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Dealers, customers grapple with unstable fuel oil market

July 12, 2008

By JOSH O'GORMAN Herald Staff

As fuel oil prices continue to fluctuate, fuel dealers have changed the way they offer prebuy programs to their customers, and in some cases have eliminated the programs altogether.

In the past, many fuel oil dealers in the state have offered prebuy programs — which typically began in June and ran through Labor Day — that allowed a customer to lock in at a price for the winter. However, with the uncertain market, many fuel dealers have chosen to either offer prebuys on a limited basis, or not offer them at all.

"The problem is, fuel oil went up a dollar in May," said Matt Cota, executive director of the Vermont Fuel Dealers Association, which represents 125 dealers in the state. "All of those dealers that were going to offer prebuys decided to wait."

Cota said many dealers hoped the price would go down in June, but when it did not the dealers began offering prebuys on a limited basis.

"Ten years ago, prices used to change two-to-five cents during the summer. Now prices are swinging 20 cents a week," Cota said.

Rather than offer one price for the entire summer, Cota said dealers are buying a small number of commodities futures.

When some dealers sell those gallons, they purchase more futures at the new rate and offer another round of prebuys. So far that rate has continued to climb.

In Nymex trading, heating oil futures rose to a trading record of \$4.1586 before settling at \$4.0766 a gallon, up 3.92 cents.

What this has meant for customers is that the prebuy window — which previously ran for 10 to 12 weeks — has shrunk to as little as a week, depending on the number of customers looking to buy.

"The fact that these customers are coming in and doing these prebuys at these prices is a sign that people are nervous," Cota said.

Scott Sullivan, vice president of Rutland Fuel Co., said: "The thing I'm trying to do is not flush people into a window that's only two weeks."

His company is now offering a pre-buy program at \$4.64 a gallon, "but that rate is subject to change based on availability."

"It's hard to recommend that people buy at an all-time high," Sullivan said.

Sullivan, like many fuel dealers, believes the price of fuel oil is not based on supply and demand — as the price rose a dollar a gallon in May — but on market speculation.

"If the commodity bubble pops, there's no question that the price will drop," Sullivan said.

Customers who might be hesitant to lock in at a price because they believe it will drop before winter can buy downside insurance. For an extra 30 cents a gallon, Sullivan said, customers will be protected if the price drops 30 cents or more.

For example, if a customer buys at \$4.64 a gallon and buys the downside insurance, if the price drops below \$4.34 he will be billed at the market rate. Without the insurance, the customer will continue to pay \$4.64 a gallon.

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"Downside insurance doesn't usually pay off because prices usually go up, but we are not in a normal market," Sullivan said.

Sullivan said his company would continue to offer prebuys into the fall, but each round will be limited and the price will depend on the market.

Sullivan noted that in 1998, the difference between the highest price and the lowest price was 18 cents a gallon. This year, the average daily change has been 19 cents a gallon.

"When the prices change so quickly, it's hard to know what the value of this stuff is," Sullivan said.

While some dealers have offered a single round of prebuys and some are taking it week to week, others have decided to not offer them at all.

"We're not doing prebuys this year," said Joe Greene, manager of Greene's Oil and Propane Co. in White River Junction. "Every time Iran does something or a hurricane plows into the Gulf the market goes haywire."

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