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Hedging Heating Bills Just Got Harder

Unlike last summer, many heating oil companies are not offering prepayment plans. But you can lower your bills this winter if you act now

by [Ricky McRoskey](#)

The massive runup in oil prices has claimed another set of victims: those who heat their homes with oil and natural gas. Suppliers of those commodities, having nearly doubled their prices over the past year, are cutting way back on the prepayment plans that many homeowners traditionally sign in the summer months to protect against inflation.

Fortunately, there are several other practical steps that you can take to hedge against potentially insufferable heating costs this winter.

Soaring prices for natural gas and heating oil, along with the day-to-day volatility in the futures markets, have befuddled everyone from oil dealers to consumers. On the New York Mercantile Exchange ([NMX](#)), the natural gas contract was \$12.391 (as of July 10), up more than 93% from a year ago, while the price of heating oil was up more than 80%. That means homeowners, already feeling the pinch from higher gasoline prices at the pump, will have to pay more than ever before to heat their homes this winter, according to a recent prediction by the National Energy Assistance Directors Assn.

PREMIUM ON PREPAYMENT PLANS

The first step is to check with your heating oil dealer to see if it is offering a prepayment plan this year. Natural gas and electricity prices are regulated by public utilities, which don't usually offer such plans. Heating oil prices are set by local suppliers, and some will still let homeowners lock in the price of heating oil months before they need it if they purchase a prepayment plan. With No. 2 oil—the kind used to heat homes—recently topping \$4 per gallon for the first time, it's a risky move if prices drop, but a smart one if they continue to climb.

Some prepayment plans offer a cap, which puts a ceiling on how much the homeowner will pay for heating oil, regardless of how much prices rise. Scaran, a New York-based oil dealer, offers homeowners two choices. One plan lets them pay the market price for heating oil without ever paying more than \$4.89 per gallon, and the other sets the maximum at \$4.59, says General Manager Tom Scarangelo. However, these plans come at a premium: Enrolling in Scaran's first plan costs \$99, and the second costs \$249, both of which cover July 2008 to July 2009. Last summer, Scaran customers could set the maximum price at \$2.99 per gallon for just \$69.

However, many heating oil dealers are so worried about paying more for supplies that they're not offering the capped plans this year. Some dealers, who used to offer summer-long enrollments in prepayment plans, now have their enrollment open for just a few days so they can collect the money from customers and purchase the oil immediately, before the price jumps. Dealers usually purchase oil in 42,000-gallon increments, and a 20¢ swing in the market price (unheard of until recently) can wreak havoc on their profit margins. "Now you're seeing dealers offering three- and four-day offers," says Matt Cota, executive director of the Vermont Fuel Dealers Assn. "And people are signing up."

One dealer in Vermont recently offered prepayment contracts on heating oil well above the roughly \$4-per-gallon price

today and sold them all in one day, says Shane Sweet, president and CEO of the New England Fuel Institute. He recommends contacting your local oil suppliers to see if they're offering prepayment plans this summer.

MORE EFFICIENT HEATING

If local suppliers aren't offering lock-in deals, homeowners can soften the heating-bill blow by investing in more efficient heating equipment now. Many of today's heating oil systems, which generally cost anywhere from \$3,000 to \$5,000, can cut oil consumption by 40%, says Cota, producing about \$1,200 in yearly savings for an average home previously using a 25-year-old furnace. "Investments that maybe you balked at before now make a lot more sense with today's [energy] prices," he says.

Another good option for those unwilling to shell out several thousand bucks is to buy a \$50 automated thermostat, which can heat specific rooms or can alter heating levels depending on the time of day. "Probably half the people I see are using the old manual one," says Arvin Olson, project coordinator at the Iowa Natural Gas Assn. You can also reinsulate your home, which can save up to 20% on heating costs, according to the federal energy program Energy Star. Adding insulation to an attic generally costs several hundred dollars, while reinsulating an average home can cost several thousand dollars, says Ronnie Kweller of the Alliance to Save Energy.

Many states offer special tax incentives to encourage homeowners to install more efficient heating systems, so homeowners should check their state's policy for potential tax credits or deductions. For example, New York offers a tax credit that can be applied against a homeowner's personal income, if the homeowner meets certain standards to improve the home's indoor air quality or energy efficiency.

PLANNING AHEAD IS KEY

On the federal level, Congress is now debating an act (HR 5351) that would extend a 2005 bill giving homeowners tax credits for installing energy-efficient windows, water heaters, and the like. If they extend the tax incentive, its benefits will most likely be retroactive, says Lowell Ungar, director of policy at the Alliance to Save Energy. "In any case, homeowners will save more from reduced energy bills by installing new equipment than they would get from the tax incentive," says Ungar. "So it's worthwhile regardless."

Homeowners can also hedge against the heating bill by investing in securities. The United States Heating Oil Fund ([UHN](#)) tracks the price of heating oil futures on the Nymex. For customers whose homes are heated with natural gas, they can invest in the United States Natural Gas Fund ([UNG](#)), designed to correlate with the price of natural gas futures. If heating bills go up, so too will the value of these securities, giving homeowners a chance to profit. But it's not a perfect hedge, says Rick Miller, CEO of Cambridge (Mass.)-based Sensible Financial Planning. "If you hold it in a taxable account, some of the return is going to be taxed as ordinary income and some of it as capital gain," he says. Also, brokerage commissions and fund expenses can wipe out additional value. "Some of that will reduce the effectiveness of the hedge, but some hedge is better than no hedge," says Miller.

The key for homeowners is to act while winter is still the last thing on most people's minds. If you believe energy prices are heading even higher, you can invest in heating fuel securities. And now is also the time to arrange payment plans and system maintenance with dealers before they get flooded with calls in November and December. "This is like a Category 5 storm coming," says the Vermont Fuel Dealers Assn.'s Cota. "But we have six months' notice."

Ricky McRoskey is an intern at BusinessWeek.com.

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