission, highly efficient fuel.

The industry’s goal is to develop and produce modulating burners with an integrated design for better sizing by 2008. Continuing

this research is an important ingredient for enhancing the market for Oilheat in the future.

New and Expanded Markets

The primary objective is to convey the benefits of Oilheat to consumers — initiated this spring by NORA via the extensive consumer research undertaken by Ipsos-NPD and subsequent information



Efforts to modify consumer perceptions of Oilheat are a priority for the industry. If consumers can truly see that Oilheat is clean, energy efficient, and cost effective, the market for the fuel will advance.

campaigns in NORA states under the “Clearburn Science” banner.

In a related effort, NORA has established a working relationship with the Consumer Energy Council of America (CECA), a leading national resource for policy information and analysis, based in Washington, D.C.

Among its activities, CECA proposes to explore ways in which alliances can be established between researchers of power and heating technologies and NORA. The underlying focus would be on new services and programs that strengthen the partnership between the customer and Oilheat provider.

Several of the tangible aims of this collaboration include consumer access to website data and printed matter about conservation and whole-house energy planning with No. 2 heating oil as the primary fuel.



“NORA has the opportunity to build upon the value relationships that the Consumer Energy Council of America has established with industries and consumers across the nation.”

*Peter Carini
Champion Energy
Greenwich, CT
Second Vice Chairman,
National Oilheat
Research Alliance*

Create Builder Education and Incentive Programs

The focus here is new home construction, both tract and luxury models. There is a need to develop products and programs that are attractive in terms of design and cost to builders on a mass-market scale.

Similar to marketing methods that have been used by utilities, the Oilheat industry needs to work cooperatively with builders to create opportunities for them to build with oil. Builders and contractors will likely respond to incentives, such as reduced equipment installation fees, or free tanks and marketing, such as “piggy-back” marketing in local newspapers.

NORA, vis-a-vis its grant to the “Build With Oil” coalition, has laid substantial groundwork in this area. See the article, “It’s Time to Build With Oil” in this report.

Grow an Educated Workforce

The Oilheat industry needs to attract new employees into the field and better train existing staff, to utilize new energy technologies, products, and systems.

Current education programs need to be upgraded, as well as creating targeted recruitment programs. Creation of an Oilheat Institute or training center, with technical classes, student counseling, certification classes, and scholarships, among other activities is part of the process. To that extent, NORA has already established the NORA Education Center, has assumed and rejuvenated the national Oilheat Technician Certification Program, and assisted NAOHSM with distribution of over 14,000 recruitment CDs and related items.

Research Potential Growth Markets

Researching potential growth markets will allow the Oilheat industry to focus on specific areas and applications to expand their service. Potential short-term growth markets include: new residential construction, domestic hot water, and retrofits of electric resistance and furnace systems. Mid- to long-term market growth includes cooling and retrofits from propane to oil.

Recapture Homes Lost To Conversions

Action to recapture market share includes undertaking a builder retrofit market study. A “concept study” that analyzes quick installation of a packaged conversion system integrated with energy storage is viewed as an important first step. A concept for a packaged system, which

could be easily installed in a conversion, should be available by 2005, with analysis and evaluation conducted by 2008.

Integrate Oilheat with New, Advanced Technologies, Equipment and Systems

For Oilheat to compete in emerging markets, especially in the commercial arena, it must eventually integrate with more advanced heating, ventilation, air conditioning, and power supply technologies, equipment and systems. These systems might include packaged building cooling, heating and power systems and renewable energy systems — such as fuel cells and solar heating and cooling. Linking NORA interests in these areas with those of the Department of Energy could foreseeably lead to practical applications with an Oilheat component.

Over the last 20 years, conversions from oil to gas or electricity have increased throughout the country. NORA envisions many of the roadmap agendas as a conduit to reversing that trend.



NORA is supporting several programs that initiate and enhance builder appreciation of Oilheat as a smart fuel resource.



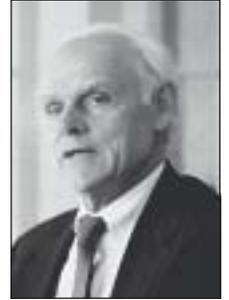
Education for all segments of Oilheat represents an important component of NORA activity.

achievement

Committee Reports

Consumer Education / Chaired by Jim Pierson, J.W. Pierson Co., East Orange, NJ

The NORA-funded consumer research makes evident that the key target for Oilheat is homeowners in their 30s and early 40s. They believe Oilheat is safe and they feel good about local Oilheat dealers and the responsive service that dealers provide. But they worry about the cleanliness of Oilheat itself. They have vague feelings that Oilheat is dirty and old-fashioned and, lacking a concrete reason to believe otherwise, are tempted by utility promotions. But when exposed to the facts about the improvements the Oilheat industry has made in the areas of cleanliness, cost-efficiency and environmental friendliness, these consumers know they can have both: a modern source of home heat and an Oilheat dealer they can readily communicate with. Appropriately, the consumer announcements get across loud and clear that today's Oilheat is a cleaner fuel than ever before. Our "Clearburn Science" theme represents a new calling card the entire industry can rally around.



Industry Education and Training / Chaired by Robert Boltz, Vincent R. Boltz Co., Lebanon, PA

We are making substantial progress with respect to the advancement of training for current personnel and recruitment of new hires as evidenced by:

- Assumption of the technician certification program from PMAA; establishment of the NORA Education Center; related information dissemination programs
- Authorization for production and publication of a new basic Oilheat training manual for technicians and companion instructor guide; computer training materials to follow
- Support for NAOHSM's ongoing technician recruitment outreach to vocational schools
- Assignment of several Oilheat technical training videos
- Support grant to the "Build With Oil" program
- Management workshops planned as a training program to cover all topics critical to operating a full-service Oilheat business
- Studies for training needs assessment among Oilheat companies and an evaluation of current training resources available to the Oilheat industry



Research & Development / Chaired by Doug Woosnam, SICO Company, Mount Joy, PA

The challenge of creating a synergy between fuel quality and new technology is being met by a series of NORA sponsored actions that include: a significant fuel performance study (discussed within the *Roadmap* section of this report); our support of evaluating companion distillate fuel R&D underway in Germany, and a strategic partnering with the Department of Energy that has led to the *Industry Roadmap* as a guide for R&D pursuits that can best serve Oilheat. We are highly encouraged by the breadth of activity on the NORA, private, and public (via BNL) fronts. Collectively, they are bringing "Clearburn Science" to the marketplace.





Oilheat's appearance at the February 2002 International Builder's Show in Atlanta was the first time our industry was represented by a model home at this venue. An open house tour was available to Atlanta region homeowners. Oilheat was represented by a combined outdoor package for heat/AC from Thermo-Pride; a Roth fuel storage tank; and a Bock sealed combustion water heater.

It's time to *Build With Oil.*

One of the more immediate activities underwritten by NORA to receive due fanfare was the Oilheat model home coordinated by the Build With Oil coalition for the International Builder Show, Atlanta. This is the first “total oil” model home available for builder and public viewing alike in many years. Even more convincing of Oilheat’s benefits, the Atlanta temperature hovered in the high 30°s each morning, allowing a warm debut for Oilheat.

As it enters its tenth year, Build With Oil (BWO) is launching a home builder outreach/oil dealer education and marketing program that is supported by funding from NORA.

Current programs feature both extensive builder outreach and oil dealer education and marketing programs.

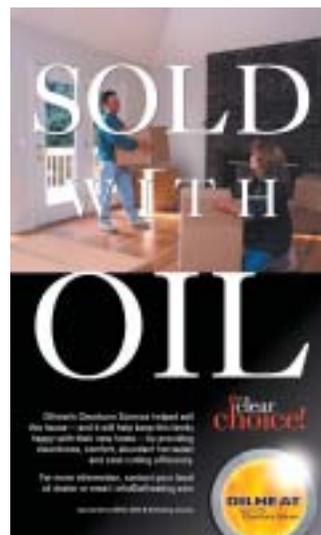
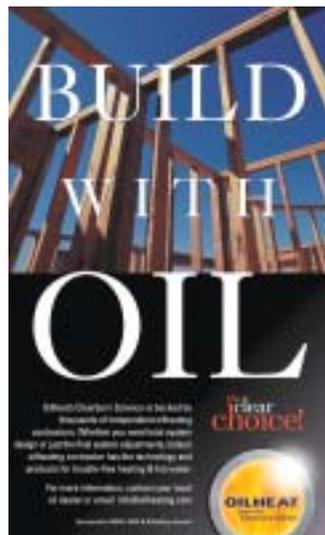
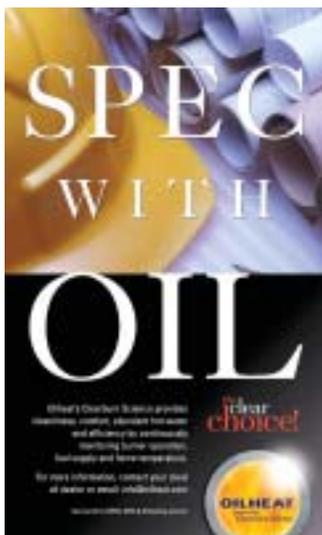
BWO has started an information program aimed directly at the custom and luxury home builders. Advertising will appear on a monthly basis in the two most influential builder trade publications: *Custom Home* and *Luxury Home Builder*. The pages carry the NORA theme “Powered by Clearburn Science” while calling the builder to action to

“spec,” “build,” and then “sell” their homes with oil heating and hot water. The reading copy emphasizes oil’s cleanliness, efficiency, and economy. In essence, these messages portray Oilheat as the modern fuel of choice.

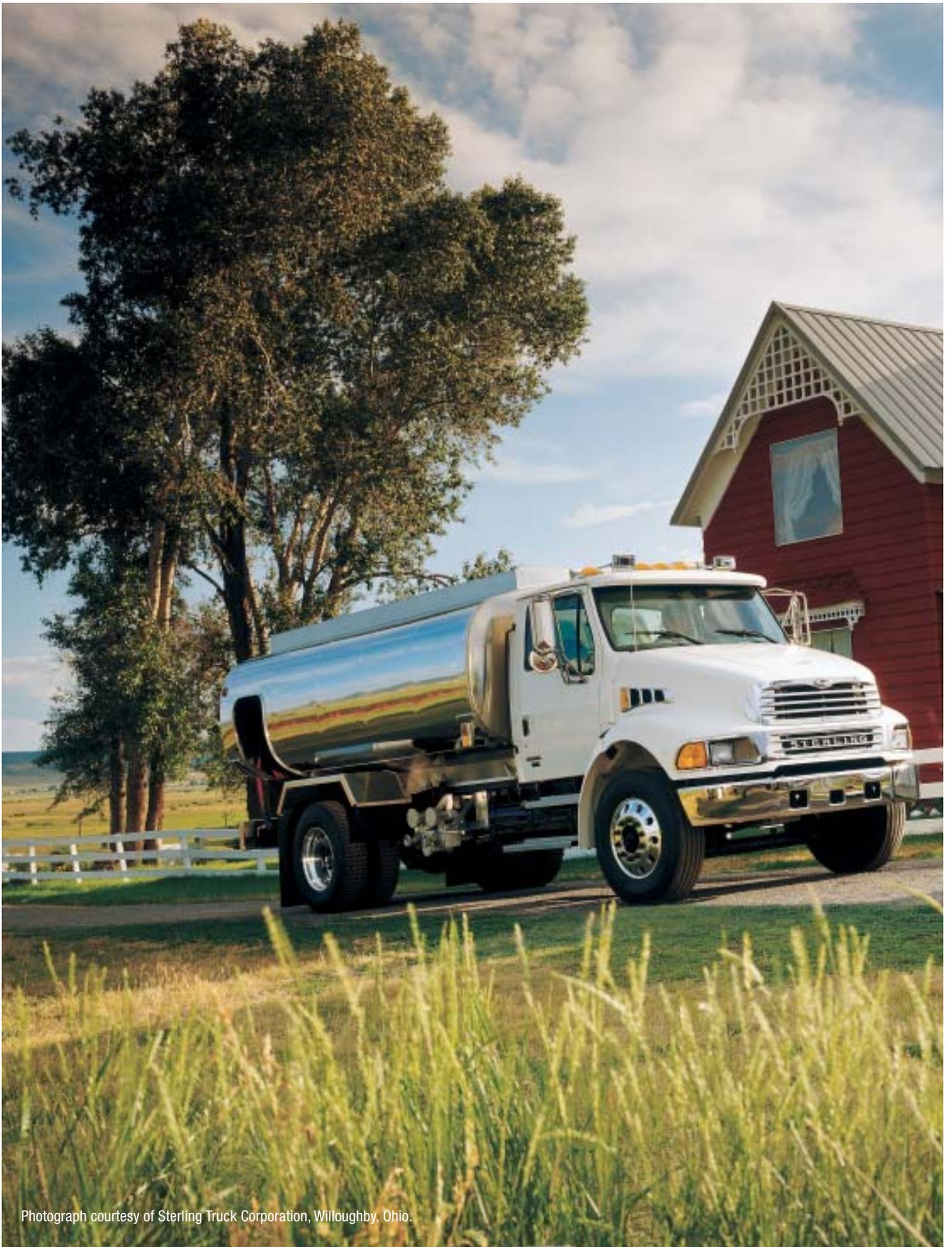
As part of the information effort, BWO will conduct a postcard mailing to builders across the Oilheating states. The cards will emphasize the information theme.

This past February, BWO featured oil heating and hot water in a “zero energy” display home at the International Builders Show in Atlanta. BWO aims to represent Oilheat and oil-fired hot water at various builder and custom builder shows as an ongoing Oilheat promotional activity.

The second and more direct aspect of the program provides Oilheat dealers the aids they need to sell oil heating and hot water to builders. In-house training materials, sample sales letters, data sheets, brochures, etc., will be available. When an oil company signs up to be a BWO Partner, they are eligible to receive leads from builders who have responded to the “Build With Oil” campaign.



NORA's grant to the "Build With Oil" collaborative will result in placing these advertisements before the critical builder audience in several trade publications.



Photograph courtesy of Sterling Truck Corporation, Willoughby, Ohio.

the *NORA* nation

a summary of state activities during the past year and looking forward

CONNECTICUT

INDEPENDENT CONNECTICUT PETROLEUM ASSOCIATION (ICPA)

Consumer Education —

- Supporting “Clearburn Science” consumer education
- Developing an informational website for Oilheat consumers
- Creating programs to educate home builders and architects about the benefits of building new homes with Oilheat and increase public awareness of energy conservation

Education and Training —

ICPA currently operates a technician training school in Wallingford, CT, which teaches Oilheat technicians in a required 288-hour classroom program

ICPA will use some of its grant for:

- Providing outreach to potential technicians, support recruitment of technicians and provide scholarships to the ICPA training center
- Development and implementation of education programs targeted at Oilheat company principals, managers, sales and non-technical staff, including an industry education portion of the ICPA website

IDAHO

IDAHO PETROLEUM MARKETERS ASSOCIATION

Consumer Education —

- Supporting “Clearburn Science” consumer education

INDIANA

INDIANA PETROLEUM MARKETERS & CONVENIENCE STORE ASSOCIATION

Consumer Education —

- Supporting “Clearburn Science” consumer education
- Continuing its Oilheat web page and toll free number for consumer inquiries, Oilheat news releases, and listing Oilheat service companies
- Developing education items and participate in industry trade shows of the target groups (including realtors, builders, insurance agents, HVAC contractors, commercial and residential consumers).

Education and Training —

- Establishing a framework for an Oilheat technician training program in Indiana
- Maintaining communications with Oilheat dealers
- Conducting seminars at the IPCA Annual Convention and other employee training programs as necessary
- Establishing a lending library of training videos and materials for dealers to use

KENTUCKY

KENTUCKY PETROLEUM MARKETERS ASSOCIATION (KPMA)

Consumer Education —

KPMA to use 100% of NORA funds for consumer education

- Utilizing surveys to determine the impact of consumer awareness campaigns, and will evaluate the impact of the consumer outreach through those surveys

MAINE

MAINE OIL DEALERS ASSOCIATION (MODA)

Consumer Education —

MODA will fund public communications efforts; has inaugurated an “energy investment” program throughout the state

- MODA’s “Smart Energy Investment” program focuses on encouraging consumers to reduce emissions from Oilheat use, increase efficiency in Oilheat use, and engage in proper maintenance of and, where appropriate, upgrade Oilheat equipment; informs consumers of financial institutions that provide loans for equipment upgrades

- Conducting an annual survey to determine consumer attitudes towards Oilheat

Education & Training —

MODA conducts Oilheat technician training under contract with the Maine Technical College System. Together with six months on-the-job training under the supervision of a Maine licensed Master Oilheat Technician, this program enables the student to sit for the Maine Journeyman license examination. NORA funds will be used for:

- Scholarships, industry training, and public education on the safe use and applications of Oilheat technology
- Creating thirty-five full scholarships to attend the MODA Oilheat technician courses
- Outreach program to inform public school students about a career as an Oilheat technician
- Developing a program to inform realtors and contractors about modern, high efficiency Oilheat

MASSACHUSETTS

MASSACHUSETTS OILHEAT COUNCIL (MOC)

Consumer Education —

- Supporting “Clearburn Science” consumer education
- Producing direct mail marketing materials for Massachusetts Oilheat retailers
- Purchasing a traveling Oilheat trade show booth

Education & Training —

- Awarding fifty full tuition scholarships to the New England Fuel Institute’s Technical Training Center; advertising this scholarship program to the public via newspaper and radio
- Reserving 75 scholarships for current employees of Oilheat dealers for additional training
- Developing an industry handbook that covers regulations governing retail heating oil in Massachusetts. Designed as an easy-to-use reference book outlining all relevant federal and state laws.

MID-ATLANTIC REGION:

SERVED BY MAPDA FOR DELAWARE, MARYLAND, WASHINGTON DC

Consumer Education —

- Supporting “Clearburn Science” consumer education
- Education & Training —
- Outreach to high school students and other potential technicians at technical trade schools or community colleges to encourage participation in the industry





- Establishing management and other non-technical training programs to support development and maintenance of ongoing technician training and apprentice programs; management and non-technical training programs; outreach programs to high school and other potential technician sources

NEVADA

NEVADA PETROLEUM MARKETERS & CONVENIENCE STORE ASSOCIATION

Consumer Education —

- Providing for ongoing consumer education using a multimedia approach, including brochures, pamphlets and billboards, as well as radio and cable television
- Website to educate about Oilheat as a safe and efficient heating source
- Consumers will be randomly surveyed to determine their knowledge, attitudes and understanding of Oilheat as an energy source for commercial and residential heating

Education & Training —

- Expanding a 10-year technician training program to include yearly training to be offered not only to service technicians, but to state energy auditors, home inspectors, front office and management personnel
- Surveying Oilheat customers to determine their impression of operations, safety, and product knowledge as demonstrated by the industry service technicians and office personnel

NEW HAMPSHIRE

BETTER HOME HEAT COUNCIL OF NEW HAMPSHIRE, INC.

Consumer Education —

- Supporting “Clearburn Science” consumer education
- Educating industry members and consumers using website, printed publications, and group presentations

Education & Training —

- Establishing 15 full scholarships for the 160-hour NEFI Oilheat technician course and more than 200 50/50 scholarships (half BHHHC-NH/half encouraged to be paid by the employer) for the 40-hour advanced technician training towards NORA certification.
- Enhancing Oilheat educational facilities at the high school level and also installing modern Oilheating equipment at the New Hampshire Vocational School

NEW JERSEY

FUEL MERCHANTS ASSOCIATION OF NEW JERSEY (FMA-NJ)

Consumer Education —

- Supporting “Clearburn Science” consumer education
- Producing a brochure to educate consumers with facts about heating oil tanks

New Jersey supports Oilheat technical training at Gloucester County Institute of Technology, Sewell, NJ. From left to right: Eric DeGesero, Executive VP, Fuel Merchants Association of New Jersey (FMANJ); Bill Price, Area Manager, Weil McLain; Congressman Robert E. Andrews; and Donald W. Steward, Sr., President, FMANJ.



Education and Training —

- Partnering with three vocational high schools in the state to offer a “Basic Oil Burner Technician Training Program” course to teach the basics of combustion theory, oil burners, oil furnaces, forced hot water systems, electrical and steam systems

NEW YORK

EMPIRE STATE PETROLEUM ASSOCIATION, INC. (ESPA)

ESPA is the NY state organization through which NORA funds are granted. The use of funds is being determined by the regional groups, in concert with certain statewide programs administered by ESPA.

Consumer Education — ESPA and others

- Supporting “Clearburn Science” consumer education
- Developing brochures, direct mail and web site information to make residents aware of the benefits, efficiencies and modern characteristics of Oilheat for their homes and to continue the industry’s education of Oilheat consumers on energy conservation

Education and Training —

NEW YORK OILHEATING ASSOCIATION (NYOHA)

- In conjunction with the Westchester Chapter of the National Association of Oil Heating Service Managers furnished \$14,000 in value of oil burner parts and controls to the Yonkers, NY, Saunders Trade and Technical High School. The school held a testimonial dinner to thank the Oilheat industry for these efforts.
- Plans to host terminal operators at a one day seminar sponsored by the U. S. Environmental Protection Agency and the U.S. Coast Guard pertaining to the Facility Response Act of 1990.

HUDSON VALLEY OILHEAT COUNCIL

- Using funds to support Oilheat training and education programs for the industry

THE OIL HEAT INSTITUTE OF EASTERN NEW YORK (OHIENY)

- Funding a training lab for use by the region’s current and prospective Oilheat personnel
- Providing additional instruction through newsletters, direct mail, website, on-road instruction and guest lecturers at regional meetings

THE OIL FUEL INSTITUTE OF CENTRAL NEW YORK (OFI-CNY)

- In cooperation with other upstate New York associations, OFI-CNY will help fund a training center in Troy, NY; assist in developing a 160-hour curriculum for technician certification; help fund a mobile lab; subsidize classes and provide tuition assistance

Research and Development —

THE EMPIRE STATE PETROLEUM ASSOCIATION (ESPA)

- Assisting the New York State Energy Research & Development Authority (NYSERDA), a leading R&D center operated by the state of New York, in their efforts to bring higher quality and more efficient Oilheat technology to consumers and providers

NORTH CAROLINA

NORTH CAROLINA PETROLEUM MARKETERS ASSOCIATION

Consumer Education —

- Consumer information programs
- Outreach via Tar Heel REALTOR®, the publication of the North Carolina Association of Realtors, and sending newsletters — specially prepared with an Oilheat emphasis — to members of the Association
- Implementing contact with realtor associations to schedule meetings, trade shows and workshops

- Creating a speakers bureau on Oilheat and energy related topics for media and civic clubs
- Exhibited at the 2002 North Carolina Heating and Air Conditioning Contractors Association trade show Education & Training —
- Upgrading oil-fired equipment at four campuses of the North Carolina Community College System
- Providing scholarships to burner service schools

OHIO

OHIO OILHEAT COUNCIL

(OHIO PETROLEUM MARKETERS ASSOCIATION)

Consumer Education —

- Planning radio and billboard coverage to inform the public about the benefits of Oilheat

Education & Training —

- Creating an outreach program for the industry involving the public schools, contractors, realtors and others to inform them about the benefits of the new, higher efficiencies of Oilheat equipment

OREGON

OREGON PETROLEUM MARKETERS ASSOCIATION (OPMA)

Consumer Education —

- Supporting “Clearburn Science” consumer education

PENNSYLVANIA

PENNSYLVANIA PETROLEUM MARKETERS

& CONVENIENCE STORE ASSOCIATION (PPMCSA)

Consumer Education —

- Developing a variety of consumer education programs to improve public knowledge of all aspects of Oilheat, and supporting the “Clearburn Science” consumer education program

- Developing communications for builders, realtors and other organizations

Education & Training —

- Expanding training programs for Oilheat technicians, drivers, and company staff
- Promoting NORA Silver and Gold technician certification programs; modernizing equipment and courses offered to increase both the quantity and quality of Pennsylvania’s Oilheat technicians

RHODE ISLAND

OIL HEAT INSTITUTE, INC.

Consumer Education —

- Supporting “Clearburn Science” consumer education Education & Training —

- Providing funding assistance to Oilheat training and education programs
- Supporting a School-to-Career Training Program whereby Junior and Senior High school students are matched with a participating oil company and are paid to work part-time with an experienced, mentor Oilheat technician.
- Providing full scholarships to School-to-Career students whose companies sponsor them to attend basic Oilheat training

VERMONT

VERMONT FUEL DEALERS ASSOCIATION (VFDA)

Consumer Education —

- Supporting “Clearburn Science” consumer education Education and Training —
- Expanding the Oilheat training facility at White River Junction, Vermont (Hartford) Technology Center

- Purchasing additional equipment for the lab
- Offering tuition subsidies, both full and partial

VIRGINIA

VIRGINIA PETROLEUM MARKETERS

AND CONVENIENCE STORE ASSOCIATION

Consumer Education —

- Supporting “Clearburn Science” consumer education Education & Training —
- Supporting NORA Silver and Gold certification classes
- Conducting entry level and advanced burner schools; training for non-technical personnel; and outreach to vocational educational centers.

WASHINGTON STATE

OIL HEAT INSTITUTE OF WASHINGTON (OHI-WA)

Consumer Education —

- Supporting “Clearburn Science” consumer education
- Most Oilheat retailers in the state are family-owned and have been in the business for a long time. The prevailing spirit is that NORA is the beginning of a turnaround. OHI-WA dealers believe the education campaign can begin to change perceptions consumers have about Oilheat, and increase the credibility of the industry. OHI-WA aims to build upon the campaign with other consumer education projects and encourage Oilheat retailers to do likewise.

WISCONSIN

PETROLEUM MARKETERS ASSOCIATION OF WISCONSIN;

WISCONSIN ASSOCIATION OF CONVENIENCE STORES

Consumer Education —

- Funding consumer education to Wisconsin consumers that will enhance public knowledge of Oilheat Education and Training —
- Conducting Oilheat personnel training
- Holding training seminars in various regions of the state on heating oil storage, customer service, fuel quality and other topics
- Materials and services to reach multiple constituencies including present consumers, prospective home buyers, realtors, builders, and the media
- Hosting free training seminars to deal with heating callback issues; awarding NORA CEUs



NYOHA receives appreciation from the Saunders Trade and Technical High School, Yonkers, NY. In conjunction with the Westchester Chapter of the National Association of Oil Heating Service Managers, NYOHA donated oil burner parts and controls to the school. Shown left to right:

Robert Daros - President, NAOHSM’s Westchester NY Chapter
 Fran Calaicone - Saunders Co-op/Shadow Program Coordinator
 Steven Rinaldo - Vice President, NAOHSM’s Westchester NY Chapter
 Charles Martignetti - Principal of Saunders Trade & Technical High
 John D. Maniscalco - NYOHA Executive VP and NORA Treasurer
 Thomas Sabia and Edward Frazier - Saunders HVAC Instructors



Comments from NORA's Treasurer

An idea whose time has come... industry home grown funding... good old American oil industry ingenuity... and the vision of a National Oilheat Research Alliance became a reality in February 2001. The funding and legislative efforts on behalf of NORA were praiseworthy, and I sincerely commend the “sea of oil-industry humanity” which allowed NORA to grow and prosper since its genesis in March 1995.

In early 2001, NORA's inaugural ten-month year of collection revenues were projected to be \$11,055,554. An omen as to NORA's success might be found in 2001's actual collection result... which netted out to be \$11,055,555. (The members of the Finance Committee missed their mark by one dollar!) Being a “new corporation” the assessment collection effort was, in a word, unknown. Having said that, I am pleased to report that the compliance rate for 2001 from the twenty-one states and District of Columbia exceeded expectations. In 2002 the collection and assessment effort will be customized and the appropriate procedures will be implemented to ensure that the overall integrity of our system of collection is maintained and remains diligent.

The inaugural year's administrative expenses weighed in at less than seven percent, several percentage points below the first year's statutory maximum of ten percent. The three categories of Grant and State Rebates were handily served in 2001. Research and Development, and Education and Training each received in excess of four percentage points of net allocable revenues, and NORA's mantra, the Consumer Education component, received eighty-five percent.

Due to the Finance Committee's conservative nature, a line item was included in this year's budget, (and all forward-looking budgets), to carryover for future allocation a “Board designated net asset.” This net asset, or holdback if you will, is designed to be responsive to potential weather events which could alter the collection of NORA's assessments. Although this line item was received with mixed reviews, the Finance Committee's thought process will come full-circle in 2002 and temper the effect this year's non-winter will have on 2002's assessment effort.

In most cases we must crawl before we can walk... and we must walk before we can run. All in all, in this formative budget year, the National Oilheat Research Alliance hit the proverbial ground running!

I would be remiss if I did not extend accolades to the following members of the Finance Committee for their untiring and devoted efforts: Messrs. Allen (Chairman), Carini, Fuquay, Glick, Keyser, and Woosnam.

*Respectfully,
John Maniscalco, Treasurer
National Oilheat Research Alliance*

operations data

NATIONAL OILHEAT RESEARCH ALLIANCE, INC.
EXHIBIT A / STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2001

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,751,351	
Assessments receivable	4,080,542	
Prepays and other current assets	8,026	
Total current assets		\$ 8,839,919
PROPERTY AND EQUIPMENT		
Office equipment	1,440	
Computer equipment	3,936	
Less accumulated depreciation	(987)	
Total property and equipment		4,389
OTHER ASSETS		
		37,136
TOTAL ASSETS		
		\$ 8,881,444
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued expenses	\$ 211,256	
Grants payable	527,097	
State rebate obligation	6,959,549	
Total liabilities		\$ 7,697,902
NET ASSETS		
Unrestricted net assets	77,987	
Board designated net assets	1,105,555	
Total net assets		1,183,542
TOTAL LIABILITIES AND NET ASSETS		
		\$8,881,444

EXHIBIT B / STATEMENT OF ACTIVITIES FOR THE PERIOD FROM INCEPTION (JANUARY 31, 2001) TO DECEMBER 31, 2001

REVENUE AND SUPPORT		
Assessment revenue	\$ 11,055,555	
Interest income	77,989	
Total revenue and support		\$11,133,544
EXPENSES		
Programs		
Research and development	380,431	
Education and training	380,431	
State rebates	8,084,149	
Total program expenses		8,845,011
General and administrative		
Administrative costs	649,846	
Collection costs	219,158	
Start-up costs	235,000	
Depreciation	987	
Total general and administrative expenses		1,104,991
Total expenses		9,950,002
CHANGE IN NET ASSETS		
		1,183,542
NET ASSETS AT BEGINNING OF YEAR		
		—
NET ASSETS AT END OF YEAR		
		\$ 1,183,542

EXHIBIT C / STATEMENT OF CASH FLOWS FOR THE PERIOD FROM INCEPTION (JANUARY 31, 2001) TO DECEMBER 31, 2001

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets		\$1,183,542
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	\$ 987	
Changes in assets and liabilities:		
(Increase) decrease in assessments receivable	(4,080,542)	
(Increase) decrease in prepaids/deposits	(8,026)	
(Increase) decrease in other assets	(37,136)	
Increase (decrease) in accrued expenses	211,256	
Increase (decrease) in grants payable and rebate obligations	7,486,646	
Total adjustments		3,573,185
Net cash provided by operating activities		4,756,727
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment		(5,376)
NET INCREASE IN CASH AND CASH EQUIVALENTS		
		4,751,351
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR		
		—
CASH AND CASH EQUIVALENTS - END OF THE YEAR		
		\$4,751,351

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

**NATIONAL OILHEAT RESEARCH ALLIANCE, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - THE ORGANIZATION

The National Oilheat Research Alliance, Inc. (the Alliance) is a non-profit trade organization developed under the National Oilheat Research Alliance Act of 2000 (NORA), Public Law 106-469, legislation passed by the U.S. Congress and signed into law in November 2000. The Alliance was created to educate consumers about the benefits of oil heat, to perform research and development, and technical training to provide better customer service. The Alliance's Board consists of members from the oil heat industry, retail markets, wholesale distributors, public members, and representatives from the states with the highest oil heat sales. The Alliance was incorporated on January 31, 2001.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles in the United States of America.

Accounting Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amount of assets, liabilities, revenue and the disclosure of contingencies, if any at the date of the financial statements.

Assessment Revenue

The NORA law requires wholesale distributors of No. 1 distillate and No. 2 dyed distillate to remit an assessment of two-tenths of one cent per gallon at the point of sale. If the No. 1 distillate or No. 2 dyed distillate is imported after the point of sale, the assessment is to be made when the product enters the United States. The assessments are to be remitted to the Alliance quarterly.

Assessments Receivable

An estimate of assessments to be received, but not remitted to the Alliance at the end of the reporting period, are made based on industry statistics.

Property and Equipment

Property and equipment purchased in excess of \$1,000 are recorded at cost. Depreciation of furniture, office and computer equipment is computed by using the straight-line method over the estimated useful lives of the assets. Estimated useful lives by category are:

Office equipment: 5 years

Computer equipment: 3 years

Cash and Cash Equivalents

The Alliance considers all investments with original maturities of three months or less to be cash equivalents.

Concentrations of Credit Risk

The Alliance maintains cash deposits with Merrill Lynch in excess of federally insured limits of \$100,000. However, the Securities Investor Protection Corporation (SIPC) protects securities and cash in Merrill Lynch accounts for up to \$500,000 per client for securities (including up to \$100,000 for cash). Merrill Lynch has also obtained coverage in excess of the SIPC limits.

Interest Income

Interest income earned on the Alliance's cash deposits is not allocated to specific projects. When the budgeting and cash flow needs of the Alliance are more readily determinable, interest income will be utilized to advance the Alliance's programs.

NOTE 3 - INCOME TAX STATUS

The Alliance qualifies as a tax-exempt organization under Internal Revenue Code Section 501(c)(6). Consequently, the Alliance is exempt from Federal and state income tax except for income tax on unrelated business income. There were no unrelated business activities in 2001.

NOTE 4 - CONTRACTS AND LEASES

Accounting Firm

The Alliance has contracted with the firm of Andersen, L.L.P. to maintain the accounting records, prepare monthly and annual financial statements, assist in the preparation of the annual budget, and to monitor the collection of the Alliance assessment revenue. The contract expired on March 11, 2002 and the average monthly commitment is \$12,500. Accounting services are currently being provided under a month-to-month agreement.

Office Building

The Alliance entered an operating lease for office space. The lease calls for monthly payments of \$2,515, contains a term of twelve months and is renewable each year. Rent expense for the year ended December 31, 2001 totaled \$25,978.

NOTE 5 - ADMINISTRATIVE EXPENSE CAP

NORA, Public Law 106-469, requires that the Alliance limit expenditures for Administrative expenses to ten percent of gross revenue generated by assessment remittances for the first year, and seven percent for every year thereafter.

NOTE 6 - PROGRAM SERVICES

Research and Development

The Alliance committed 3.6 percent of assessment revenue for oil heat research and development grants. The 2001 commitment totaled \$380,431.

Education and Training

The Alliance committed 3.6 percent of assessment revenue for grants related to consumer education and training. The 2001 commitment totaled \$380,431.

State Rebates

The Alliance has committed 76.2 percent of assessment revenue for state rebates. The 2001 commitment totaled \$8,084,149.

The Alliance is mandated by law to establish a program coordinating the operation of the Alliance with the operator of any similar state or local program. Remittances to state programs are required to equal 15 percent of the assessment revenue collected in the state. During 2001, the Alliance is distributing 94 percent of the state assessment revenue less the ten percent Board designated net asset (See Note 8) as follows:

Assessment revenue	\$11,055,555
Less: collection and start-up costs	(454,158)
Net assessment revenue	\$10,601,397
Grants and state rebates (93.86 percent of net assessment revenue)	\$9,950,566
Less: Board designated net assets	(1,105,555)
Net state rebate commitment	\$8,845,011

NOTE 7 - GRANTS PAYABLE

The Alliance enters into various grant agreements which may require periodic payments of grant funds. The outstanding grant liability at December 31, 2001 was \$527,097.

NOTE 8 - BOARD DESIGNATED NET ASSETS

The Board has designated an amount equal to ten percent of annual assessments to be reserved in response to unpredictable weather patterns. The funds will be utilized in future years, with Board approval, to advance the Alliance's programs. The Board designated net assets at December 31, 2001 totaled \$1,105,555.

NOTE 9 - ASSESSMENT AND COLLECTION COSTS

Assessments and collection costs include the costs incurred to process annual assessments, to publicize the collection system and to ascertain compliance as stipulated by NORA law. Collection costs consist of the following:

Legal fees	\$64,194
Accounting fees	139,076
Other administrative costs	15,888
Total	\$219,158

See independent auditor's report. The accompanying notes are an integral part of these financial statements.

INDEPENDENT AUDITORS' REPORT

Board of Directors
National Oilheat Research Alliance, Inc.
Alexandria, Virginia

We have audited the accompanying statement of financial position of the National Oilheat Research Alliance, Inc. as of December 31, 2001, and the related statements of activities and cash flows for the period from inception (January 31, 2001) to December 31, 2001. These financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the National Oilheat Research Alliance, Inc. as of December 31, 2001, and the change in its net assets and its cash flows for the period from inception (January 31, 2001) to December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

ROSS, LANGAN & McKENDREE, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS
McLEAN, VA 22101
March 12, 2002

Officers of the National Oilheat Research Alliance

President: John Huber, National Oilheat Research Alliance, 211 North Union Street, Suite 100, Alexandria, VA 22314

Chairman: Robert Greenes, Consultant to the industry, 75 Morris Lane, Scarsdale, New York, NY 10583

First Vice Chairman: Don Allen, E.T. Lawson Co., P.O. Box 249, Hampton, VA 23669

Second Vice Chairman: Peter Carini, Champion Energy, 4 Greenwich Office Park, Greenwich, CT 06831

Secretary: Jack Sullivan, New England Fuel Institute, P.O. Box 9137, Watertown, MA 02471

Treasurer: John Maniscalco, New York Oil Heating Association, 14 Penn Plaza, Suite 1202, New York, NY 10122

NORA Board of Directors

*Mr. Don Allen (3)
E.T. Lawson and Son, Inc.
Hampton, VA

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