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SOUTHERN VERMONT

Dropping oil prices leave Springfield regretting pre-buy contract

October 12, 2008

By Susan Smallheer Staff Writer

SPRINGFIELD – Back in early July, when gas and oil prices were growing faster than weeds in a vegetable garden, the town signed a contract that it thought would save taxpayers thousands of dollars this coming winter.

But three months later, with the price of gas and oil plummeting with the credit and financial crisis on Wall Street, that contract with Irving Oil of Portsmouth, N.H., is beginning to look like a costly mistake.

The town signed a contract for about 250,000 gallons of heating fuel oil for both the town and school district at about \$4 a gallon.

"Back then, that was a good price, because fuel oil was selling for about \$4.50," said Springfield Town Manager Robert Forguites this week.

The nation's economic volatility has pushed the prices of gasoline and fuel oil way down, according to Matt Cota, executive director of the Vermont Fuel Dealers Association. On Friday, oil was selling at about the same level it was a year ago before the frightening spike in prices last spring.

Oil is the primary fuel Vermonters use to heat their homes during the long New England winter, and officials have expressed concern about how the escalating cost would affect the state's residents. The drop in price could bring short-term relief to renters, homeowners and businesses.

Cota said wholesale contracts for fuel oil dropped 16 cents a gallon on Friday alone, bringing the price for January deliveries within 10 cents of last year's going rate.

He said in the past couple of days, the price of oil had been going down by 7 cents a day.

Cota said that many fuel oil dealers had refused to offer pre-buy contracts because of the high price of oil, believing that the "bubble would burst" and they and their customers would get burned.

He said pre-buy contracts are not a guarantee of savings, but a guarantee of availability. Not everyone, he added, has enough money in July to pay ahead for the winter's oil.

"Pre-buys provide peace of mind, but they aren't a guarantee of what you'll save. This market is unbelievably complicated and there's no telling what petro-political events might change that," he said. "Springfield won't know whether it got a good buy until the springtime. Prices will continue to fluctuate."

Cota said that the wholesale price of fuel oil on the New York Mercantile Exchange to be delivered in January is \$2.48 a gallon, while the price on October 10, 2007, was \$2.22.

He knew nothing about the Springfield contract, Cota said, but the town is probably not alone in entering into pre-buy contracts at higher prices.

"Towns, school districts, homeowners, businesses, they all signed pre-buys," said Cota, who has warned that the skyrocketing cost of fuel oil and gasoline was based on Wall Street speculation, rather than the economic basics of supply and demand.

Cota pointed out that when Hurricane Ike hit the Gulf Coast last month and shut down 25 percent of the country's production for about a week, fuel prices actually declined.

Forguities said he has called Irving Oil several times already to see if there is some wiggle room



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in the contract, but so far he hasn't been able to contact anyone in person.

Forguites said that the town signed a contract with Irving to buy a certain amount of fuel at a certain price, but he said that unlike traditional pre-buy contracts, the town hadn't paid any money yet to Irving for this winter's upcoming deliveries.

A spokesman at Irving Oil's regional headquarters in Portsmouth, N.H., didn't return phone calls Friday. The company is based in Nova Scotia.

"I don't know," Forguites said of the possibility of getting some relief for Springfield taxpayers. "We certainly would like to try to do something about it."

But Cota said that any financial relief is probably unlikely because of a Vermont law that requires fuel oil companies to either buy 75 percent of the fuel covered by the contract within seven days, or purchase futures contracts. The fuel oil company had to go out and buy that fuel at the high price within seven days, Cota said.

"The hurricane on Wall Street was bigger than the hurricane on the Gulf Coast," said Cota. "I don't know where the floor is, but this issue is close to home for a lot of dealers." He said he knew of dealers last spring, who had sold pre-buy contracts at \$2.50 a gallon, who were delivering oil that cost them \$4 a gallon.

Contact Susan Smallheer at susan.smallheer@rutlandherald.com.

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Don't worry, Springfield. The price of oil will go back up right after the elections.
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